THE CAPITAL MARKETS

Presbyterian Foundation
NEW COVENANT TRUST COMPANY
Issue 02 | 2020

The Dow Jones Industrial Average (DJIA) finished January at 28,256, down -0.99% for the month. The S&P 500 closed January 31 at 3,225, down -0.16% for the month. The NASDAQ Composite gained +1.99% in January. Small-company stocks, as measured by the Russell 2000, ended January at 1,614, down -3.26% for the month. Utilities were the best (+6.05%) and energy the worst (-11.86%) performing sectors in January.

"Anxiety swept through the stock, bond and commodities markets on uncertainty about the scope of the economic impact of the coronavirus in China, as airlines suspended flights to and from the country and businesses shut down their operations there ... The potential effects of the virus darkened the outlook at a time when many investors had been encouraged by progress on trade between two of the biggest world economies, along with three interest rate cuts by the Federal Reserve." (The Wall Street Journal, *Dow Drops 600 Points on Global Growth Concerns,* Gunjan Banerji, January 31, 2020)

Stocks Rise to Start 2020 - Then fall on Coronavirus Fears

The optimism which drove a sharp market rally in the fourth quarter of 2019, following a phase-one trade deal between the U.S. and China and accommodative interest rate policy from the Federal Reserve, continued into 2020 as investors saw stock indexes continue their steady rise. The rally was disrupted, however, late in the month as news of a dangerous respiratory virus spreading in the Chinese city of Wuhan began to break. Following an extended break for the Lunar New Year, Chinese stocks opened down 8% over fears of the economic impact of the virus. The S&P 500 fell by as much as 3% from its all-time high following news of the coronavirus's spread, but at the time of this writing had recovered from this drawdown, as expectations for the global impact of the illness have moderated.

Our Take

Many experts expect that from a global health perspective, a prompt and well coordinated effort by Chinese and global health agencies have reduced the risk of a widespread global outbreak. Much of the economic impact being forecasted is centered on impacts to the Chinese economy, which may be meaningful and is now magnified given China's increasing share of global GDP (15%+). Reports from U.S. companies doing business in the region have shown that in some cities retail stores, restaurants, and many factories remain closed as people stay home to minimize the risk of infection. Consumer spending is expected to decline, and sectors such as hospitality, retail, and tourism are expected to be among the hardest hit. At this time many economists are optimistic that the negative effects may be temporary and reversible if the outbreak is contained. Current forecasts of some U.S. economists predict the Boeing 737-MAX grounding will have a larger impact on U.S. GDP than the coronavirus, based on what we know so far. The human impact remains serious; however, we hope and pray for those affected.

"'If output buckles just intra-quarter, the market impact could be less persistent and more localized as investors focus on a Q2 to Q4 return to reflation,' writes J.P. Morgan strategist John Normand. 'If factories don't reopen after Feb. 9th, a major but regional and brief demand shock could become a more damanging global supply shock.'" (Barron's, *The Trader,* Ben Levisohn, January 31, 2020)

Employment

Reports out this week from ADP and the National Federation of Independent Businesses point toward ongoing strength in the labor market, as firms continue to hire at a healthy pace and unemployment remains low. Now over ten years into this economic recovery, observers continue to wonder when the tight labor market will lead to more noticeable inflation pressure, as firms are forced to offer higher wages to attract workers and raise prices in turn. For nearly two years now, low unemployment and subdued inflation, described by some as a 'goldilocks economy,' has persisted. With consumer sentiment and spending key pieces of the U.S. economy, deterioration in job creation will be a worrying sign. Rising inflation will also cause concern the Fed will have to raise interest rates, although inflation has remained stubbornly low.

MARKET METRICS

INDEX OR METRIC	CLOSE AS OF 12/31/2019	CLOSE AS OF 01/31/2020	CHANGE PREVIOUS MONTH END	2019 YTD % CHANGE
Dow Jones Industrial Average	28,538.44	28,253.03	-282.41	-0.99%
S&P 500	3,230.79	3,225.52	-5.26	-0.16%
NASDAQ Composite	8,972.61	9,150.94	+178.33	+1.99%
RUSSELL 2000	1,668.47	1,614.06	-54.41	-3.26%
Fed Funds Rate	1.50% - 1.75%	1.50% - 1.75%	UNCHANGED	
2-Year Treasury	1.58%	1.33%	-0.25%	
10-Year Treasury	1.92%	1.51%	-0.41%	
Crude Oil $ per Barrel	$61.06	$51.56	-$9.50	-15.56%
Gold $ per Troy oz.	$1,523.10	$1,587.90	+$64.80	+4.25%
UK Pound in U.S. $	$1.3248US = 1£	$1.3182US = 1£	$ STRONGER	-0.49%
Euro in U.S. $	$1.1225US= 1€	$1.1082US= 1€	$ STRONGER	-1.27%
Canada $ per U.S. $	$1.29675C = $1.00 US	$1.32255C = $1.00 US	$ STRONGER	+1.99%
Japan Yen per U.S. $	108.675¥=$1.00US	108.385¥=1.00US	$ WEAKER	-0.27%

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