MARKET REVIEW & OUTLOOK

FEBRUARY 2020

MARKET PULSE

KEY TAKEAWAYS

- Historic drop in equity prices the last week of February
- High Quality Fixed Income continued to provide good diversification benefits
- Economic data continues to be strong
- The Coronavirus continues to merit watchful diligence

BREAKING NEWS

The Fed just took emergency action, cutting the Fed funds rate by 50 basis points in an effort to boost confidence. After an initial 2%+ pop in the equity markets, those gains have been reversed. Ultimately, it does not look like paper money can paper over people being sick.

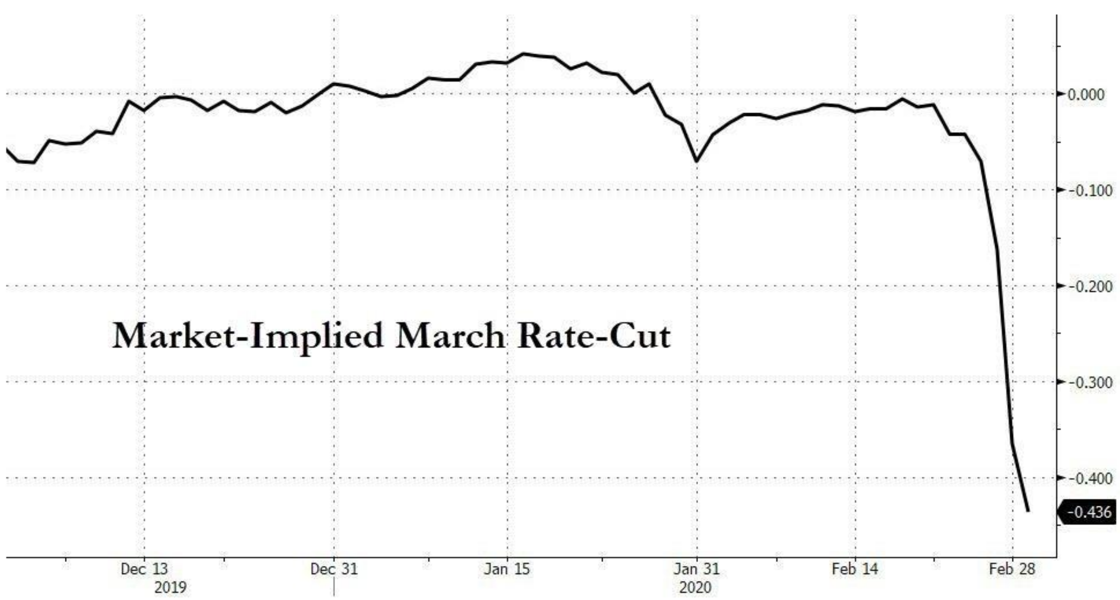
Now, back to our regular programming…
The Coronavirus Strikes Back!

The market ended January with a thud, but then rebounded, hitting all-time highs February 19. Then, the news surrounding the coronavirus took a decidedly negative tone and the final week was nothing short of ugly. The markets have begun to price in the risk of meaningful disruptions to global economies, whether through trade or impacts to local economies, such as people being quarantined.

The markets have earned a lot of dubious distinctions this month…

- It was the first time since 1938 that the S&P 500 had consecutive declines of 2.5%+ while the market was above the 200-day moving average (DMA)[1].
- This was the quickest drop from record highs to a 10% correction since 1928[2].

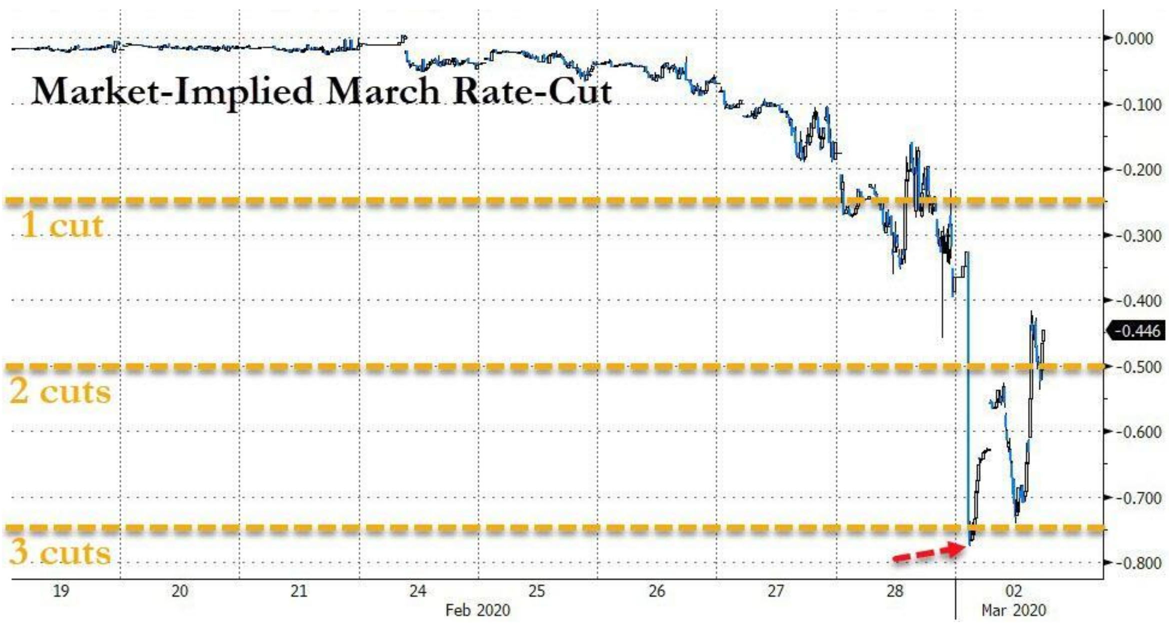
Truly a historical week to end the month.



Source: zerohedge.com

The "talking heads" continue to state treasuries are overvalued. Yet, once again this month, high-quality bonds have demonstrated they have a place in portfolios as a diversifier and risk mitigator. High quality fixed income, as measured by the Barclays US Aggregate Bond Index, was up 1.6% for the month. US 10-year Treasury bond yields dropped even further in February, hitting 1.13%, down significantly from last month's close of 1.52%. The market is currently pricing in at least a 25 basis point rate cut from the Fed in March.

During the month, results ended very weak, the Dow fell -10.1%, the S&P 500 dropped -8.4% and the small cap Russell 2000 plunged -12.0%. The international markets had stronger performance in part due to weaker January performance: the MSCI EAFE International Developed Markets Index slid -7.9% and MSCI Emerging Markets index lost -3.7%.
There were no sector winners in February.



Source: zerohedge.com

The sectors with the biggest losses were…

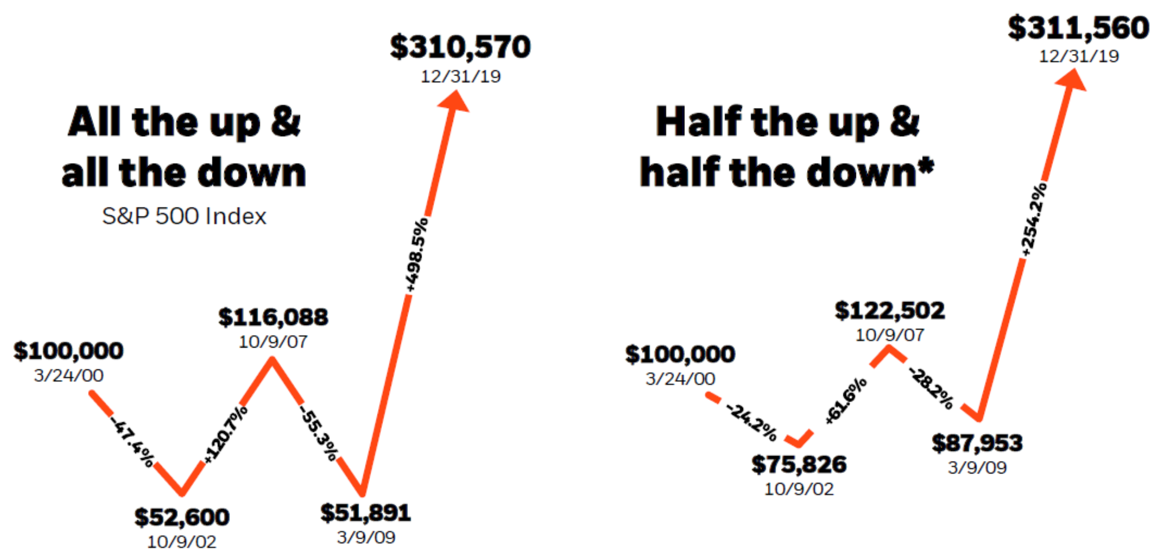
- Energy: -18.1%
- Financials: -12.2
- Industrials: -11.4%
- Materials: -10.8%

Oil prices had a strong start to the month on waning fears of coronavirus. As with the equity markets, however, once the coronavirus headlines turned more negative, global growth concerns rose to the fore. As a result, February Nymex Crude Oil futures settled at $45.26, down significantly from $51.56 a barrel, posting a loss of almost 13% and continuing the prior month's weakness. The price for RBOB gasoline had a much different path, as prices rallied over 15% by mid-month going nearly vertical. However, once the coronavirus headlines resurfaced, it fell vertically, erasing the entire rally and closing essentially flat, down just over 1%. The seasonal push for the summer driving season was put on hold and will probably remain on hold as long as the coronavirus-related uncertainty persists.

Economic indicators showed across-the-board improvement as the first quarter started off. The January ISM Manufacturing Index showed a big jump, gaining 3.1 points to 50.9, exiting contractionary territory from December's reading of 47.8. Additionally, the ISM Services Index climbed again to 55.5 from 55.0 in December. Any reading above 50 indicates improving conditions. Consumer confidence rose again in February to 130.7 from an upwardly revised 130.4 in January, which was taken just before more negative coronavirus headlines surfaced. The unemployment rate rose slightly to 3.6%, but the economy added a stronger-than-expected 225,000 jobs. The Consumer Price Index for All Urban Consumers (CPI-U) rose +0.1% in January on a seasonally adjusted basis.

Over the last 12 months, the all-items index rose +2.5% on a non-seasonally-adjusted basis. The January data supports the Fed's assessment that underlying US economic conditions are stable, barring further unforeseen events.

The global growth narrative has taken a significant hit with the resumption of negative coronavirus headlines. While I still do not have



Source: Morningstar as of 12/31/19. *Captures 51% of each bull and bear market return. **Past performance does not guarantee or indicate future results.** Index performance is for illustrative purposes only. You can not invest directly in the index.

my MD in infectious disease or PhD in statistics, I do know the importance of focusing on risk management and the level of risk each client is comfortable taking in equities, especially during tumultuous times like these.

Most importantly, our advisors remain focused on working with you, their clients, to ensure you are comfortable with your risk allocation prior to unforeseen event arising.

If you and your advisor are doing things properly, during the good times, you will not always participate in the full upside of the equity market, but you should also not participate in the full down cycle, either. Weeks like the last one in February serve as a reminder of why it is important to consider both sides of the coin. As history has shown, staying a course that reflects the goals of your financial plan and risk temperament is your most prudent course of action. There is always a chance that "this time is different," so we, along with your advisor, will continue to monitor the situation and reassess if any changes are warranted.

IMPLICATIONS FOR YOUR PORTFOLIO

Here are some key points to keep in mind when discussing your portfolio with your advisor…

- You: Stay focused
  - Try to keep your long-term goals and objectives in mind; veering off course can be unwise
  - Short-term ups and downs are to be expected; try to avoid reacting to the continuous "news cycle"
- Ashton Thomas: Exercise appropriate caution
  - When volatility increases, we will be watchful and keep you informed
  - We do no currently know all the economic implications of coronavirus, so we will continue to follow the situation closely and advise accordingly
- Ashton Thomas: Maintain continued readiness
  - We are monitoring the markets on a daily basis, regardless of whether or not volatility is making headlines
  - We will make any necessary adjustments to your asset allocation and inform you of those changes

Kevin Churchill, CFA®, CFP®
Chief Investment Officer
Ashton Thomas Private Wealth

Sources:
- Equity index performance data provided by Morningstar
- Equity sector performance and commodity performance data provided by The Wall Street Journal
- Bond market performance data provided by Yahoo! Finance

References:
[1] https://www.zerohedge.com/markets/btfders-slaughtered
[2] https://www.zerohedge.com/markets/last-time-happened-was-days-great-depression