D|A DAVIDSON
WEALTH MANAGEMENT

WEEKLY MARKET UPDATE
WM Research
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Weekly Market Update – 2/24/20: Fear Emerges Due to Coronavirus and Bernie Sanders Uncertainty

Major Indices (Price Returns)	Close	Last Week	Qtr-to-Date	Year-to-Date	All-Time High	% from High
S&P 500	3,337.75	-1.25%	3.31%	3.31%	3,386.15	1.5%
Dow Jones Industrial Average	28,992.41	-1.38%	1.59%	1.59%	29,551.42	1.9%
NASDAQ Composite	9,576.59	-1.59%	6.73%	6.73%	9,817.18	2.5%
Russell 2000	1,678.61	-0.53%	0.61%	0.61%	1,740.75	3.7%
MSCI EAFE (USD)	2,002.86	-1.28%	-1.67%	-1.67%	2,388.74	19.3%
MSCI Emerging Markets (USD)	1,084.22	-2.00%	-2.73%	-2.73%	1,338.30	23.4%
Bloomberg Commodity Index	76.25	1.15%	-5.73%	-5.73%	237.95	212.1%
Barclays U.S. Aggregate Bond	107.77	0.48%	2.04%	2.04%	111.03	3.0%

Source: FactSet

Market sentiment has eroded as investors assess global economic headwinds created by the COVID-19 coronavirus, as well as the rising popularity of Bernie Sanders in early primary/caucus elections. With uncertainty building, investors are growing increasingly cautious, jeopardizing market gains that have accelerated in 2020. The S&P 500 traded below 3,240 early Monday, down more than 2.9% for the day and down 4.3% from the 3,386 high set on 2/19/20. While the spread of coronavirus in China appears to be slowing, economic activity in the region is disrupted and new cases have accelerated in other countries including, South Korea, Italy, and Iran. Over the weekend, China President Xi stated that China expects considerable short-term impact to economic growth, which some believe could reduce China's 1Q20 GDP growth to 4.0% from 6.0% expected, and the IMF said that the full-year GDP impact in China from the outbreak could be 0.5%. The impact on the U.S. economy is likely to be far less, but is still being assessed at this time. There has been widespread impact on the global travel industry, disrupted Chinese supply chains will cause inventory hiccups, and demand for U.S. exports, especially to China, will likely be lower than expected. We also believe that the virus will delay the economic benefits of the China Phase 1 trade deal as well as potential GDP growth improvement in Europe. A group of G-20 finance ministers (including U.S. Treasury Secretary Mnuchin) met in Saudi Arabia and pledged coordinated fiscal and monetary responses if needed to combat weakening growth trends. We continue to see the potential for a market pullback of 5.0% or more, but make no changes to our 3,350 S&P 500 fair value estimate, which is more than 3.0% above current levels.

Bernie Sanders ascension as the front-runner for the Democratic 2020 presidential nomination has contributed to market volatility as investors assess the potential impact of a Sanders presidency on corporate results. While Mr. Sanders has built a growing coalition of supporters over the past several years, investors have largely downplayed his potential to win a national election. After strong results in Iowa, New Hampshire, and Nevada, his popularity has surged. Mr. Sanders' platform is well-defined with macro goals to end income inequality, make college and universal healthcare free for everyone, and aggressively combat climate change. At the core of many of his proposals is to raise taxes across the board. This includes his support for raising the corporate income tax to 35% (from 21%), eliminating accelerated depreciation expense, increasing personal income taxes for high earners, increasing payroll and social security taxes, limiting itemized deductions, raising the capital gains rate, imposing a wealth tax on millionaires, and imposing a financial institutions tax on trading. Add to that an anti-corporate bias that is likely to lead to increased regulation, the visibility for corporate earnings would likely be poor. All of this would limit corporate earnings and growth investment, in our opinion. While the November election remains more than eight months away, our view is that uncertainty would lead to a decline in economic activity, pressuring earnings and equity valuations. The ultimate market impact will also depend on the composition of Congress, as a divided House and Senate could limit extreme elements of Mr. Sanders' platform.

Monday's equity market decline of more than 3.0% has created a flight to quality and further reduction in U.S. interest rates. All 11 S&P 500 sectors are down in the largest single day drop since 8/5/19, but defensive sectors (Utilities, REITs, and Consumer Staples) are outperforming other groups. Global investors are also buying U.S. Treasury securities, driving yields to multi-month lows. The U.S. 10-year Treasury yield fell to 1.37% Monday, down from 1.92% at year-end, and at the lowest level since July 2016. Bond investors appear concerned that global GDP growth will disappoint and lead to another round of rate cuts from sovereign central banks.

James D. Ragan, CFA
Director of WM Research
(206) 389-8000
dadavidson.com

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