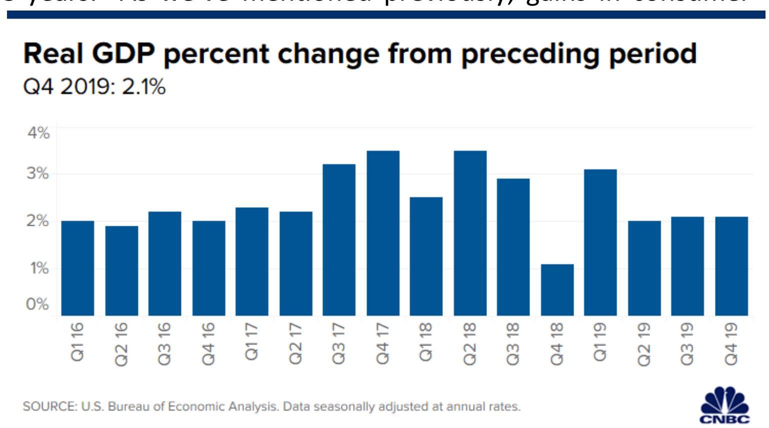
February 12, 2020

The Big Picture and Key Takeaway – January 2020

- After a phenomenal 2019 for the global stock and bond markets, the new year is off to a more volatile start. While the momentum from 2019 carried over into the early weeks of January, early stock market gains were erased by the end of the month, primarily due to concerns over the Coronavirus outbreak in China and its potential impact on the global economy. While the S&P 500 index of U.S. stocks was essentially flat for the month, overall, the global market gave back some ground in January, while safe-haven assets like bonds and gold gained.

- On the economic data front, gross domestic product for the fourth quarter was 2.1%, and economic growth for the full year of 2019 grew at 2.3%, its slowest pace in 3-years. As we've mentioned previously, gains in consumer spending will likely be needed to sustain economic growth, as business spending and investment continues to be weak. In the fourth quarter, consumer spending did grow by 1.8% but slowed down from the 3.2% growth in spending in the third quarter. On a positive note for consumers, the job market still appears to be in good shape. The January jobs reports reported a gain of 225,000 jobs, which was above the consensus forecast, while the unemployment rate ticked up to 3.6%, as more people entered the labor force looking for work.



- On the geopolitical front, while the Trade War with China has moved into the background, for the time being, another prominent risk has emanated from China, the emergence of the new Coronavirus. While the human toll and containing the potential health fallout is the top priority for governments around the globe, markets have focused on its potential impact on the global economy, as China's attempts to contain it will likely halt significant portions of its economy and therefore, global supply chains will likely be disrupted. With the impact less than clear, markets will probably wax and wane in the near-term as developments related to the virus continue to unfold.

- The one consistent positive force for the markets, the Federal Reserve, remained supportive in January. While the Fed left its benchmark interest rate unchanged in January, its discussion of lingering risks within the global economy and their difficulty in reaching their 2% inflation target, led most to believe that the Fed's next move is more likely an interest rate cut than an increase. The Fed, in its semi-annual report to Congress, also highlighted the emergence of the Coronavirus as a threat to global economic growth.

The Key Takeaway

The U.S. economy has been resilient, primarily due to the U.S. consumer, but far from robust. Ironically, the lack of robust growth and inflation, along with the consideration of risks that can cause the global economy to slow, has allowed the Federal Reserve to cut interest rates and keep them at a very low level. The "economic growth plus low rates" narrative has been a perfect brew for the stock market, despite generally weak earnings growth. But as asset prices have moved swiftly higher, and with generally strong momentum through 2019 and into early 2020, the hurdles to that continued ascent may prove to be higher as well. Momentum may carry the market further yet, but we believe that any emerging vulnerabilities, whether economic, political, or otherwise, may halt that momentum swiftly if the foundations of the narrative begin to crack.

January Market Performance

Market Returns		Returns (%)
Index	Description	January
S&P 500 TR USD	US - Large Company	-0.04
Russell 2000 TR USD	US - Small Company	-3.21
MSCI ACWI Ex USA NR USD	All International, excluding US	-2.69
MSCI EAFE NR USD	International, excluding Emerging Markets	-2.08
MSCI Emerging Markets NR USD	Emerging Market Stocks	-4.66
Bloomberg Barclays US Agg Bond TR USD	High Quality US Bonds	1.92
ICE BofAML US High Yield TR	Lower Quality US Bonds	0.00
XAU Gold Spot $/OZ	Gold	3.97
*Through January 31, 2020 Source: Morningstar, MSCI, Bloomberg		

Global Stocks

Stocks had a rocky start to the year in January. While large U.S. companies turned in flat performance, small company and international stocks delivered negative returns, after a weak finish to the month. High-flying growth stocks, once again led by the information technology sector, continued to outperform value-oriented names and sectors. Within the U.S. markets, among individual sectors, the resilience of Information Technology, along with the defensive Utility sector and interest rate sensitive Real Estate sector, led the way in January. The Energy sector, which benefitted in December on a spike on oil prices, was hammered as oil cratered in the face of virus-related economic fears. Outside the U.S., most major developed and emerging market currencies lost value for the month against the dollar, which provided a significant headwind for international stock returns as compared to the U.S. Developed market stocks and emerging market stocks posted losses in January, with the emerging markets most sensitive to the potential fallout from the Coronavirus and any ensuing economic slowdown. Unsurprisingly, China's markets struggled mightily in January as did their regional counterparts in Korea, the Philippines and Thailand.

Bonds

The yield curve flattened in January, meaning long-term bond yields declined more than shorter-maturity holdings. Overall, the movement within the bond market led to very positive gains for the month. The 10-year Treasury bond yield dropped by a whopping 0.40% while the 30-Year Treasury Bond moved lower by 0.38%, as economic fears related to China led to a flight-to-quality into U.S. Treasury bonds. The higher quality and longer maturity Treasury and Investment-Grade corporate sectors led the way, while Mortgage and Asset-Backed Securities lagged on a relative basis. Credit spreads, a measure of the risk of default in the bond market, widened to higher levels as investors demanded higher compensation for taking credit risk, which led to flat performance for lower quality, high yield bonds. The Fed Funds target is 1.75%, and future expectations are that rates will be moved lower by another 0.25-0.50% over the next 12 months.

If you have any questions regarding this report, please contact us at info@atwob.com or 914.302.3233
Point B Planning, LLC d/b/a AtwoB | 23 Parkway, 2nd Floor Katonah, NY 10536 | www.atwob.com

Important Disclosure Information

This report is provided as information and commentary regarding the market. The views expressed in this report are as of the date of the report, and are subject to change based on market and other conditions. This report contains certain statements that may be deemed forward-looking statements. Please note that any such statements are not guarantees of any future performance and actual results or developments may differ materially from those projected.

Please note that nothing in this report post should be construed as an offer to sell or the solicitation of an offer to purchase an interest in any security or separate account. Nothing is intended to be, and you should not consider anything to be, investment, accounting, tax or legal advice. If you would like investment, accounting, tax or legal advice, you should consult with your own financial advisors, accountants, or attorneys regarding your individual circumstances and needs. Advice may only be provided by AtwoB after entering into an investment advisory or financial planning agreement. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment and/or planning advice from AtwoB. If you are an AtwoB client, please remember to contact AtwoB, in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services.

Past performance is not a guarantee of future returns. Investing involves risk and possible loss of principal capital. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by AtwoB, or any non-investment related content, made reference to directly or indirectly in this newsletter will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Historical performance results for investment indices and/or categories have been provided for general comparison purposes only, and generally do not reflect the deduction of any fees or expenses, transaction and/or custodial charges, the deduction of an investment management fee, nor the impact of taxes, the incurrence of which would have the effect of decreasing historical performance results. It should not be assumed that your account holdings correspond directly to any comparative indices and/or categories.

AtwoB is neither a law firm nor a certified public accounting firm and no portion of the newsletter content should be construed as legal or accounting advice. A copy of the AtwoB's current written disclosure Brochure discussing our advisory services and fees continues to remain available upon request.

Index and Category Definitions

The S&P 500 Index *is a capitalization-weighted index of 500 U.S. stocks.* ***Russell 2000 TR USD*** *is a market cap weighted index* The Russell 2000 measuring the performance of approximately 2,000 smallest-cap American companies ***The MSCI All Country World ex-USA Index*** *is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI All Country World ex-USA Index consists of 22 developed and 24 emerging market country indices.* ***The MSCI EAFE Index (Europe, Australasia, Far East)*** *is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. & Canada.* ***The MSCI Emerging Markets (EM) Index*** *is a free float-adjusted market capitalization index that is designed to measure equity market performance of 24 emerging markets countries.* ***Bloomberg Barclays U.S. Aggregate Bond Index*** *is an index of the U.S. investment-grade fixed-rate bond market, including both government and corporate bonds.* ***ICE BofAML U.S. High Yield Index*** *is an unmanaged index of below-investment grade U.S. corporate bonds.* ***XZU Gold Spot $/Oz*** *reflects the exchange rate of* ***Gold*** *against the US dollar* ***index***