consequent capital management

**John C. Robinson**
*Chief Executive Officer*
Tel: 404-883-2577
john@consequentcm.com

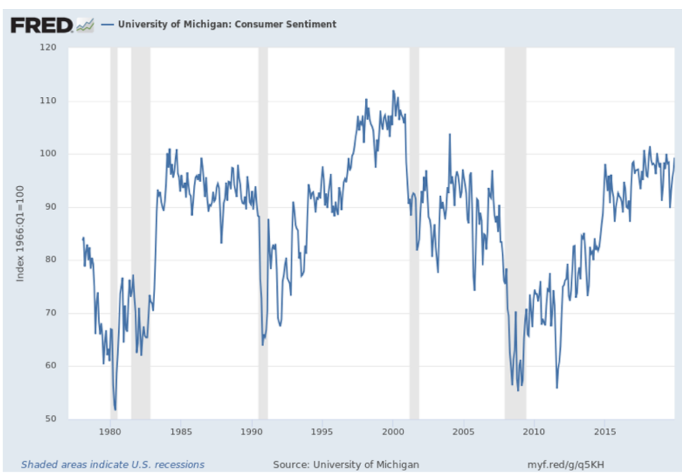
# Capital Markets Review and Outlook

**By: Cyril M. Theccanat, Chief Investment Officer**

January 2020

## Economy and Outlook

A confluence of currents marked the start of the new year. Positive developments on the global economic front were abruptly upended in the latter part of January by the major health crisis which began in China - the coronavirus. Prior to this issue, a constructive backdrop was unfolding with the signing of the Phase One trade agreement between the United States and China, and Congressional ratification of the North American trade agreement between the United States, Mexico and Canada. Also, after a year of interest rate cuts and balance sheet expansions by central banks around the world, a synchronized global economic expansion has been unfolding. Economic data releases have reflected the positive tone. Employment conditions world-wide remain firm. Much has been said about the strong labor market in the United States with the lowest unemployment rate in 50 years. But even in the Eurozone, the unemployment rate has hit a 12-year low. The 100 bp drop in U.S. mortgage rates has also been a strong catalyst for the housing market. Mortgage applications to purchase homes have surged even as house prices have accelerated. As the chart on the left shows, consumer confidence remains at elevated levels.




The world is now the most interconnected that it has ever been. As a result, the coronavirus outbreak, which began in China, may be a threat to global growth. Although the 2003 SARS virus, which also began in China, did not have a lasting negative economic effect over the course of the year, the Chinese economy and its impact on the rest of the world is quite different today. In 2003, China's economy was around $1.7 trillion. Today, the economy is more than 8 times larger, at $14 trillion. While China was primarily an exporter of cheap goods 25 years ago, it is now a supply-chain center for the rest of the world with a large consumer-driven economy. On a positive note, China has responded forcefully to contain the effects of this health crisis

consequent capital management

John C. Robinson
*Chief Executive Officer*
Tel: 404-883-2577
john@consequentcm.com

and has also eased credit conditions by pumping the equivalent of billions of dollars into the system. The aggressive steps taken by China and other nations may help limit the economic drag from the virus to just one or two quarters.

## Equity Markets

After making record highs in mid-January, equity markets turned sharply lower on fears about the negative economic fallout from the coronavirus that began in China and spread to other countries. The broad domestic equity market represented by the Russell 3000 Index declined -0.1% in January. Of course, this follows a +31% gain for 2019. The sharp rise in market volatility, and the flight to quality brought about sharp differentiations in investment performance by capitalization and style. While the Large Cap index was little changed with a gain of +0.1% for the month, Small Cap declined -3.2%. Growth also held up much better across capitalizations with Large Cap Growth gaining +2.2% while Large Cap Value lost -2.2%. In the Small Cap space, Growth declined -1.1% but Value declined a steeper -5.4%. In January, stock sector performance was mixed. Defensives outperformed Cyclicals in the risk-off environment with Utilities up +6.7% and Materials down -6.2%. However, Technology was a strong performer with a +4% gain as investors continued to pay up for growth. Energy was the worst performer (-11.1%) as energy prices dropped precipitously on fears that travel worldwide would decline sharply due to the coronavirus. International equity markets were hit harder by the flight-to-quality due to their greater dependence on China. The stronger dollar was an additional drag on performance. The MSCI Developed Markets equity index declined -2.1% in January, while the Emerging Markets Index dropped more than twice as much: -4.7%.

## Fixed Income Markets

Investor risk aversion in the second half of January caused Treasury yields to plummet. Interest rates dropped by 25 to 41 bp across the curve. The Treasury yield curve flattened with the 2-year/10-year spread differential narrowing by 16 bp to end the month at +18 bp. In line with the downdraft in the equity markets, corporate bond spreads also moved wider in January. Investment grade bond spreads widened by 9 bp. As typically occurs when the corporate bond market sells off, the corporate credit curve and the quality curve both steepened. Short to intermediate maturity corporate bonds outperformed long maturity bonds, while single-A rated bonds outperformed BBB-rated-issues. Similar to the equity markets, the energy sector was the worst performing sector in the corporate bond market as spreads widened by 15 to 32 bp. REITS was one of the best performing sectors with spreads narrowing by -1 bp. While spreads widened in the high yield corporate sector, the sector's high coupon together with the decline in

consequent capital management

**John C. Robinson**
*Chief Executive Officer*
Tel: 404-883-2577
john@consequentcm.com

Treasury yields helped cushion the price decline and left the sector's total return unchanged for the month. Government bond yields also declined outside the U.S. as risk-averse investors moved out of equity markets over fears that the coronavirus would have a chilling effect on economic growth. Despite the drop in yields, the non-dollar government bond market's return of +1.1% lagged the U.S. Government bond market's return of +2.4% as the U.S. dollar rose across most currencies.

| | | Returns as of 1/31/20 (In %) | | | |
|---|---|---|---|---|---|
| | | Month | 1 Year | 3 Years | 5 Years |
| Russell 3000® | US AllCap Equity | -0.1 | 20.5 | 13.8 | 11.8 |
| Russell 1000® | US Large Cap Equity | 0.1 | 21.4 | 14.3 | 12.1 |
| Russell 1000® Growth | US Large Cap Growth | 2.2 | 27.9 | 20.0 | 15.5 |
| Russell 1000® Value | US Large Cap Value | -2.2 | 14.9 | 8.6 | 8.7 |
| Russell Midcap® | US Mid Cap Equity | -0.8 | 16.9 | 10.9 | 9.5 |
| Russell Midcap® Growth | US Mid Cap Growth | 0.9 | 22.6 | 16.4 | 12.2 |
| Russell Midcap® Value | US Mid Cap Value | -1.9 | 13.0 | 6.8 | 7.5 |
| Russell 2000® | US Small Cap Equity | -3.2 | 9.2 | 7.3 | 8.2 |
| Russell 2000® Growth | US Small Cap Growth | -1.1 | 13.9 | 11.5 | 9.6 |
| Russell 2000® Value | US Small Cap Value | -5.4 | 4.4 | 3.1 | 6.7 |
| | | | | | |
| MSCI ACWI ex-US | Global Equity ex-US | -2.7 | 9.9 | 7.6 | 5.0 |
| MSCI EAFE | Global Developed Mkts Equity | -2.1 | 12.1 | 7.8 | 5.1 |
| MSCI EM | Emerging Mkts Equity | -4.7 | 3.8 | 7.9 | 4.5 |
| | | | | | |
| Bloomberg/Barclays US Agg | US Core Fixed Income | 1.9 | 9.6 | 4.6 | 3.0 |
| Bloomberg/Barclays US Interm. Agg | US Intermediate Fixed Income | 1.2 | 7.1 | 3.6 | 2.6 |
| Bloomberg/Barclays US Credit | US Corporate Bonds | 2.3 | 14.0 | 6.5 | 4.3 |
| Bloomberg/Barclays US MBS | US Mortgage Backed Securities | 0.7 | 6.3 | 3.5 | 2.6 |
| Bloomberg/Barclays US Corp HY | US High Yield | 0.0 | 9.4 | 5.9 | 6.0 |
| FTSE Non-US WGBI | Global Fixed Income ex-US | 1.1 | 4.4 | 4.4 | 2.4 |