Weekly Market Review

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The Week Ending February 7, 2020

It seems like February did not get January's memo of coronavirus fears, as last week marked a reversal to the down days that ended last month. A combination of corporate earnings and positive economic data contributed to the S&P 500 Index closing at a record level for the eighth time in 2020.

The dramatic moves of the stock market in the past couple weeks could indicate volatility is making a comeback. The S&P 500 Index has experienced at least a 1% move, up or down, half of the trading days over the past two weeks; the first such moves since October 2019. Not that this isn't normal, it's just something most investors have not had to pay attention to much during the current expansion that is going on 11 years. For comparison, 2017 only had eight days the entire year where the market moved more than 1%, while we just experienced five during a two- week stretch. Now, neither event should be considered normal, but it's better to be prepared for volatility and focus on economic data to drive portfolio decisions.

On the economic front, the U.S. consumer and labor markets continue to be strong as the jobs report demonstrated last week. A warmer than average January led to unexpected job growth in the construction and transportation sectors, marking the 112th consecutive month of job growth. Another shorter but important streak continued for wage growth as it continued an 18-month streak of annual growth being greater than 3%. If wages continue to rise, workers will be enticed back to the labor force, and, in theory, have a larger discretionary income to spend back into the economy. If this pans out, which always sounds great on paper but can be challenging to predict in real terms, the consumer should continue to be a significant contributor to 2020 U.S. GDP, similar to 2019.

After dominating headlines for much of the past two years, we have received a break from trade talks the past few weeks. However, last week there was a bit of positive news out of China, as they announced they would be reducing tariffs by half on $75 billion of U.S. imports. This should continue the positive terms the two countries appear to be on as they move into phase two negotiations at some point in 2020.

Corporate earnings continue to roll in, and for the most part, have been viewed as positive by the market. While there have been a few outlier earnings results this quarter (see Tesla), most companies are not experiencing significant market reactions like in prior periods. While it is hard to predict what might be holding the market back, as long as companies continue to grow, it should be positive for investors.

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