



Penn State Asset Management Group

PSAMG Weekly Markets Update

Week of January 27 – January 31 CY2020

Weekly Markets Update

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	End of Week Close	End of Week Percentage Change
DJIA Futures	28256.03	-2.53%
S&P 500 Futures	3224.00	-0.48%
Stoxx Europe 600	410.71	-3.05%
Shanghai Composite	2976.53	-3.22%
U.S. 10-Year	1.51%	-31.48%
WTI Crude Oil	\$51.63	-2.84%

Market Data as of Friday January 31, 4:00 pm EST

Coronavirus Takes the World by Storm

As the Coronavirus continues to infect people all around the globe, the world economies have begun to falter earlier this week. As of Friday, January 31, the Coronavirus affected 9,923.00 people in 20.00 countries and killed 213.00. Due to the timing of the virus, the effect it has on the Chinese and U.S. economy has been exacerbated. Coronavirus began days before the Lunar New Year where millions of travelers normally visit China to celebrate. Supply chains have been disrupted throughout China; domestic and foreign companies have closed operations to protect the countries assets, which leads to a decline in supply for many crucial products.

Not only are supply chains affected, but the overall Chinese GDP is estimated to lose one-third of its growth in 1Q2020 according to Nomura Holdings estimates. The CHY took a significant blow this week as it briefly broke seven to the USD before settling at 6.94 p/USD on Friday's close. The currency slide impacted some of the agreements that were part of the initial U.S. China trade deal regarding currency manipulation and how to stabilize it.

As the Chinese economy showed weakness in the wake of the virus, the U.S. equity markets have faltered. The S&P 500 finished down 1.80%- the worst performance in over six months. On the same day, American, Delta, and United Airlines canceled flights to and from all Chinese cities. Delta alone is canceling 42.00 weekly flights from February 6, CY2020 to April 30, CY2020. Couple this with the U.S. declaring the coronavirus a public health emergency within the country, have investor confidence wavering with uncertainty. Companies including Starbucks, McDonalds, Marriott, and Hyatt have suspended operations in central and southern China. Travel and leisure stocks have dropped about 5.00% in the past two weeks due to a decrease in demand for travel. The 2019-nCoV's effects are not isolated to the U.S. and China. The FTSE took a hit due to the U.K. announcing that they have their first cases of the virus. This coupled with Brexit and slowing growth pushed the FTSE down 1.75% for the week.

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Earnings Growth Above Expectations

As of this week's market close, 45.00% of the companies in the S&P 500 have reported 4Q2019 earnings. To this point, 69.00% of companies have reported better-than-expected, and 65.00% of the companies have reported revenue above estimates. On average, companies are reporting EPS 4.10% above estimates, and revenue data is beating expectations by 0.60%. The IT sector is performing well above expectations with 90.00% of companies in the sector beating EPS estimates and 81.00% of companies beating revenue estimates. The numbers have been largely due to tech giants Amazon, Microsoft, and Apple. Apple beat EPS expectations by ~8.82%, Microsoft beat expectations by ~12.58%, and Amazon beat by ~37.71%. Despite the U.S./China tensions and slowing global growth concerns, this data shows the strength the IT sector has going into CY2020. Other sectors that have performed well above EPS and revenue this earnings season include Communication Services, Consumer Discretionary, Healthcare, and Financials. Others that are struggling to beat expectations; the Industrials, Materials, and Energy sectors are seeing nearly 50.00% of their companies underperforming expectations for revenue and EPS thus far.

Earnings growth among companies in the S&P 500 is expected to fall by 1.60% for 4Q2019, and revenue growth is expected to rise by 2.70%. With nearly half of the companies having already reported, earnings growth has fallen -0.30%, and revenue growth has risen 3.10%. Both metrics are more favorable than the original expectations for growth and indicate the economy to be slightly stronger predicted. Earnings growth has been most impressive in Financials, Healthcare, Communication Services, and Information Technology, and seven of the 11.00 sectors in the S&P 500 have shown positive earnings growth while only five sectors were projected to see positive growth this quarter. Overall performance for earnings growth on the S&P 500 is being dragged down by Consumer Discretionary, Materials, and Industrials which are all seeing growth fall by ~10.00% alongside energy where growth fell by ~42.50%. Overall, growth is not too far from expectations so far this earnings season, with under half of the companies in the S&P 500 already posting earnings. Strong data from a number of major blue-chip stocks has been overshadowed in major indices by bearish pressure from worries about slowing global economic growth and the spread of the coronavirus. 94.00 more companies in the S&P 500 will report earnings this coming week and more outperformance may help to prop the market up.

Lead Products Affected

Increasing worry around the coronavirus has been the main driver keeping many equities in the negative for the week, and it has also brought a higher level of volatility to markets around the globe. The Nasdaq 100 was the only index to stay positive, and this was due to its heavy IT weighting and the impressive earnings posted in the sector this week. U.S. markets could be in for more of a pullback if coronavirus starts to spread any faster in the U.S. Indices with a large weighting of Chinese companies were hurt most because of the rapid spread of the virus and shut down of business in China. This caused the Hang Seng Index (~55.00% Chinese companies) and the MSCI Emerging Markets Index (~34.00%



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	End of Week Close	End of week % Change
S&P 500 Futures	\$3224.00	-0.48%
Nasdaq 100 Futures	\$9016.25	0.69%
Hang Seng Futures	\$26,233.00	-3.29%
FTSE 100 Futures	\$7217.50	-1.75%
S&P 500 Healthcare Futures	\$1000.80	-2.60%
Nikkei 225 Futures	\$23,130.00	-0.77%
Emerging Markets Futures	\$1050.80	-2.18%
Dow Real Estate Futures	\$372.00	-1.04%

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Chinese companies) to end the week with heavy losses. These markets with heavy Chinese weighting will need to see the spread of the virus slow and business go back to normal in order to rebound from these losses and prevent even further losses.

The FTSE 100 posted a loss of 1.75% on the week due to a number of variables. The U.K confirmed its first two cases of coronavirus earlier this week, which means they are no longer isolated from the disease in the U.K. A number of economic growth figures from the E.A. this week showed slower than expected growth for the quarter, worrying investors about the economic outlook for the E.A. in CY2020. Uncertainty surrounding the U.K. is also very high right now because of Brexit. On January 31, CY2020, the U.K. officially left the EU at 6:00 P.M. EST. These factors all leave a murky outlook on the year ahead for the U.K. and it hurt the FTSE 100 this week. Markets will be watching the coronavirus and slowing global growth in the upcoming weeks.



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Key Events for Next Week

Monday (02/03):

- **RUB** GDP Growth Rate YoY (Q4) – Previous **1.70%** | Forecast 2.30%
- **AUD** RBA Interest Rate Decision – Previous **0.75%** | Forecast 0.75%
- **INR** Markit Manufacturing PMI (JAN) – Previous **52.70** | Forecast 52.50
- **RUB** Markit Manufacturing PMI (JAN) – Previous **47.50** | Forecast 48.80
- **E.A.** Markit Manufacturing PMI (JAN) – Previous **46.30** | Forecast 47.80
- **EUR** Markit Manufacturing PMI (JAN) – Previous **47.50** | Forecast 49.80
- **USD** ISM Manufacturing PMI (JAN) – Previous **47.20** | Forecast 49.10

Tuesday (02/04):

- **USD** Factory Orders MoM (DEC) – Previous **-0.70%** | Forecast 0.90%
- **CNY** Caixin Services PMI (JAN) – Previous **52.50** | Forecast 51.00

Wednesday (02/05):

- **CAD** Balance of Trade (DEC) – Previous **C\$-1.09 bn** | Forecast C\$1.50 bn
- **AUD** Balance of Trade (DEC) – Previous **A\$5.80 bn** | Forecast A\$5.9 bn
- **USD** Balance of Trade (DEC) – Previous **\$-43.10 bn** | Forecast \$-49 bn
- **E.A.** Retail Sales MoM (DEC) – Previous **1.00%** | Forecast -0.40%
- **BRL** Interest Rate Decision – Previous **4.50%** | Forecast 4.25%

Thursday (02/06):

- **INR** RBI Interest Rate Decision – Previous **5.15%** | Forecast 5.15%
- **E.A.** ECB President Lagarde Speech
- **CNY** Balance of Trade (JAN) – Previous **\$47.21 bn** | Forecast \$40.00 bn

Friday (02/07):

- **EUR** Balance of Trade (DEC) – Previous **€18.30 bn** | Forecast €14.00 bn
- **USD** Non Farm Payrolls (JAN) – Previous **145.00 k** | Forecast 148.00 k
- **USD** Unemployment Rate (JAN) – Previous **3.50%** | Forecast 3.60%
- **CAD** Ivey PMI (JAN) – Previous **51.90** | Forecast 50.00
- **RUB** Interest Rate Decision – Previous **6.25%** | Forecast 6.00%
- **CAD** Unemployment Rate (JAN) – Previous **5.60%** | Forecast 5.80%