



I always figured the market was smart

So far, it doesn't seem to be worrying much about the coronavirus.

Published 02-14-2020

Linda Duessel, CFA, CPA, CFP

Senior Vice President

Senior Equity Strategist

I've just enjoyed a glorious week in unseasonably sunny and mid-70 degree weather—including a record-breaking day—with one of my favorite colleagues in the San Francisco Bay Area. I'm again marveling that they pay me to do this, though there is room to pay me more! In meetings with both advisors and individual investors, the questions/comments swung between funny and cautious. Advisors enjoying new record highs: "I 'identify' as a financial advisor"... "Blame it on Berkley!"...and, "My clients plan to live a long time in retirement, so we're going to own equities, baby!" Lots of money out here; even the advisors are rich. One gentleman, who has met several presidents ("I expect to meet Trump sometime this year"), doesn't need to work. "Most of my dreams have come true. I'm working now to help others achieve their dreams." Politics came up in most meetings, where I was informed that Sanders is leading here with an "unbelievable organization." One advisor

joked, “AOC doesn’t vote for anything; she votes against everything—she’s a total Republican!” Asked in two separate meetings what is the meaning of democratic socialist, here’s what I found: In general, democratic socialists believe government should provide a range of basic services to the public, such as health care and education, for free or at a significant discount. Business Insider says “democratic socialist” and “socialist” often are treated as interchangeable, which can be confusing since democratic socialists don’t really think government should take control of all aspects of the economy. They believe strongly in democracy and democratic principles and by no means are proponents of the authoritarian government many Americans associate socialism with. But they are fundamentally anti-capitalist.

At record highs, what should we worry about? At several advisor meetings, it was the melt-up. “Wall Street is too bullish.” Several times a fear of inflation was voiced. Some individual investors are just worried about “record highs.” An advisor talked his client out of selling everything a few months ago when the market made a high, only to be told to absolutely sell everything in December. At a ladies event, my only question was, “How much cash should we have?” No one brought up the coronavirus. But when I mentioned the Mister and I are supposed to go on a bucket-list trip to China in a few months, I was assured that it’s not going to happen (sad face). The overnight explosion in reported cases Thursday (it’s hard to trust anything coming out of China these days) added to concerns over how fast activity there could return to some semblance of normalcy. Factories and businesses began to restart/reopen this week, but it’s been uneven. Using power consumption to gauge the scale of work resumption, state broadcaster CCTV reported rates varied from 12% to 64% across cities, with hardest-hit Wenzhou at the bottom. Rates also varied across sectors, from 16% for industrials to 70% for finance. If factories remain closed beyond February, the impact could ripple outwards to other countries. Russia, Canada, Japan, the European Union and Fed Chair Powell this week all warned

the virus represents a threat. And every day, we hear about another company that's being hurt. Starting with March, Cornerstone Macro estimates the hit to U.S. GDP could be roughly a quarter point monthly, with autos, techs and retailers the most vulnerable. JP Morgan slashed by half its global Q1 GDP growth projection to 1.3%, which would be the weakest since the financial crisis. My biggest fear all last year was China could fall into a recession that reverberates around the world.

The market hates uncertainty. So how did it react this week to all this unsure news out of the world's second-largest economy that already was slowing before the virus? Many China ADRs rose to their pre-virus/panic levels, while mainland indexes responded to oversold conditions. There was strength elsewhere in many China-sensitive indexes. Germany's DAX and Sweden's OMX broke out, Japan was on the verge of multiyear highs, South Korea recovered the bulk of its recent sell-off and broader Europe moved above a roughly 20-year range. Wolfe Research worries investors are being too complacent about the virus and a potential Sanders presidency. In Deutsche Bank's latest monthly market sentiment survey, a stunning 95% of respondents thought President Trump would be re-elected, with a big jump in the "extremely" likely score to 63% from 43%. Only 11% thought Sanders could beat Trump—the closest match-up was Bloomberg; respondents thought he would lose to Trump by only 44% to 56%. Third Seven says Bloomberg is the only guy Trump fears because he's the one markets may like more than Trump. Indeed, the market, thinking there's no way a candidate with "socialist" in his party affiliation can win, rallied to new highs after Tuesday's New Hampshire primary results. But Wolfe cautions Bernie's lead over Trump in the polls stands at 4.3 percentage points—and is growing—and 2016 primary results show Sanders appeals to many of the same voters who went with Trump. So here we are. I'm bumming because it looks like I'm not going to China in a couple of months. On the positive side, the markets are fine. They're not priced

for the economic ramifications of a China that's closed for business too long, or for a Bernie presidency. The markets are smart, aren't they?

POSITIVES

- **Small businesses are bullish** The monthly National Federation of Independent Business survey said optimism increased in January, led by record-high readings in “Good Time to Expand” and “Profits Improving.”
- **Is a Fed easing possible?** January's consumer price report showed inflation pressures remain in a box, while Powell's congressional testimony suggested if anything, the central bank stands ready to ease if the virus impact worsens. Markets are pricing in 46% odds of a rate cut by or at June's meeting.
- **Contrarian positive** The American Association of Individual Investors bull-bear ratio has collapsed on virus fears. Typically, periods of weak sentiment amid strengthening economic activity, as has been the case so far this year, represent good buying opportunities.

NEGATIVES

- **Consumers cool down** Retail sales moderated in January, with the softness centered on discretionary items such as clothing and electronics. Weekly surveys show sales have slowed this month, as well. Still, spending remains relatively robust and supportive of economic growth.
- **Don't count on capex** The outlook for investment spending over the next 12 months has deteriorated sharply, Ned Davis Research said. Its survey found capital expenditure (capex) expectations softening across most sectors, led by Industrials, Tech, Consumer Discretionary and Financials.
- **The labor market is tight** For the first time since the Great Recession, year-over-year job openings declined in December, suggesting the

economy may be nearing full employment or that slowing growth is eroding the need to hire more workers. Still, hiring did edge up and the number of openings remained above the number of unemployed for the 22nd straight month.

WHAT ELSE

In search of enthusiasm At 176K, turnout for the Iowa caucuses was almost half the expected 300K and 2008's record 240K. Total votes in New Hampshire's primary also disappointed, though the 283K voters did top 2016's 251K. Primary winner Sanders received about half as many votes as he did in 2016, when he carried 60% of the vote compared to just 26% Tuesday. Although to be fair, he only competed against Hillary back then. Still, he could struggle to win a majority of Democrats even when the field is winnowed.

Bernie's looking good in the Golden State With 415 delegates, far more than any other state (the next largest is New York at 274), California is the top prize of the 16 states voting on Super Tuesday on March 3. The Los Angeles Times reported that the state began its early voting process last week, giving Sanders an advantage with early voters.

What about Clinton? Hillary appeared last week on the Ellen DeGeneres show where, when pressed whether she would agree to be on the 2020 Democratic ticket, said, "I never say never because I believe in serving my country, but it's never going to happen." She recently released a flattering portrayal of herself in the form of a Hulu documentary that premiered shortly before the Iowa caucuses and is set to debut nationally on March 6, three days after Super Tuesday sheds some light on the probability of a brokered convention. Several alumni from Clinton's failed 2016 run reportedly will play prominent roles at July's Democratic National Convention. But not Howard Wolfson. Her

communications director for her Senate campaigns is now a top Bloomberg campaign strategist.

Connect with Linda on LinkedIn

TAGS

[EQUITY](#)[MARKETS/ECONOMY](#)[VOLATILITY](#)

DISCLOSURES

Views are as of the date above and are subject to change based on market conditions and other factors. These views should not be construed as a recommendation for any specific security or sector.

Gross Domestic Product (GDP) is a broad measure of the economy that measures the retail value of goods and services produced in a country.

OMX Stockholm 30 is the Stockholm Stock Exchange's leading share index. The index consists of the 30 most actively traded stocks on the Stockholm Stock Exchange.

S&P 500 Index: An unmanaged capitalization-weighted index of 500 stocks designated to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. Indexes are unmanaged and investments cannot be made in an index.

The American Association of Individual Investors (AAII) Bulls Minus Bears Index is a measure of market sentiment derived from a survey asking individual investors to rank themselves as bullish or bearish.

The German Stock Index (DAX) is a total return index of 30 selected German blue chip stocks traded on the Frankfurt Stock Exchange. Indexes are unmanaged and investments cannot be made in an index.

The National Federation of Independent Business (NFIB) conducts surveys monthly to gauge how small businesses feel about the economy, their situation and their plans.

Federated Equity Management Company of Pennsylvania

3335151744



Copyright © 2020 Federated Hermes, Inc.