

Market Currents

- **Steady.** The first month of the new decade was anything but uneventful. Concerns over the flare-up in tensions between the US and Iran, the withdrawal of the United Kingdom from the European Union (commonly known as the Brexit), the impeachment trial of President Trump, and the coronavirus outbreak, all provided the stock market with ample reasons to stage a sell-off, especially after the strong 2019 year just had. Instead, the S&P 500 index finished roughly flat for the month, signaling the strong level of resiliency in the markets.
- **Going Viral.** The coronavirus outbreak in China sent jitters across financial markets, sparking fears of a global pandemic and concerns over the global economic outlook. While it is impossible to predict the extent a virus can spread, history indicates that the global economy and markets have been relatively resilient to the effects of past epidemics. If the spread of the virus is to follow the path similar to those tracked in the past by the WHO, the number of confirmed cases will continue to rise sharply for eight to ten weeks, before tapering off into the spring months. It is likely that the outbreak will be a near-term drag on growth in China and its neighbors. But we are comforted by the concerted policy response from the Chinese authorities and global health organizations in an effort to contain the spread, which may assist a recovery in the coming quarters.
- **Brexit.** After 47 years of membership and three and a half years since the country voted to leave, the United Kingdom has officially left the European Union. Thanks to the lengthy periods of extensions, investors are rather well prepared for the split, and the immediate impact to the markets is relatively subdued. For the next 11-months of “transition period”, the UK will continue to follow all of the EU’s rules, and its trading relationship will remain unchanged, until a new free trade agreement can be negotiated.
- **U.S. Politics.** As widely expected, President Trump was acquitted by the Senate of impeachment charges that he abused the powers of his office and obstructed Congress as it probed his attempts to pressure Ukraine into political investigations. Meanwhile, the ongoing U.S. Democratic Party primaries are unlikely to produce a clear leading presidential candidate any time soon, underscoring rising political uncertainties.
- **Outlook for 2020.** We are impressed with the resiliency the stock market is showing, despite the recent emergence of several headwinds. The market’s stubbornness is, in part, reinforcing our view that is one of cautious optimism. Positive corporate earnings have supported equity prices, even if there may be a few stumbles along the way. Moderating trade tensions and accommodative financial conditions should continue to provide a degree of support to growth. Depending on how long the virus outbreak continues, we suspect that a broader growth pickup is merely postponed, and not derailed.

Christopher Lai
Senior Portfolio Manager
02/10/2020