



# Weekly Market Review

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## *The Week Ending January 24, 2020*

Last week marked the first negative week for the S&P 500 Index in 2020. The downturn was primarily driven by trading Friday afternoon when the Centers for Disease Control and Prevention confirmed the second case of coronavirus in the U.S. Events like coronavirus are impossible to predict, and frankly, well beyond the scope I can talk about, so let's stick with the fundamentals. Earnings season, Europe PMI's, and the annual World Economic Forum were the attention grabbers of last week.

The World Economic Forum is an annual conference in Davos, Switzerland, where political and business leaders discuss their outlooks and agendas. The consensus coming out of the conference was that the global economy would stabilize. However, leaders feel it will be up to governments through fiscal policy, rather than central banks through monetary policy, to stabilize the economy when the next downturn occurs. An interesting note to come out of Davos—2020 marked the first time in the conference's 50-year history that environmental issues dominated the agenda. As business leaders focus more on environmental issues and all stakeholders, corporate earnings will be impacted, and evaluating them will need to adapt as well.

We are still at the very early stages of companies reporting fourth-quarter earnings, but so far, they have been mixed. Energy stocks continue to be the weakest area of the market, and this is not expected to change anytime soon as fourth-quarter profits are projected to be down 43% from one year ago. A year ago, we still saw the positive impacts on company earnings from the tax cut, so a reason for the large declines are the elevated earnings that are the base comparison for this year. One positive is that a year from now, we will be comparing, hopefully higher, energy earnings to a lower base that could reverse this trend. The volatility in the price of oil is having a significant impact on energy companies as well. This does not seem to be changing anytime soon as coronavirus fears are weighing on the price of oil. Overall, S&P 500 earnings are expected to decline by about 2% over the past year, but the S&P 500 (minus the energy sector) is expected to show a small amount of growth, so there is still strength for U.S. companies.

The European economy seems to have hit a turning point from their recent slowdown. Europe's overall PMI remained unchanged from last month, but considering France had a negative impact due to labor strikes in the country, this can be viewed as a positive development. Germany's manufacturing index, the persistent weakest sector in Europe, seemed to halt its slowdown while the services sector reported improved data. Some analysts have even called this a bottom for German manufacturing, which has the potential to be a strong, positive factor for the region going forward.



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