

# Economic & Market Commentary

## Market Update – January 2020

Global stocks (-1.3%) kicked off the year by struggling with losses across the board. Emerging market stocks (-4.7%) suffered the most while U.S. large cap stocks (0.0%) were the best performers by posting a flat return. Fixed income asset classes were positive with international bonds (+2.1%) and TIPS (+2.1%) the strongest performers. Alternative asset classes were mixed with commodities and managed futures falling 7.4% and 2.7% for the month, while reinsurance and REITs gained 0.9% and 0.8%, respectively.

### Economy

- Unemployment held steady at 3.5% in December.
- The pace of housing starts in December jumped 17.0% from the previous month.
- The initial estimate of Q4 GDP growth came in at a solid 2.1%.

### Stocks

- U.S. large cap stocks (0.0%) were flat for the month which led all equity asset classes. U.S. small value stocks (-4.5%) were the worst performing domestic equity asset class.
- Both in U.S. and international markets, small cap and value stocks underperformed their large cap and core counterparts.
- Emerging market stocks (-4.7%) struggled as concerns about the coronavirus outbreak in China made headlines around the world.

### Bonds

- Bond returns rose as investors looked for safety as stocks fell. U.S. intermediate-term bonds gained 1.4% while U.S. short-term bonds had a modest return of 0.3%. TIPS were the strongest performers of U.S. bonds with a gain of 2.1%.
- International bonds continued to perform well with a 2.1% return for the month.

### Alternatives

- Global REITs (+0.8%) and reinsurance (+0.9%) both posted gains for the month while commodities (-7.4%) and managed futures (-2.7%) fell.

Sources: JP Morgan, Morningstar Direct, Dimensional Fund Advisors

Does the economy drive the stock market? The past 12 months have seen the rise of a number of issues that are viewed as threats to global economic growth. Concerns about the U.S.-China trade war, Brexit, and most recently the coronavirus outbreak have made headlines around the world, prompting ongoing speculation about how each of these issues may impact both the domestic and global economy. Naturally, this leads investors to wonder how changes to the structure and function of the economy might impact their portfolio. This is often expressed in some form of the question: To what degree does the economy drive stock market returns?

The answer, in short, is that it depends on the time frame that is being considered. Over the long run, the economy and the stock market are positively correlated. A strong economy will produce more jobs, higher wages, increased consumption, and greater business activity which ultimately benefits the companies that make up the stock market.

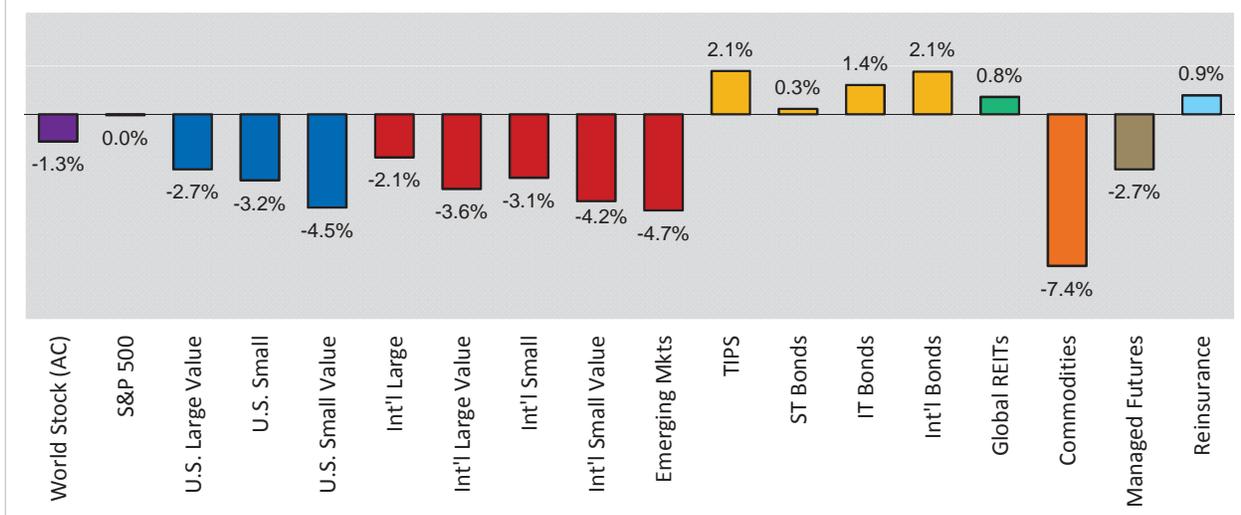
In the short term, however, the relationship between the economy and the stock market is much less clear. One key component of this relationship is the reality that the stock market values companies based on expectations for the future, while the economy is generally measured using data points that reflect past activities. This inherent difference is what makes the relationship between stocks and the economy so complex. It may seem like the stock market ignores the economy in some cases but swings up or down in others. While every situation is different, the important question to ask is whether or not the latest information fundamentally changes expectations for the future.

It is important for long-term investors to remember that the majority of headlines or economic updates will not change our expectations for the future. Over-reacting in the short-term is one of the easiest ways to derail a well-constructed financial plan and potentially incur unnecessary tax costs. This is why Savant consistently emphasizes investing for the long term, diversifying, and maintaining the appropriate asset allocation for your risk tolerance. If you ever have questions about how current events may or may not impact your portfolio, we encourage you to reach out to your financial advisor.

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### MARKET RETURNS Year-To-Date as of 1/31/2020



### MARKET RETURNS - Longer Term Annualized as of 1/31/2020

	1 Month	YTD	1 Year	3 Years	5 Years	10 Years	15 Years
<b>STOCKS</b>							
S&P 500	0.0%	0.0%	21.7%	14.5%	12.4%	14.0%	9.2%
U.S. Large Value	-2.7%	-2.7%	14.3%	9.3%	9.6%	11.9%	7.8%
U.S. Small	-3.2%	-3.2%	9.2%	7.3%	8.2%	11.9%	8.0%
U.S. Small Value	-4.5%	-4.5%	4.8%	3.3%	6.7%	11.0%	7.6%
Int'l Large	-2.1%	-2.1%	12.1%	7.8%	5.1%	5.8%	4.8%
Int'l Large Value	-3.6%	-3.6%	4.9%	4.2%	2.8%	4.1%	3.6%
Int'l Small	-3.1%	-3.1%	11.9%	8.5%	7.8%	8.6%	7.1%
Int'l Small Value	-4.2%	-4.2%	8.7%	5.8%	6.6%	8.1%	7.0%
Emerging Mkts	-4.7%	-4.7%	3.8%	7.9%	4.5%	3.8%	7.1%
World Stock (AC)	-1.3%	-1.3%	15.3%	10.6%	8.4%	9.2%	7.1%
<b>BONDS</b>							
TIPS	2.1%	2.1%	9.2%	3.7%	2.4%	3.4%	3.9%
Short-Term Bonds	0.3%	0.3%	3.0%	1.7%	1.1%	0.6%	1.6%
Interm-Term Bonds	1.4%	1.4%	7.4%	3.6%	2.5%	3.1%	3.7%
International Bonds	2.1%	2.1%	9.0%	5.7%	4.2%	4.7%	4.7%
<b>ALTERNATIVES</b>							
Global REITs	0.8%	0.8%	13.1%	9.1%	5.8%	11.1%	7.4%
Commodities	-7.4%	-7.4%	-5.4%	-3.5%	-4.7%	-4.7%	-3.1%
Managed Futures	-2.7%	-2.7%	-3.0%	-3.6%	-2.8%	1.1%	4.3%
Reinsurance	0.9%	0.9%	3.8%	2.8%	3.8%	5.9%	7.0%

Source: Morningstar Direct. Indices used in above graphs: S&P 500 Index, U.S. Large Value-MSCI U.S. Prime Market Value Index, U.S. Small-Russell 2000 Index, U.S. Small Value-MSCI U.S. Small Value Index, Int'l Large-MSCI EAFE Index, Int'l Large Value-MSCI EAFE Value Index, Int'l Small-S&P EPAC Small Index, Int'l Small Value-S&P EPAC Small Value Index, Emerging Mkts-MSCI Emerging Markets Index, World Stock Index-MSCI All Country World IMI Index, TIPS-Barclays Gbl Infl Linked US TIPS Index, Short-Term Bonds-Ibbotson 1 Yr Treasury Const Mtg Index, Interm-Term Bonds-Barclays Interm-Term Govt/Credit Index, International Bonds-JPM GBI Global Ex US Hdq, Global REITs-S&P Global REIT Index, Commodities-Bloomberg Commodity Index, Managed Futures-Credit Suisse Mgd Futures Liquid Index, Reinsurance-SwissRe Global Cat Bond Index.

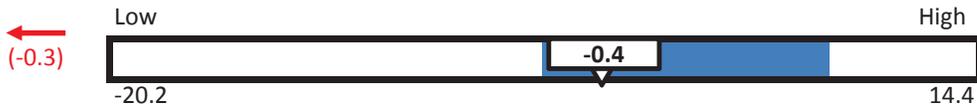
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## Economic Indicators

### Leading Economic Index Year over Year Change (%)



### Unemployment (%)



### Inflation CPI (YOY %)



### Real GDP Growth (%)



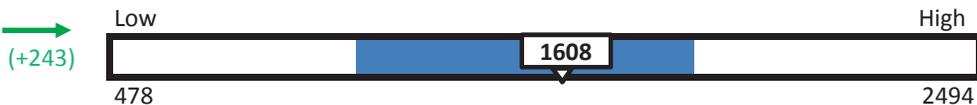
### Consumer Confidence



### VIX - Market Volatility



### Housing Starts (000s)



### 10-year Treasury Yield (%)



 Typical range (within 1 standard deviation of the median)

 Current Value

 Historical Range

 Change in value since last month

\*See appendix for sources and data ranges

## Appendix

### Leading Economic Index Year over Year Change (%)

The Leading Economic Index is composed of 10 indicators used to forecast the direction of the economy. A fall in the index over three consecutive months is seen as a sign of a recession. The value shown represents the 12-month change in the index level. *(Data Source: The Conference Board. Monthly data since 1/1/1959)*

### Unemployment

The unemployment rate measures the percentage of workers that are out of work in the U.S. labor force. *(Data Source: U.S. Bureau of Labor Statistics. Monthly data since 1/1/1948)*

### Inflation CPI (YOY)

The Consumer Price Index (CPI) measures the change in the price level for a broad basket of goods in the U.S. economy. The value shown represents the percent change in the index from a year ago. *(Data Source: U.S. Bureau of Labor Statistics. Monthly data since 1/1/1948)*

### Real GDP Growth

Real GDP Growth represents the change in the market value of all output in the U.S. economy. It is an annualized quarterly measure. *(Data Source: U.S. Bureau of Economic Analysis. Quarterly data since 4/1/1947)*

### Consumer Confidence

The Consumer Confidence Index measures the level of optimism among U.S. consumers on the economy and their overall financial situation. *(Data Source: The Conference Board. Monthly data since 1/31/1991)*

### VIX

The CBOE Volatility Index (VIX) measures the volatility of the S&P 500 index. An increase in the index level represents a spike in market volatility. Conversely, a decrease in the index represents a move towards stability. *(Data Source: Chicago Board Options Exchange. Daily data since 1/2/1990)*

### Housing Starts

The number of housing starts (new construction) in the U.S. each year. *(Data Source: U.S. Bureau of the Census. Monthly data since 1/1/1959)*

### 10-year Treasury

The annualized return that would be realized for holding a 10-year Treasury bond to maturity. The 10-year Treasury yield is the primary benchmark for measuring interest rate movements. *(Data Source: U.S. Board of Governors of the Federal Reserve System. Daily data since 1/2/1962)*

### Disclosure

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