

WEEK IN REVIEW

PRIME CAPITAL INVESTMENT ADVISORS

March 6, 2020

The Bottom Line

- Total global coronavirus cases topped 100,000, but of that total about 56,000 are recovered cases. Of the remaining active 42,316 active cases, 85% are classified as “Mild Condition”. Total fatalities stand at 3,465.
- A lot of attention has focused on the substantial up-and-down stock market swings over the last week, but moves in the treasury bond market have been truly historic. The benchmark 10-year US Treasury yield has fallen to 0.79%.
- The massive flight to safety was emphasized on Friday by a remarkable one-day decline in treasury yields. In fact, the yield on the 30-year US Treasury had its largest daily percentage change in history, falling -16%.

What is known, what isn't known

Coronavirus updates are coming at a remarkable speed and volume, and markets are trading with little interest for anything but fear around the outbreak. With this in mind, there are two critical aspects of the epidemic that aren't knowable yet... 1) the scope, severity, and duration of the virus, and 2) the behavioral response to its spread. Until there is much more clarity on those, markets will likely remain erratic. But here are some things that are known. It has been 7-8 weeks since coronavirus broke out in Wuhan, China and began to spread, across the globe. The number of new daily cases in China have been declining. However, outside of China, and here in the U.S., the number of new daily cases is still rising. Yet the rate of growth for new daily cases outside of China has remained in a range of about 0.9% to 1.9% for a couple of weeks now (and has averaged about 1% since tracking began on January 24). U.S. total cases are relatively low at 270, but most U.S. cases are still active (241). Fortunately just 8 cases are classified as “Serious or Critical”. Importantly, as detailed on the following page, economic data in the U.S. still reflects strong housing, consumer and employment activity. Those will undoubtedly be adversely impacted until the coronavirus is contained, or in decline, but the economy is working from a very healthy base.

Digits & Did You Knows

WORLDWIDE: The coronavirus COVID-19 is now affecting 95 countries and territories around the world and 1 international conveyance (the Diamond Princess cruise ship harbored in Japan). As of March 6, the total case count stood at 101,906, while active cases is at 42,318. Of those active cases 35,917 were classified as Mild (source: Worldometer).

FROM THE BEGINNING: After last week's global stock market fall, the nearly 11-year bull market run for the S&P 500 that began on the morning of 3/10/09 has gained +413% (total return) through Friday 3/6/20, an annualized return of +16.0% per year (source: BTN Research, Bloomberg).

Market Snapshot	Index Level	1-week Price Return	2020 Price Return
EQUITIES			
S&P 500	2,972.37	+0.61%	-8.00%
Nasdaq Composite	8,575.62	+0.10%	-4.42%
Russell 2000	1,449.22	-1.84%	-13.14%
Nikkei-225 (Japan)	20,749.75	-1.86%	-12.29%
STOXX Europe 600	366.80	-2.36%	-11.79%
RATES			
2-Year UST Note	0.52	-39 bps	-105 bps
10-Year UST Note	0.79	-36 bps	-113 bps

Chart of the Week

This edition of Chart of the Week may be worth a win on bets with friends. According to data from Worldometer, there have been a total of 101,906 coronavirus cases worldwide as of March 6. Of that total, 80,576 cases were in China (or 79% of cases). Those are striking numbers, but digging further makes them seem less alarming. For instance, of those total cases, only 42,318 are active... meaning 59,588 cases have been closed. Of those closed cases, 94% recovered and 6% were fatalities. Of the active cases, 85% are classified as “Mild Condition”. That may help explain what most would probably find as a surprising chart. The China CSI 300 stock index is sitting at a two year high. The index only suffered a -12.3% drawdown from the coronavirus, which has now been completely recovered. That’s a relatively mild pullback given the -32.4% bear market suffered in 2018 – even more so given China is 79% of virus cases, and 90% of deaths.

The Great (?) Chinese Coronavirus Drawdown
China’s Shanghai Shenzhen CSI 300 Index



Source: Bloomberg.

Economic rundown

- The U.S. jobs market was firing on almost all cylinders prior to the coronavirus outbreak. **February Nonfarm Payrolls** surged by 273,000, about 100,000 higher than expectations. December and January were also revised higher by 85,000. Additionally, unemployment dropped to 3.5% and the average workweek increased. A day earlier, **ADP Private Payrolls** reported an increase of 183,000 in February, 155,000 higher than expectations. February **Challenger Job Cuts** fell -16.4%.
- The **ISM US Manufacturing Index** fell 0.8 points to 50.1 in February. The competing **Markit US Manufacturing PMI** also fell 1.2 points to 50.7. Though down, both remain in expansion territory (greater than 50). Interestingly, the Markit survey showed manufacturer optimism for future business conditions at a ten-month high, so the coronavirus disruption may be transitory.
- The **ISM US Non-Manufacturing Index** rose 1.8 points in February to reach its highest level, 57.3, in a year. The **Markit US Services PMI** contradicted the ISM results, falling -4 points in February to 49.4, its first contraction level in four years.

- Factory Orders** fell -0.5% in January, missing expectations. Durable goods dipped -0.2% and nondurable goods fell -0.8%. Although there was some improvement in business orders, coronavirus is expected to hurt capex spending in the coming months.
- Construction Spending** rose the most in nearly two years, gaining 1.8% in January. December was also revised up from -0.2% to +0.2%.

The Week Ahead

Monday	N/A
Tuesday	• NFIB Small Business Optimism
Wednesday	• MBA Mortgage Applications • Consumer Price Index (CPI) • Monthly Budget Statement
Thursday	• Jobless Claims • Producer Price Index (PPI) • Household Change in Net Worth
Friday	• Import / Export Prices • U. of Mich. Sentiment

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The Importance of Diversification. From period to period there is no certainty what investment will be the best performer... or the worst. Diversification mitigates the risk of relying on any single investment and offers a host of long-term benefits, such as lowering portfolio volatility, improving risk-adjusted returns, and helping investments to compound more effectively.

	Monday	Tuesday	Wednesday	Thursday	Friday	WEEK	
High	Real Estate 4.82	Intl Bonds 0.84	Large Growth 4.33	Intl Bonds 0.71	Intl Bonds 0.91	Real Estate 4.66	High
	Large Growth 4.58	U.S. Bonds 0.68	Mid Growth 4.02	U.S. Bonds 0.31	U.S. Bonds 0.74	Intl Bonds 2.82	
	Large Value 3.74	Real Estate 0.01	Large Value 3.99	High Yield Bond -1.26	60/40 Allocation -0.85	U.S. Bonds 1.62	
	Mid Value 3.58	High Yield Bond -0.43	Real Estate 3.82	60/40 Allocation -1.72	High Yield Bond -1.13	Large Growth 0.74	
	Mid Growth 3.35	Emg Markets -0.68	Mid Value 3.35	Emg Markets -2.10	Intl Equity -1.50	60/40 Allocation 0.35	
	Small Value 2.81	60/40 Allocation -0.78	Small Growth 3.29	Real Estate -2.18	Large Growth -1.54	Mid Growth -0.42	
	Small Growth 2.42	Intl Equity -0.81	Intl Equity 2.99	Intl Equity -2.66	Real Estate -1.70	Large Value -0.46	
	Emg Markets 2.17	Small Growth -2.01	Small Value 2.51	Small Growth -3.03	Small Growth -1.87	High Yield Bond -0.72	
	60/40 Allocation 1.79	Small Value -2.10	60/40 Allocation 2.02	Mid Growth -3.20	Mid Growth -1.92	Intl Equity -0.79	
	Intl Equity 1.29	Mid Value -2.11	Emg Markets 1.78	Large Growth -3.31	Large Value -1.93	Emg Markets -0.96	
	High Yield Bond 0.76	Mid Growth -2.44	High Yield Bond 1.37	Large Value -3.44	Small Value -2.05	Small Growth -1.35	
	Intl Bonds 0.71	Large Value -2.57	U.S. Bonds -0.08	Mid Value -3.61	Emg Markets -2.05	Mid Value -1.38	
Low	U.S. Bonds -0.04	Large Growth -3.02	Intl Bonds -0.38	Small Value -3.70	Mid Value -2.37	Small Value -2.68	Low

Source: Bloomberg. Asset-class performance is presented by using market returns from an exchange-traded fund (ETF) proxy that best represents its respective broad asset class. Returns shown are net of fund fees for and do not necessarily represent performance of specific mutual funds and/or exchange-traded funds recommended by the Prime Capital Investment Advisors. The performance of those funds may be substantially different than the performance of the broad asset classes and to proxy ETFs represented here. U.S. Bonds (iShares Core U.S. Aggregate Bond ETF); High-Yield Bond (iShares iBoxx \$ High Yield Corporate Bond ETF); Intl Bonds (SPDR® Bloomberg Barclays International Corporate Bond ETF); Large Growth (iShares Russell 1000 Growth ETF); Large Value (iShares Russell 1000 Value ETF); Mid Growth (iShares Russell Mid-Cap Growth ETF); Mid Value (iShares Russell Mid-Cap Value ETF); Small Growth (iShares Russell 2000 Growth ETF); Small Value (iShares Russell 2000 Value ETF); Intl Equity (iShares MSCI EAFE ETF); Emg Markets (iShares MSCI Emerging Markets ETF); and Real Estate (iShares U.S. Real Estate ETF). The return displayed as "Allocation" is a weighted average of the ETF proxies shown as represented by: 30% U.S. Bonds, 5% International Bonds, 5% High Yield Bonds, 10% Large Growth, 10% Large Value, 4% Mid Growth, 4% Mid Value, 2% Small Growth, 2% Small Value, 18% International Stock, 7% Emerging Markets, 3% Real Estate.

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