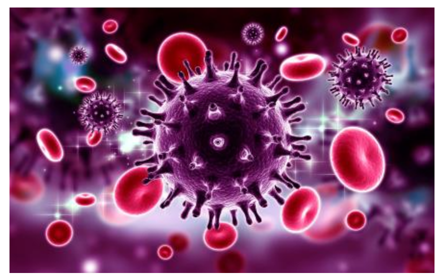
FEBRUARY 2020

CORONAVIRUS DOMINATES MARKETS IN JANUARY



After closing out a stellar 2019, markets continued their climb higher to start 2020. Through the third week of January, the Standard and Poor's 500 Index was up over 2%, however, markets pulled back on profit taking as geopolitical fears escalated following a US airstrike in the Middle East and the coronavirus grabbed headlines. Despite the headlines, domestic equity markets finished the month flat (the Standard and Poor's 500 Index returned -0.04%).

International markets, however, saw broad declines. Developed International markets (the MSCI EAFE Index) pulled back 2.08% while Emerging Markets (MSCI EM Index) were down 4.66%. Declines were largely attributable to concerns over the United Kingdom's official departure from the European Union, and fears over how the coronavirus, which has slowed economic activity in the region, may put pressure on global GDP growth. Coronavirus worries were only intensified as the World Health Organization declared the virus a public-health emergency, Americans were evacuated from China, and major airlines cancelled flights to mainland China.

On the domestic front, despite geopolitical concerns and ongoing impeachment proceedings, earnings season has been largely positive. Through January 31st 45% of Standard and Poor's 500 companies reported earnings with 69% of companies beating expectations. While earnings growth and upside surprises are slowing, earnings are still coming in strong.

While we are closely monitoring the coronavirus outbreak, we do not at this time have any longterm concerns for the market—remember that earnings and fundamentals, not headlines, drive markets over the longterm. Since 1981, there have been a dozen major viral outbreaks. In only two of these instances was the Standard and Poor's 500 Index negative in the following twelve months; and in both instances there were economic conditions working against the market outside of a viral outbreak (a recession during the 1981 AIDS outbreak and a collapse in commodity prices putting pressure on the energy sector during the 2014-2015 Measles outbreak).

Until there is a better sense of the effects of the coronavirus outbreak we are not making changes to clients' overall portfolios in response to this recent volatility. In fact, we are viewing any dips as a potential buying opportunity for investors who may be entering the markets. However, we do continue to, where appropriate, rebalance and derisk for clients and we will address making any appropriate changes with clients when we believe economic conditions warrant.

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Last Month's key economic data

Employment

We added 145,000 private sector non-farm jobs in December and the unemployment rate was little changed at 3.5%. The number of unemployed persons is little changed at 5.8 million. The labor participation rate is unchanged at 63.2%.

FOMC/Interest Rates

The target range for the federal funds rate now remains at 1.50% to 1.75%.

GDP

According to advanced estimates real GDP rose at an annual rate of 2.1% in the fourth quarter, equal to the 2.1% increase in the second quarter.

Inflation and consumer spending

The *Consumer Price Index* increased 0.2% in December. Over the last 12 months, CPI rose 2.3%. Core prices, which excludes food and energy prices, rose 2.3% year over year.

According to the *Producer Price Index*, the prices companies receive for goods and services increased 0.1% in December. Producer prices have increased 1.3% over the 12 months ended in December.

Housing

Existing home sales rose 3.6% in December, a slight recovery from the declines seen in November. Year over year, existing sales are up 10.8%. The median price for existing homes in December was $274,500, up 7.8% from a year ago.

Manufacturing

Industrial production in the US dropped 1% year-on-year in December of 2019, following a 0.7 percent decline in the previous month. It is the fourth consecutive annual decrease in industrial output. Industrial production in the US averaged 3.72% from 1920 until 2019.

Imports and exports

US trade deficit narrowed to $43.1 billion in November from $46.9 billion in the previous month, matching market expectations. It is the lowest trade gap since October 2016. Exports increased 0.7% boosted by sales of drilling and oilfield equipment, jewelry, autos, diamonds and aircraft engines, while imports slumped 1% due to falling purchases of aircraft, computers, and cell phones.

International markets

International markets moved lower on the month (MSCI EAFE down 2.08% and MSCI Emerging Markets down 4.66%) as the UK officially exited the EU and fears over the coronavirus spread.

Consumer confidence

Consumer confidence, as measured by The Conference Board Consumer Confidence Index®, increased in January, following a moderate increase in December. The Index now stands at 131.6, up from 128.2 in December.

Bradley H. Bofford, CLU®, ChFC®, CFP®
Managing Director, Partner
973-582-1002
bbofford@hightoweradvisors.com

Michael Flower, CFP®
Managing Director, Partner
973-582-1004
mflower@hightoweradvisors.com

Daniel Trout
Partner
973-582-1006
dtrout@hightoweradvisors.com

Steven Gelber, AIF®
Associate Wealth Advisor
973-582-1015
sgelber@hightoweradvisors.com

Andrew Olivier, CFP®
Associate Wealth Advisor
973-582-1005
aolivier@hightoweradvisors.com

HIGHTOWER
FINANCIAL PRINCIPLES, LLC

FINANCIAL PRINCIPLES, LLC
A HIGHTOWER WEALTH MANAGEMENT PRACTICE

310 PASSAIC AVENUE, SUITE 203, FAIRFIELD, NJ 07004
505 FIFTH AVENUE, 4TH FLOOR, NEW YORK, NY 10017
973-582-1000
WWW.FINANCIALPRINCIPLES.COM

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Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e. wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations.