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Markets in a Minute

Insights on the latest global investment news

Equities:
Reassess risks, don't chase performance

Omar Aguilar, PhD
Chief Investment Officer, Equities and Multi-Asset Strategies

Solid U.S. economic data, underwhelming earnings

The recent Q4 GDP numbers, blowout January jobs report, and welcome pickup in housing demonstrated that the U.S. economy is on solid footing, with fuel for further expansion. Meanwhile, more than 45% of S&P500® companies have reported earnings for the fourth quarter, and only 68% have exceeded estimates. Investors have been rewarding firms beating estimates and punishing underperformers.

Global equities navigating coronavirus headwinds

Fears about coronavirus fallout have been rising and may weigh on China's GDP over the next six months. More impactful still might be any negative longer-term effects on investor sentiment and consumer confidence, as the markets contend with geopolitical tensions and this year's U.S. election season. We therefore expect central banks to keep short-term interest rates low and look for fiscal stimulus to increase, particularly in Europe and China, with stimulus for the latter expected to help stabilize emerging markets.

Consider reassessing risks and avoid chasing returns

We suggest that investors avoid chasing returns and yields in the current environment and expect greater volatility as we move further into 2020. With this in mind, high-quality growth companies in the consumer discretionary, technology, and REITs sectors seem worthy of a closer look.

Fixed Income:
Rates fell on virus scare

Brett Wander, CFA
Chief Investment Officer, Fixed Income

Short and long rates fell sharply

After trading in a relatively stable range for the prior three months, U.S. Treasury yields started the New Year with one of the largest monthly declines in the past five years. After shrugging off a major Fed policy shift, U.S.-China trade war rhetoric, and tensions between the U.S. and Iran, the coronavirus outbreak and the corresponding fallout tipped the scales for the world's most liquid bond market in January.

The lights dimmed on global growth

Just when it seemed that the global economy was showing modest improvement, the coronavirus fallout has cast a shadow over the outlook. History tells us that the lasting economic effects of health epidemics are usually minimal. However, consumer reactions to the latest scare will ultimately determine the final toll on global economic growth.

Will the coronavirus lead to a Fed rate cut?

China's central bank added liquidity to Chinese markets in an effort to ease investor concerns and offset the economic drag that the coronavirus has had on economic activity. Might the Fed follow suit in the U.S.? Prior to the coronavirus, markets were pricing in less than one full rate cut for the rest of 2020. Yet as the virus has spread, expectations have risen to where two rate cuts are now being forecasted by year-end. This tells us that investors expect the Fed to defend U.S. economic growth as necessary—and the Fed rarely disappoints!

About the authors

Omar Aguilar, PhD

Omar Aguilar is Chief Investment Officer (Equities and Multi-Asset Strategies) of Charles Schwab Investment Management, Inc. (CSIM), a subsidiary of The Charles Schwab Corporation. Aguilar joined CSIM in 2011 and is responsible for equity and asset allocation mutual funds, ETFs, and separately managed accounts. Aguilar has more than 20 years of broad investment management experience in the equity markets, including managing index, quantitative equity, asset allocation, and multi-manager strategies. Aguilar received a BS in actuarial sciences and a graduate degree in applied statistics from the Mexico Autonomous Institute of Technology. He was a Fulbright scholar at Duke University's Institute of Statistics and Decision Sciences, where he earned his MS and PhD.

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Brett Wander, CFA

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Read more insights from Brett at:
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