



THE DANA VIEWPOINT

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Smorgasbord

We are going to try and briefly touch on a number of different topics in this viewpoint. All are important to the markets, but we have no closure on any of them. In such cases where strong conclusions cannot be drawn, brevity is probably a virtue.

First is the Coronavirus; as the disease progresses, the Chinese government has slowly exercised an increasing degree of control over the information flow. Early on, there were foreign news agencies filing stories from Wuhan, Chinese news releases, and firsthand raw video and accounts from people within the city, but the amount of information being released has decreased significantly. We now often find that the earliest accounts of breaking news stories around the world are amateur video captured first hand as an event unfolds. This can be amazingly disturbing and personal when natural disasters or terrorism are involved. They amount to peephole views of larger stories, and can be subject to misinterpretation. We do know that the current mortality rate of infected patients is low, which is a good thing. We also know that the virus can be transmitted before showing any symptoms, which is bad. Some companies have warned that the virus will have an effect on first quarter profits. Travel-related companies have already seen their stocks move appreciably to the downside. We will be watching the trajectory of the spread of the virus closely over the next few weeks.

Earnings results for the fourth quarter have been good enough to allow the markets to stay near their peak and in some cases move higher, even with the uncertainty of the Coronavirus. The largest FAANG stocks have been the leaders, outpacing the market, which leaves little praise for the majority of the stocks in the market. Risk has increased if only because the price increases in the indexes year to date, like last year, have mostly been made up of P/E expansion, not concurrent earnings growth. We continue to emphasize discipline and diversification in our portfolio construction. We hope that a partial resolution of the trade dispute with China, and a revamped North American trade agreement, can provide some tailwind to the economy.

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Although the markets have remained strong, we are troubled by the pullback in commodity prices and inflation expectations, and the resumption of a flattening of the yield curve. Some of this is to be expected in light of the uncertainty that surrounds the Coronavirus, but it is troubling nonetheless. The Fed is trying to stay put and keep rates at their current level, but in the last week, the 10 Year Treasury yield dropped below the 3 Month Treasury Bill. An inverted yield curve is never a good sign, and this move is accompanied by lower oil prices and lower inflation expectations. Some clarity on the path of the virus might relieve some of this stress, but the immediate result is that pressure has increased on the Fed for another rate cut. As we have said before, if the market demands action from the Fed, it is usually better to act sooner rather than later. On the positive side, job growth has continued to be robust, housing activity is moving to new highs, and credit spreads are near their all-time tights. All of these things are signs of a healthy economy.

How about the Democratic race for the nomination? Did you think we could ever have bigger surprises than 2008 or 2016? Buckle your seatbelts. We will make no predictions yet, as much could happen over the next few weeks. We have already seen a Buttigieg bump in Iowa, a Biden crash, and a Bernie rise. Maybe there will be more clarity once we get a take on Bloomberg's impact on the race after Super Tuesday, but as of now, who knows? Bernie Sander's campaign can be likened to both McGovern in 1972 and Trump in 2016 at this point of the campaign. Politics never ceases to amaze.

Random Thoughts & In Memory of Kobe Bryant: "I have nothing in common with lazy people who blame others for their lack of success. Great things come from hard work and perseverance."

"The most important thing, the thing that unites all of us, is that we can inspire and challenge one another to be better." - Kobe Bryant

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