



The Month in Review

January Takeaways

- *If China sneezes* will Wall Street catch coronavirus? While it certainly appeared that way at the end of the month, a week later, equity indexes muscled their way back to record new record highs. At the end of the day, *data defeats doom and facts overcome fear*. The trick lies in getting to the end of the day! We've seen viral scares before. We'll see how this one plays out.
- As regular readers of this note are aware, investors are constantly beset by a seemingly endless stream of *headline headwinds*. The year ahead promises more of the same. Fortunately, a few of last year's stories, which created a drag on the markets, have *receded from view*.
- My favorite, *Brexit, has disappeared* from the headlines (maybe). Progress is occurring on the *Trade War* with China and the U.S. agreeing to lowering barrier to trade. This is a positive, but it also may signal that some of China's *internal challenges* may be heating up. Private corporate debt defaults are on the rise. More on this in a future note. Meanwhile, the *fallout from the virus* is having a real drag on the *global supply chain*.
- I've read in a few places that the problems in China argue for *re-thinking the global role China plays* in the global economy. Good luck with that. Still, in the face of slowing domestic production, due to the coronavirus, expect some fallout in other major economies, including here at home.
- Our major focus when analyzing investment prospects centers on *markets and economics*. Regarding the markets, *valuations are looking pricey* as stock prices continue to advance in the face of sagging earnings growth, both on a trailing and forward-looking basis. We haven't seen this scenario on the earnings front in over four years.
- On the economic front, we continue to see *divergence between manufacturing and the service/tech economies*. We continue to follow this closely, given where we are in the business cycle. *Recession fears remain subdued* (a good thing). As measured by our proprietary [Recession Predictor](#), the chances of recession over the next year remain below 70! Stay tuned!

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