Looking Back at the Markets in January and Ahead to February 2020

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January was a tough month. We started with a U.S. attack on an Iranian general (creating thoughts of war) and ended with the possibility of a new global pandemic (with the Wuhan coronavirus spreading around the world). In between, of course, we had the impeachment spectacle here in the U.S., as well as the British exit from the European Union. All in all, it was quite a difficult month from a news perspective. Which made it somewhat odd that markets were not hit harder than they were.

A look back

Markets stay resilient. On average, U.S. markets were pretty much flat. The S&P 500 was down a fraction of a percent, the Dow was down just under 1 percent, but the Nasdaq was up over 2 percent. Given all of the bad news, it was surprising that markets held up that well.

Internationally, the market news was worse but still not terrible. Developed markets were down just over 2 percent, and emerging markets were down just under 5 percent. Given the greater impact of the month's events, however, those drops were still not nearly as bad as they might have been. In fact, despite the declines, both of the international indices remained in an uptrend, suggesting the damage was likely to be contained.

Looking back, then, the question we have to consider is why the market damage was not worse—and what that might mean for February.

Risks recede. A big part of the resiliency was simply due to the fact that despite the very high perception of risk, many of those risks pulled back as the month went on. Here in the U.S., for example, political risks receded with the conclusion of the impeachment process. Policy risks receded as the trade deal with China was signed. Economic news risks receded as the data remained solid. Specifically, U.S. job growth was surprisingly strong, and consumers remain both confident and spending. Housing also continues to expand, with existing home sales rising and new home starts at multiyear highs, driven by low mortgage rates and consequent higher affordability.

Internationally, we saw the same story in terms of risks. The signing of the phase one trade deal between the U.S. and China reduced the uncertainty around emerging market access to the U.S., which has helped both sentiment and business investment. Now that Britain has actually left the European Union, that drama has been deferred and the remaining members can start moving forward—as can Britain itself. Here as well the economic momentum seems to have shifted in a more positive direction. At month-end, apart from one factor, economic and market risks seemed to have receded materially.

A look ahead

Coronavirus looms large. That one thing, however, is a big one: the coronavirus, which is now the largest risk factor. Looking forward into the second half of February, while the spread of the virus has been much quicker than expected, it may top out and move into a more controlled phase. We just don't know yet and will have to watch to see how it evolves. If it does appear to be topping, the resilience of the global economies and markets should enable a reasonably rapid bounce back, and that seems to be what markets are betting on. Even if the virus gets worse, that resiliency should also serve as a cushion to limit the damage.

More of the same? While January was not a great month, it was much better than it might have been. That resiliency is a good sign moving forward. February, at this point, looks to be more of the same.

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