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KELLY FINANCIAL SERVICES LLC

Market Month: February 2020

The Markets (as of market close February 28, 2020)

With a growing number of countries reporting new cases of the coronavirus, the obvious spread of this dreaded virus prompted a massive panic sell-off, the likes of which haven't been seen since 2008. Investors' fears of widespread economic tumult caused by the coronavirus were too much to ignore, despite last Friday's statement from Fed chairman Jerome Powell that the central bank was prepared to cut rates if necessary when it meets in March. Crude oil prices fell by over $6 per barrel since the end of January. The 10-year Treasury note fell to a record low as money flowed into long-term bonds, pushing prices higher and yields lower.

By the close of trading on the last day of February, each of the benchmark indexes listed here sustained major losses, led by the Dow, which fell by more than 10.0%. The small-cap Russell 2000 dropped more than 8.50% for the month, followed by the S&P 500, the Global Dow, and the tech stocks of the Nasdaq. Year-to-date gains achieved in January and the first part of February were wiped out, with three of the benchmark indexes listed here trailing their 2019 closing values by double digits. The Russell 2000 fell by nearly 12.0%, followed by the Dow and the Global Dow, which lost close to 11.0%, respectively.

By the close of trading on February 28, the price of crude oil (WTI) was $45.19 per barrel, well below the January 31 price of $51.61 per barrel. The national average retail regular gasoline price was $2.466 per gallon on February 24, down from the January 27 selling price of $2.506 but $0.076 more than a year ago. The price of gold finished February at $1,585.80, slightly lower than its January closing value of $1,592.70.

Market/Index	2019 Close	Prior Month	As of February 28	Month Change	YTD Change
DJIA	28,538.44	28,256.03	25,409.36	-10.07%	-10.96%
Nasdaq	8,972.60	9,150.94	8,567.37	-6.38%	-4.52%
S&P 500	3,230.78	3,225.52	2,954.22	-8.41%	-8.56%
Russell 2000	1,668.47	1,614.06	1,476.43	-8.53%	-11.51%
Global Dow	3,251.24	3,161.86	2,900.01	-8.28%	-10.80%
Fed. Funds	1.50%-1.75%	1.50%-1.75%	1.50%-1.75%	0 bps	0 bps
10-year Treasuries	1.91%	1.52%	1.12%	-40 bps	-79 bps

Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific investments.

Latest Economic Reports

- **Employment:** There were 225,000 new jobs added in January after gaining 145,000 in December. Notable job gains in January occurred in construction, transportation, and health care. The unemployment rate inched up 0.01 percentage point to 3.6% for the month as the number of unemployed persons rose by 140,000 to 5.9 million. In December, average hourly earnings for all employees rose by $0.07 to $28.44. Average hourly earnings increased by 3.1% over the last 12 months

Key Dates/Data Releases

3/2: Markit PMI Manufacturing Index, ISM Manufacturing Index

3/4: ISM Non-Manufacturing Index

3/6: Employment situation, international trade in goods and services

3/11: Consumer Price Index, Treasury budget

3/12: Producer Price Index

3/13: Import and export prices

3/17: Retail sales, JOLTS, industrial production

3/18: Housing starts, FOMC statement

3/20: Existing home sales

3/24: New home sales

3/25: Durable goods orders

3/26: GDP, international trade in goods

3/27: Personal income and outlays

ended in January. The average workweek was unchanged at 34.3 hours in January. The labor participation rate for January was 63.4% (63.2% in December), while the employment-population ratio was 61.2% last month (61.0% in December).

- **FOMC/interest rates:** The Federal Open Market Committee did not meet in February. The next time the Committee meets is mid-March. Following its latest meeting in January, the FOMC decided to maintain the target range for the federal funds rate at 1.50%-1.75%. The rate hasn't changed since it was decreased last October.
- **GDP/budget:** According to the second estimate for the fourth-quarter gross domestic product, the economy accelerated at an annualized rate of 2.1%, the same rate as in the third quarter. Consumer spending grew at a rate of 1.7% (3.2% in the third quarter), fixed investment fell 0.5% in the fourth quarter (-0.8% in the third quarter), and nonresidential fixed investment dropped 2.3% in the fourth quarter, the same rate as in the prior quarter. Consumer prices advanced at a rate of 1.3% in the fourth quarter, comparable to the third quarter (1.5%). The Treasury budget posted a deficit of $32.6 billion in January ($13.3 billion in December). Last January saw a budget surplus of $8.7 billion. Through the first four months of the 2020 fiscal year, the deficit sits at $389.2 billion, 25.4% greater than the deficit over the same period last fiscal year. Compared to the same period last year, government spending climbed 10.3%, far exceeding receipts, which rose 6.1%. Medicare expenditures jumped 23.3%, national defense outlays advanced 8.9%, and Social Security expenditures climbed 5.6%. On the income side of the ledger, income tax receipts are up 5.5% compared to the same four months last year, followed by employment and general retirement, which rose 5.7%.
- **Inflation/consumer spending:** According to the Personal Income and Outlays report for January, both pre- and post-tax personal income rose 0.6% for the month. Consumer spending also climbed 0.2% over December's totals. Price inflation remained low, however, inching ahead 0.1% in January and 1.7% over the last 12 months. Consumer prices less food and energy also advanced 0.1% for the month and 1.6% since January 2018.
- The Consumer Price Index inched ahead 0.1% in January following a 0.2% bump in December. Year to date, consumer prices are up 2.5%. Increases in prices for shelter (which makes up the largest portion of overall consumer costs) climbed 0.3% in January. Energy prices, which increased 1.4% in December, receded 0.7% in January, reflecting a drop in gas prices.
- Prices producers receive for goods and services advanced 0.5% in January after edging up 0.2% in December. The index has increased 2.1% since last January. Producer prices less foods, energy, and trade services rose 0.5% in January (0.2% in December). Since January 2019, prices less foods, energy, and trade services moved up 1.7%. A drop in energy prices was more than offset by an advance in services.
- **Housing:** After climbing 3.6% in December, existing home sales fell 1.3% in January. Year over year, existing home sales are up 9.6% (10.8% for the 12 months ended in December). The median sales price for existing homes was $266,300 in January compared to $274,500 in December. Existing home prices were up 6.8% from January 2019. Total housing inventory at the end of January was 1.42 million, an increase from the December rate of 1.40 million units for sale. Sales of new single-family homes spiked in January, climbing 7.9% over December's totals. Sales are 18.6% above the January 2019 estimate. The median sales price of new houses sold in January was $348,200 ($324,100 in December). The average sales price was $402,300 in January ($373,300 in December). Available inventory, at a 5.1-month supply, was slightly lower than December's 5.5-month supply.
- **Manufacturing:** For the second consecutive month, industrial production declined, dropping 0.3% in January after falling 0.4% the prior month. Unseasonably warm weather held down the output of utilities and a major manufacturer significantly slowed production of civilian aircraft, both of which were prime factors in pushing industrial production downward. The index for manufacturing edged down 0.1% in January; excluding the production of aircraft and parts, factory output advanced 0.3%. The index for mining rose 1.2%. Following a spike in December, new orders for durable goods dropped 0.2% in January, declining for the second time over the last three months. For the year, new orders for durable goods are down 2.3%. Transportation equipment, down four of the last five months, drove the decrease, falling 2.2% in January. However, excluding transportation, new orders rose 0.9%. New orders for capital goods (manufactured assets used by businesses to produce consumer goods) jumped ahead 12.4% in January following a 6.2% tumble in December.
- **Imports and exports:** Import prices were unchanged in January after increasing 0.3% in December. In January, falling fuel prices offset increasing prices for nonfuel imports. Import prices advanced on a 12-month basis for the second consecutive month after not recording an over-the-year increase since the 12-month period ended in March 2019. Prices for import fuel declined 2.2% last month, marking the largest drop since fuel prices fell 4.2% in August. Excluding fuel, import prices rose 0.2% in January but are down 0.9% over the past year. Prices for exports advanced 0.7% in January, the largest monthly

advance since export prices increased 0.7% in March. Prices for exports also advanced on a 12-month basis, increasing 0.5% in January. The rise in January was the first 12-month advance since export prices increased 0.2% for the year ended in April.

- The international trade in goods deficit was $65.5 billion in January, down from the $68.7 billion in December. Exports of goods for January fell 1.0% to $135.7 billion, $1.4 billion less than December exports. Imports of goods dropped 2.2% to $201.2 billion, $4.6 billion less than December imports.
- The latest information on international trade in goods and services, out February 5, is for December and shows that the goods and services trade deficit widened from $43.7 billion in November to $48.9 billion. December exports were $209.6 billion, $1.6 billion more than November exports. December imports were $258.5 billion, $6.8 billion more than November imports. The December increase in the goods and services deficit reflected an increase in the goods deficit of $5.1 billion and a decrease in the services surplus of $0.1 billion. For 2019, the goods and services deficit decreased $10.9 billion, or 1.7%, from 2018. Exports decreased $1.5 billion, or 0.1%. Imports decreased $12.5 billion, or 0.4%.
- **International markets:** Growing concerns over the spread of the coronavirus have rattled investors at home and abroad. European stock markets plunged on fears of negative economic impacts. Europe has seen outbreaks of the illness in Italy, Germany, France, Spain, and Great Britain. South Korea and Iran experienced a growing number of cases. Benchmark indexes such as the STOXX Europe 600, FTSE 100, and the DAX Performance Index (Germany's benchmark index) have fallen noticeably since the end of January. Purchasing managers from several countries' industries are warning of a slowdown in manufacturing. Japan's gross domestic product showed that the economy contracted in the fourth quarter of 2019, with declines in consumer spending and investment. China's GDP expanded at a rate of 6.0% in the fourth quarter and 6.1% for 2019 — the lowest figures in 29 years.
- **Consumer confidence:** The Conference Board Consumer Confidence Index® increased slightly in February following a moderate increase in January. The Present Situation Index — based on consumers' assessment of current business and labor market conditions — decreased last month. However, the Expectations Index, which is based on consumers' short-term outlook for income, business, and labor market conditions, increased in February.

Eye on the Month Ahead

The impact of the coronavirus has been reflected in some economic reports and definitely in the stock market. March marks the first meeting of the Federal Open Market Committee since the end of January. Interest rates were unchanged at that time,. However, the Fed has stated a willingness to cut rates if necessary due to the economic tumult caused by the coronavirus.

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. All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Past performance is no guarantee of future results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.

The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2,000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. The U.S. Dollar Index is a geometrically weighted index of the value of the U.S. dollar relative to six foreign currencies. Market indices listed are unmanaged and are not available for direct investment.

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