

Risk On / Risk Off

Continued spread of the coronavirus (COVID-19) led stocks to the downside late last week. News of the virus also spreading outside of China to countries such as Italy has brought additional concern to investors trying to understand the potential economic impact of the outbreak. We view the issue as transitory. While the first quarter of 2020 is likely to see some negative financial impact, the outbreak should be contained at some point as we move into the spring.

We are headed into the tail-end of 4Q19 earnings with 437 companies in the S&P 500 Index having reported and another 41 reporting this week. Seventy percent have exceeded expectations, 10% have been in-line and 20% have been below expectations. Current consensus expectations are for year-over-year earnings growth of +3.2% on revenue growth of +5.1% versus last week’s consensus earnings growth of +2.6% on revenue growth of +5.1%. Current consensus expectations for full-year 2020 earnings for the S&P 500 is currently +8.3% year/year with revenue growth of +12.2%.

In our *Dissecting Headlines* section, we discuss how investors act in Risk On and Risk Off situations.

Financial Market Update

	<u>Weekly Return</u>	<u>YTD Return</u>		<u>Weekly Return</u>	<u>YTD Return</u>
S&P 500 Index	-1.2%	3.3%	Aggregate Bond Index	0.5%	0.0%
Dow Jones Industrial Average	-1.4%	1.6%	U.S. Dollar Index	0.1%	3.1%
NASDAQ 100	-1.8%	8.2%	WTI Crude Oil	2.6%	-12.6%
Russell 2000 (Small Cap Index)	-0.5%	0.6%	Gold	3.7%	8.3%
International Stocks (MSCI ex-US)	-1.5%	0.0%	Real Estate (US REIT Index)	0.3%	6.2%

Sources: S&P Global, Thomson Reuters

Dissecting Headlines: Risk On / Risk Off

Investing involves assuming risk in exchange for a return on assets invested. Riskier assets should earn a higher return and less risky assets should earn a lower return. When investors, as a group, are willing to take on more risk it is sometimes referred to as a “Risk On” environment. When geopolitical or economic uncertainties emerge, investors look to reduce risk and are willing to take a lower return. This is a “Risk Off” environment.

During a Risk On environment, more speculative equities such as cyclical, technology, small capitalization, and emerging market stocks can be in favor. During a Risk Off environment, U.S. Treasuries and other fixed income can be in favor, along with less volatile stocks such as consumer staples or utilities.

The U.S.—Iran skirmish from earlier this year and the current coronavirus outbreak are good examples of when investors move quickly to a Risk Off mode, but then can also quickly switch to a Risk On mode when there is evidence that the crisis situation is ending.

The investment markets can move very quickly, and very often, between Risk On and Risk Off. Often the perceived risk of the geopolitical or economic situation can be exaggerated and investors can sometimes get “whipsawed” if they chase these moves versus sticking with high-quality, well researched investments.

The NovaPoint Capital Team



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Joe has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a portfolio manager at Spectrum Advisory Services and GMT Capital in Atlanta, and Epoch Investment Partners in New York. He has also worked as an equity research analyst at Merrill Lynch and ABN Amro. Before beginning his investment career, Joe was an Infantry officer in the U.S. Army. Joe holds a BS from the U.S. Military Academy at West Point and an MBA from the University of Chicago. He is both a Chartered Financial Analyst (CFA) and a Chartered Market Technician (CMT).



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Alan has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a fixed income manager at both Spectrum Advisory Services and a private family office. Alan was also with the Bank Group division of Countrywide Capital Markets where he developed balance sheet strategies for depository institutions. He holds a BS in Banking and an MBA in Finance from Nova Southeastern University. Alan is Certified Plan Fiduciary Adviser (CPFA) and an endurance athlete and three-time IRONMAN finisher.



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Jeff has 9 years of industry experience. Prior to joining NovaPoint, Jeff was a Vice President in the Private Banking and Investment Group at Merrill Lynch. Jeff also worked at Booz Allen Hamilton and the Department of Defense. Prior to his private sector career, Jeff was a Field Artillery officer in the U.S. Army. He holds a BA from the University of Texas and an MBA from the University of Maryland. Jeff is Chartered Financial Analyst (CFA).



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Frederick has over 25 years of experience in the investment management industry. Prior to joining NovaPoint, Frederick was a Partner and Investment Advisor at Brightworth where he advised high net worth investors. Frederick began his investment career in 1991 at Balentine & Co where he rose to Partner. He also co-founded and served as Chief Investment Officer at Wright Investment Management and at Smith & Howard Wealth Management. Prior to beginning his investment career, Frederick served as an Engineer officer in the U.S. Army. He holds a BS from the U.S. Military Academy at West Point and an MBA from Emory University. Frederick is a Chartered Financial Analyst (CFA).

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