



In this month's Insight, Nicholas Bohnsack discusses how we remain optimistic, generally, for the U.S. and global economies to evidence a late-cycle re-acceleration in activity but is aware our positioning may look wrong for a stretch over the next month or two as the market digests the latest headwinds.



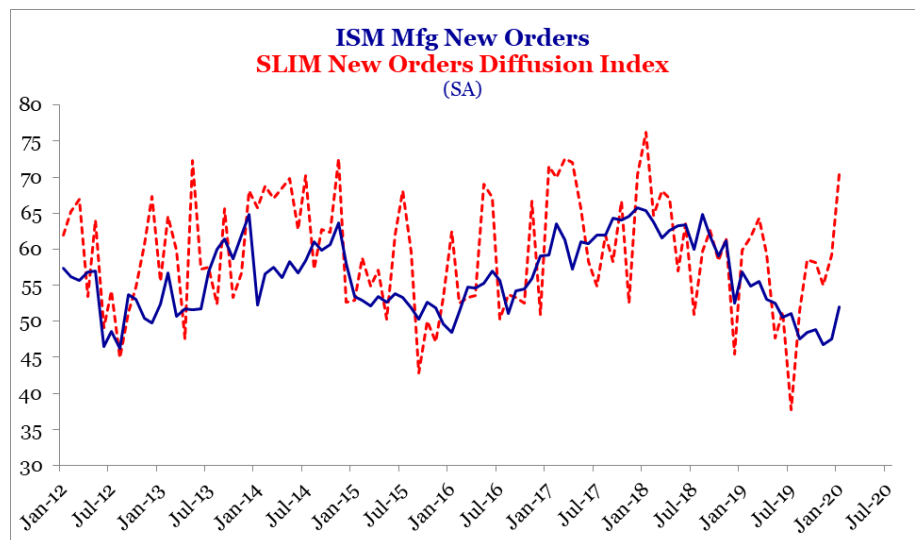
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### *This Too Shall Pass*

We remain impressed by the equity market's (and the economy's) resilience in the face of the growing list of potentially negative catalysts that it has faced over the past fifteen months. More recently, following another strong run-up to new all-time highs at year's end, the market was shocked by the deadly flare-up – and mercifully quick de-escalation – in tensions between the U.S. and Iran. Better-than-expected fourth-quarter earnings and a surprisingly robust positive response to the completion of the U.S.'s "phase one" trade deal with China helped propel the market's advance even further. The past month has brought two more headwinds (and we are careful to draw no comparison in severity between the two): the first – and far more concerning – has been the outbreak and spread of the Wuhan coronavirus; and the second is the rapid, simply heretofore undiscounted, rise of Vermont senator Bernie Sanders in both early state and national polling for the Democratic presidential nomination.

Without diminishing the very real and tragic human impact of the coronavirus – the death toll in China is now, sadly, reported to have climbed above 1,000 – for investors, the more worrisome element is the sharply negative economic impact caused by a reaction to the virus. Think of the increased number of surgical masks you've seen on your commute or in the course of your travels over the last month. (We were surprised by their ubiquity on a recent flight from New York to Florida.) Have you considered less public alternatives to dining out or taking in a show because of the virus? If you haven't, do you know someone who has? Even if you haven't (or don't), the behavior doesn't seem wholly unreasonable, does it? Looking around New York City and in our travels to other well-known urban centers, a change in behavior is evident. The U.S. Center for Disease Control (CDC) puts the number of confirmed cases of coronavirus in the U.S. at just 13. Estimates from China have been as high as 40,000 infected. Beijing instituted a national travel ban following the Chinese New Year and has quarantined the entire city of Wuhan, the country's 9th most populous with a population of over 11 million. (Dallas, with a population of roughly 1.3 million, is the 9th most populous U.S. city).

Considering the widespread footprint of the outbreak in China, the scale of the government's response, and the compound effect of both voluntary and mandated quarantine, it is not an unreasonable assumption that China's GDP growth will fall dramatically in the first quarter. The knock-on effects, particularly to U.S. manufacturing, could be notable. In short, absent a dramatic turn of events for the better, we anticipate some weakness in global economic data for the first quarter accompanied by increased market volatility. Though we have no scientific evidence to support our view (and with no intention of sounding callous), we still suspect the ultimate impact of coronavirus will be transitory given similarities to the dislocations caused by previous outbreaks (SARs, MERs). If this proves correct, economic activity could come back just as quickly as it has deteriorated, presenting a v-shaped recovery through mid-year. The question is: how bad will it get before it gets better? Keep an eye on global profit growth. Stronger data in the fourth quarter (2019) suggest a willingness by corporate operators to engage capital. If this continues through the first quarter, it will provide a welcomed offset to both the effects of the virus and the drag from Boeing. We'll keep a close eye on Strategas' Leading Indicator of Manufacturing (SLIM) and other national activity gauges, like the PMI, for signs of weakness.

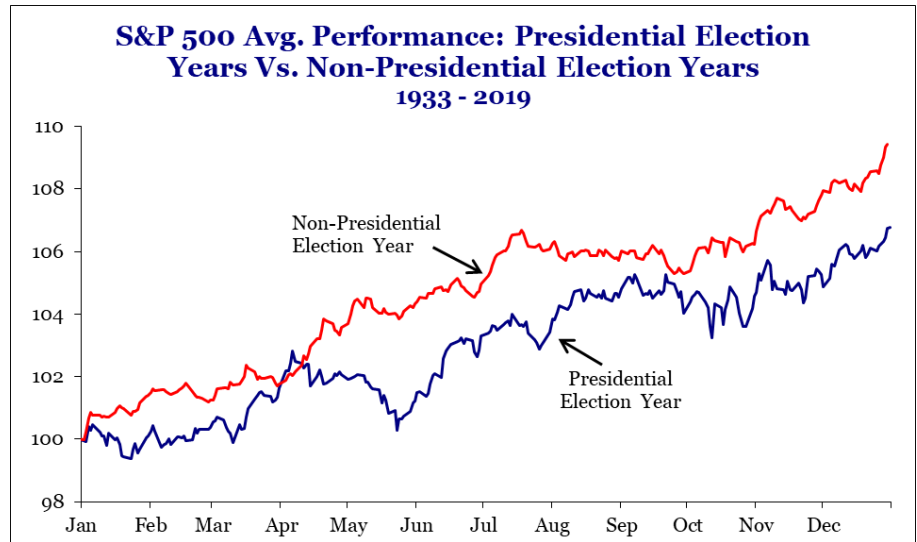


Despite election prospects within the margin of error for various Democratic presidential candidates in head-to-head match-ups with President Trump in the general election this fall, the market's appetite for far-left progressive policies does not appear hearty. Case in point: recall the sharp ascent in national polling, last summer, of Massachusetts senator Elizabeth Warren and the concomitant decline of the Health Care sector shares. While the

natural pre-primary sequence of fundraising and debates has culled the ranks of nineteen aspirant candidates to a more substantive five or six, the lack of a decided frontrunner resulted in a certain laziness and lack of familiarity among investors on the implications of the emerging Democratic policy platform. Nothing sharpens the mind like being forced, and with the state nominating contests now underway, investors' attentions have been piqued. Right on cue, in the week before the first-in-the-nation Iowa caucus, Vermont senator Bernie Sanders was enjoying a strong showing in both early state and national polling. The market had not seen that coming. While making no personal judgment, we think it's fair to say that the policies championed by a self-described "independent democratic socialist" do not fit hand-in-glove with the generally capitalist economic leanings – however socially progressive individually – of professional investors. Sanders ascendancy posed an unpriced risk to the market. We believe it still does. The undeniably strong early state showing from former South Bend, Indiana mayor Pete Buttigieg and the improving prospects of former New York City Mayor Mike Bloomberg's well-financed and geographically unconventional campaign both viewed as relative moderates have softened the blow for investors, but may bolster Senator Sanders prospects by keeping the race fragmented.

In many ways, Buttigieg fits the mold given the current preferences of the party, but the still real potential that Democrats could choose either a 70-something white male self-described socialist who has never been a member of the Democratic Party or a 70-something white, male, self-made billionaire who has been a member of all the parties is not lost on the old guard. We've been amazed by the number of Sunday show appearances and op-ed pieces from Democratic Party power-brokers openly dismissing the national prospects of Sanders versus Trump. Conspiracy theorists even suggest the delay in House Speaker Nancy Pelosi's referral of impeachment articles to the Senate was an attempt to bolster the prospects of former Vice President Joe Biden, primarily viewed as moderate enough to defeat Trump in the general election, by keeping the progressives, Sanders and Warren tied to their desks in Washington in the run-up to the Iowa caucuses. In short, the disintegrating chances of former vice president Joe Biden to claim the nomination, now confirmed by dismal showings in Iowa and New Hampshire, keeps this race interesting and longer-than-helpful for Democrats or the market. Historical analysis shows the market can perform well regardless of which party occupies the

White House. The important elements are confidence and clarity. In election years, the market has generally rallied once the parties have nominated their candidates and between them the winner was increasingly clear. Sometimes this happens early (Clinton vs. Dole in '96) and sometimes late (Bush vs. Gore '00 and Trump vs. Clinton '16).



We remain optimistic, generally, for the U.S. and global economies to evidence a late-cycle re-acceleration in activity. By our lights, this should favor more traditional Value shares, small and mid-cap companies, and international equities. This positioning may look wrong for a stretch over the next month or two as the market digests the two latest headwinds, but this, too, shall pass.

Strategas Recommended Asset Allocation (Feb'20)		
	Equities	Bonds
<b>Overweight</b>	Dev AC Core EM AC Core	IG Corporates TIPS
<b>Neutral</b>	US LC Value US LC Core US LC Growth US MC Value US MC Core US MC Growth US SC Core	Agencies ABS/CMBS US Dollar EMD Local EMD High Yield Convertibles Bank Loans
<b>Underweight</b>		US MBS U.S. Treasuries

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