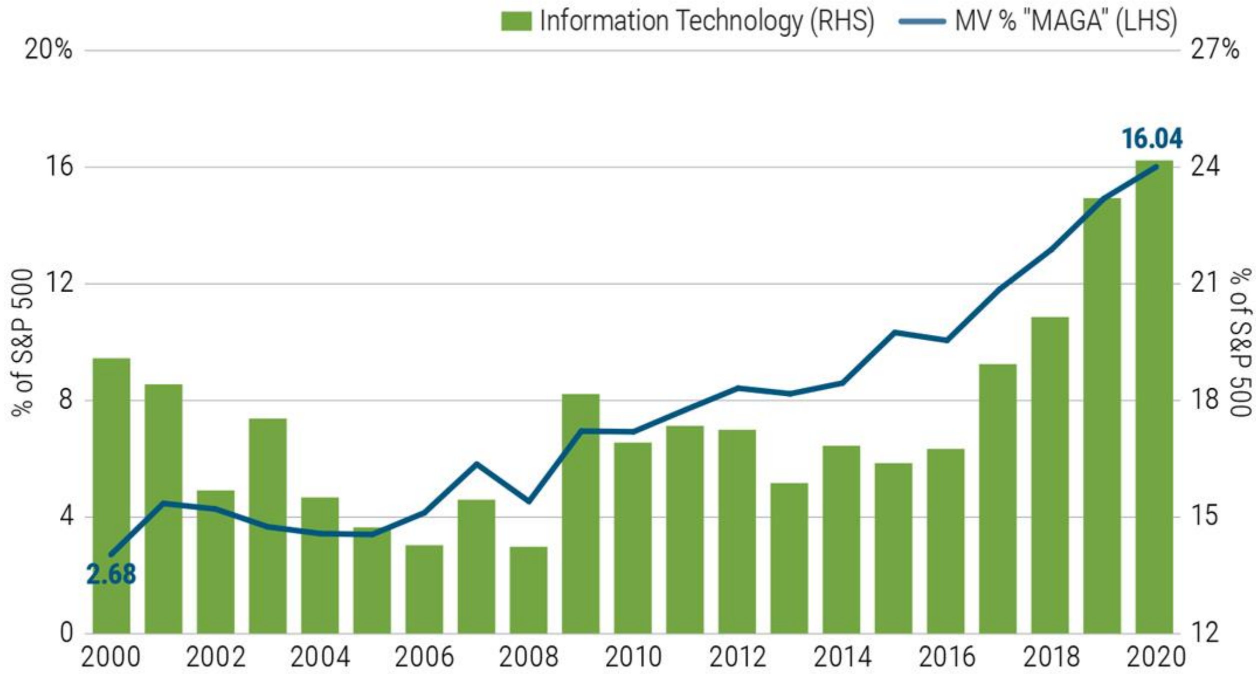
In the World

As some risks that fueled uncertainty last year faded – chiefly trade tensions and Brexit uncertainties – new risks emerged across the globe. Trade tensions broadly eased as President Donald Trump signed both the Phase 1 agreement with China and the USMCA (also known as NAFTA 2.0). Turning to Brexit, the U.K. officially began its 11-month transition period to exit the EU; the continuing negotiations are expected to be difficult given the tight timeline sought by the U.K.'s Conservative Party. These generally positive developments, however, took a back seat to a new risk: the outbreak of a new coronavirus in China; more than 9,700 people were infected, and more than 200 died by month-end. While concentrated in China, the illness quickly spread to other countries, and the World Health Organization officially labeled the outbreak a "global health emergency." January also saw the return of geopolitical tensions when a U.S. air raid killed Iranian General Qassem Soleimani and Iran retaliated against U.S. troops – though the tensions appeared to calm somewhat. In other important news, Italian populist Matteo Salvini lost a crucial election; the impeachment trial got underway in the U.S. Senate; and Russian President Vladimir Putin announced a government restructuring plan that critics alleged was a way to sidestep constitutional term limits.

Early gains in risk markets were erased by month-end mainly on concerns over the impact of the coronavirus. Anticipating the signing of the Phase 1 deal, markets welcomed the reprieve in trade tensions with a rally in risk assets and fresh highs in U.S. equities. However, sentiment quickly soured as the coronavirus spread; some feared the outbreak could stifle demand to the point of shaving a meaningful percentage off of world GDP. Oil prices in particular sharply corrected, and global equities broadly ended the month with losses – in the U.S., the S&P 500 slipped from more than a 3% gain to end the month flat. Developed market sovereign bonds, gold, and the U.S. dollar rallied in the risk-off environment, while credit spreads widened. U.S. corporates, the large-cap tech sector in particular, represented a bright spot, with robust earnings that emphasized the resilience of U.S. companies in the face of weak global growth (see chart for more detail).

Economic fundamentals started the year on a better footing. In the U.S., the unemployment and labor force participation rates remained stable, payroll employment increased, and 4Q GDP growth appeared solid at 2.1%, consistent with economic targets. Strong retail sales and a modest increase in consumer confidence further supported the economic environment. Globally, composite PMIs reflected expansionary conditions: Measures for Japan, the U.K., the euro area, and the U.S. either stayed steady or increased. Given the relative stability in their respective economies, global central banks, including the Federal Reserve, Bank of Japan and European Central Bank, generally held policy rates steady. While rates were also unchanged in the U.K., the Bank of England downgraded its growth estimates, citing lingering uncertainty even after the official announcement of Britain's departure from the EU. Meanwhile, China's economy grew at its slowest pace in nearly three decades in 2019 (6.1%), which, coupled with the coronavirus outbreak, spurred concern over the impact of a more fragile Chinese economy on the rest of the world.

MV% of Information Technology Sector and "MAGA"



Source: PIMCO and S&P as of 31 January 2020

The $1 trillion club
With Amazon and Google surpassing the $1 trillion valuation mark in January, four technology-focused companies (collectively "MAGA" − Microsoft, Amazon, Google, Apple) are now part of the $1 trillion club and together comprise over 16% of the S&P 500's market value. Somewhat reminiscent of the dot-com bubble when a handful of technology companies also held a hefty share of the index's market cap, MAGA companies have dominated the growth equity story over the last several years and were standouts this earnings season. Despite large market caps and the lingering potential for regulation, the group continues to grow revenues meaningfully with robust free-cash-flow margins, suggesting they could maintain their dominance.*

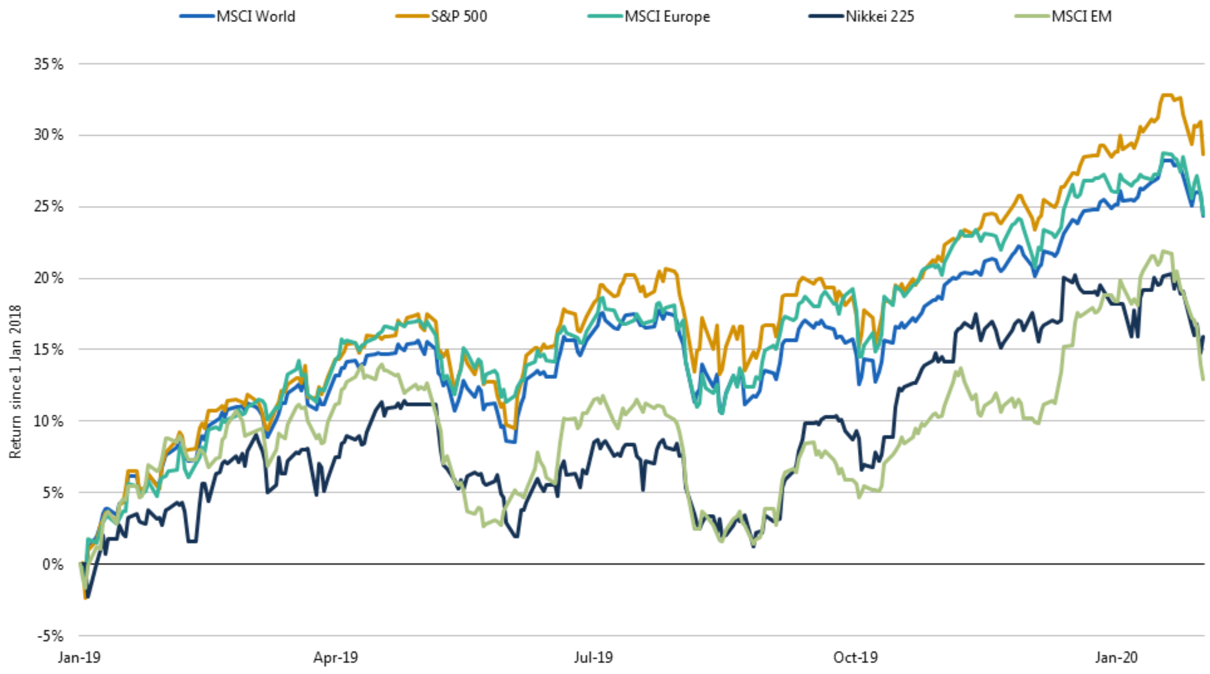
*via parent company Alphabet

In the Markets

EQUITIES

Developed market stocks[1] gave back some of 2019's gains, falling 0.6% as concerns about the spread of the new coronavirus threatened global growth outlooks and weighed on risk assets. U.S. equities[2] were flat; the Federal Reserve left the target fed funds rate unchanged amid softening economic data and positive trade developments. European equities[3] fell 1.3% as underlying fundamentals generally improved, resulting in mixed local equity returns. U.K. equities[4] fell 3.4% as the Bank of England (BoE) kept rates steady and the European Parliament finally ratified the Brexit Withdrawal Agreement, initiating Britain's one-year transition out of the European Union (EU). Japanese equities[5] fell 1.9%, tracking Chinese markets lower with coronavirus fears dominating headlines.

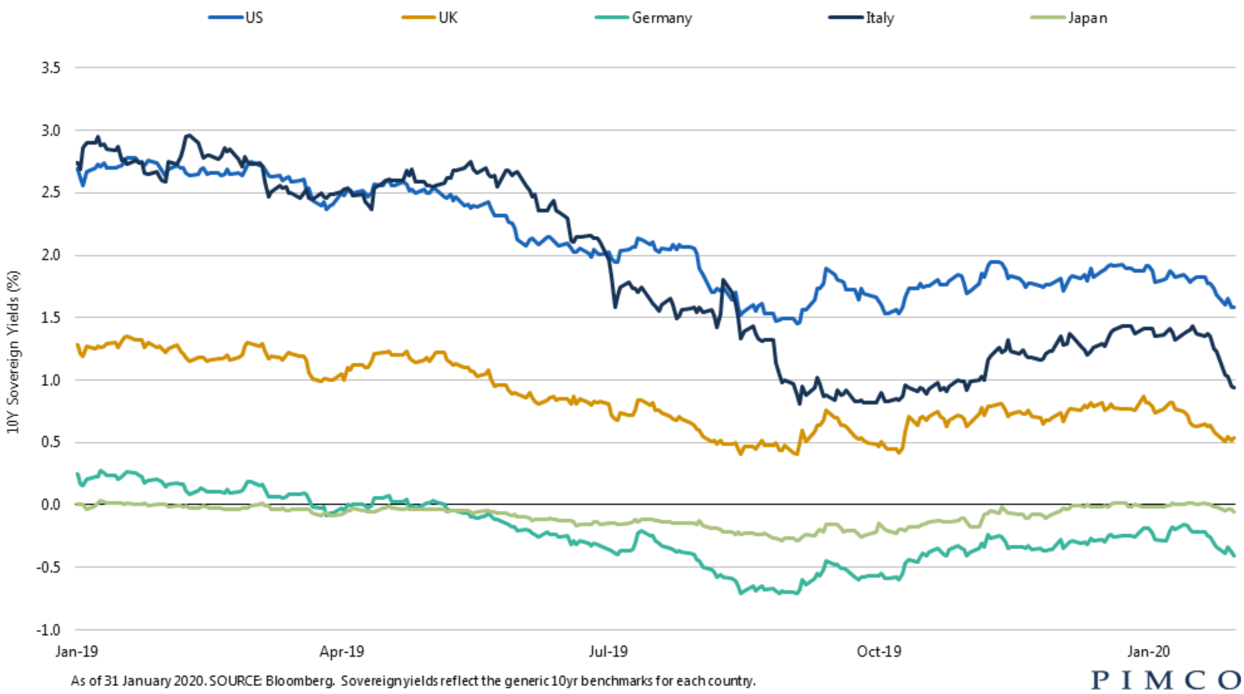
Concern over the spread of the coronavirus weighed heavily on emerging markets, with EM equities[6] falling 4.7%. In Brazil[7], stocks fell 1.6% due to slowing growth in the manufacturing sector and shrinking employment. Chinese local equities[8] dropped 2.4% as the outbreak of the new virus led to widespread business closures and supply chain disruptions, suppressing growth expectations. In India[9], stocks lost 1.3% despite the announcement of fiscal stimulus to boost economic growth. Bucking the trend, Russian equities[10] rose 1.3 % over the month, supported by an initial surge in oil prices stemming from increased U.S.–Iran tension. Oil prices ultimately fell as that tension dissipated and news of the coronavirus weighed on demand.



As of 31 January 2020. SOURCE: Bloomberg. It is not possible to invest directly in an unmanaged index.
Past performance is not a guarantee or a reliable indicator of future results.

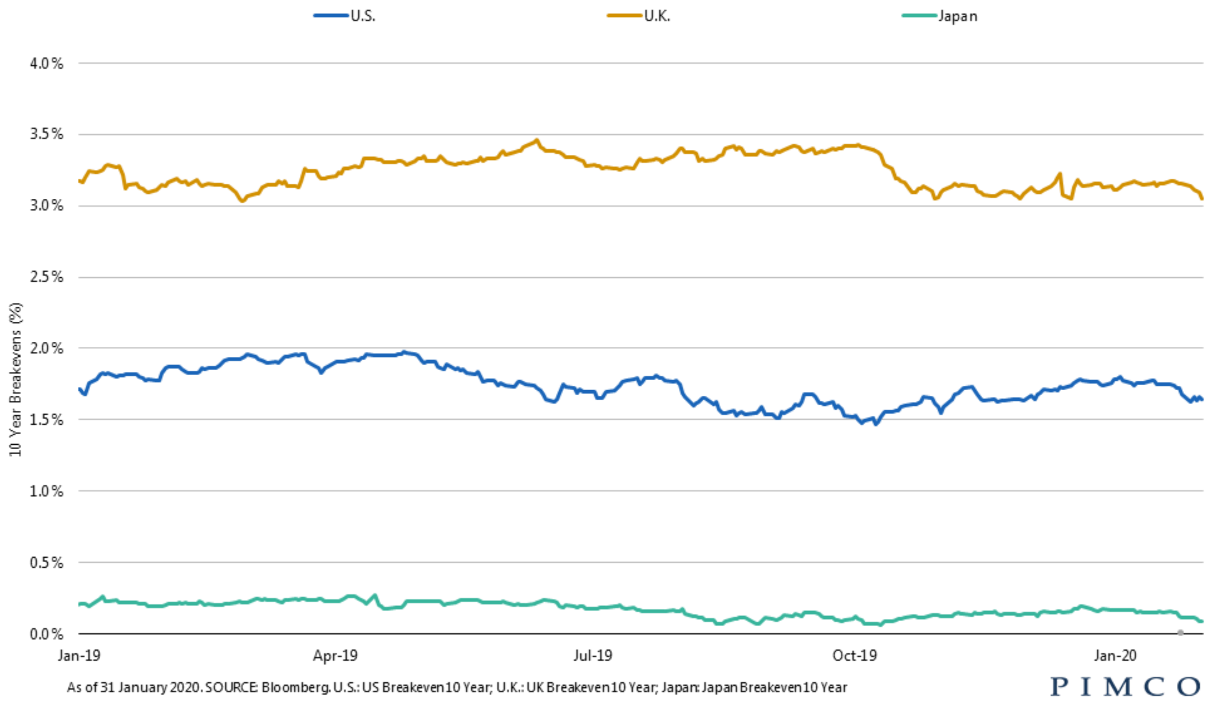
DEVELOPED MARKET DEBT

Developed market sovereign bond yields fell dramatically in January amid the introduction of fresh market risks, particularly the outbreak of the coronavirus in China. The U.S. 10-year Treasury yield fell 41 basis points (bps) and the yield curve flattened as recession fears reignited. Similarly, yields in Germany, Japan, and the U.K. fell over the month – with 10-year yields in each region falling 25 bps, 6 bps, and 30 bps, respectively. The Fed, European Central Bank (ECB), Bank of Japan (BOJ), and BoE all held rates steady over the month but continued to monitor incoming information for downside risks to global growth.



INFLATION-LINKED DEBT

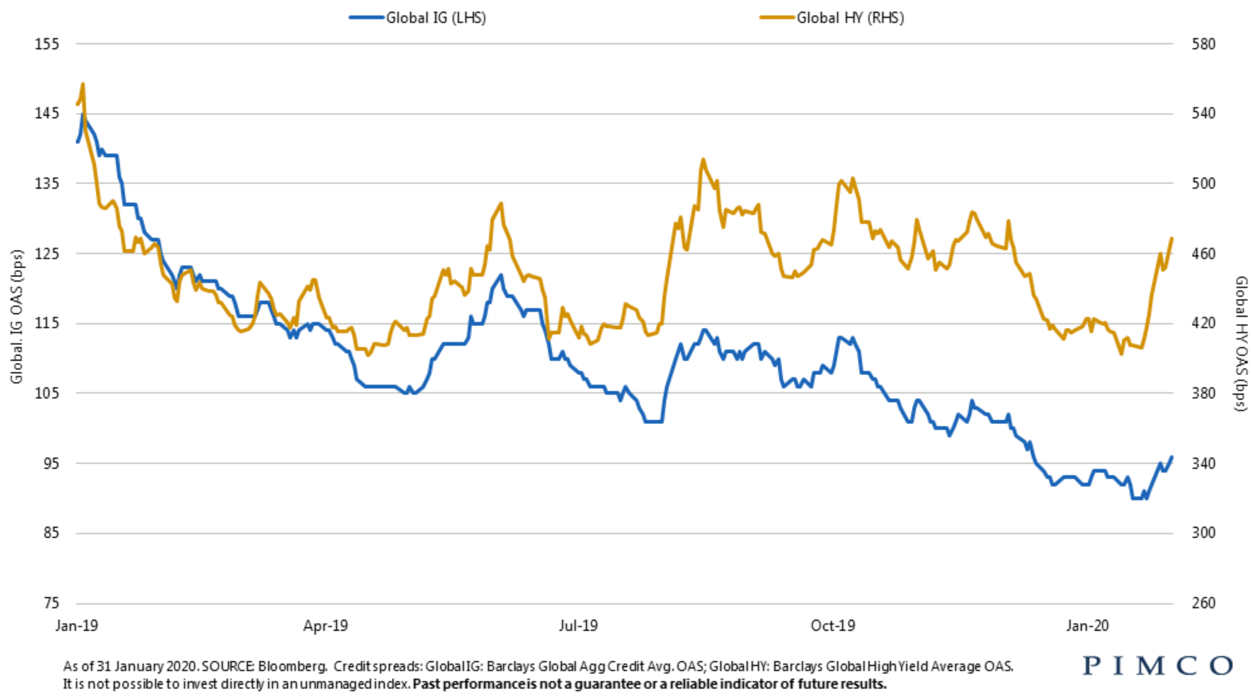
Global inflation-linked bonds (ILBs) posted positive absolute returns but underperformed their nominal counterparts in January. Global real yields lagged the rally in nominal bonds that was driven by risk-off sentiment due to the spread of the coronavirus. Breakeven inflation expectations across major markets were further weighed down by the sell-off in energy prices. In the U.S., Treasury Inflation Protected Securities (TIPS) followed the overall trend, with positive absolute returns but underperformance versus Treasuries. U.S. breakeven inflation expectations moved sharply lower on the back of risk-aversion trading and a softer-than-expected December inflation print. Outside the U.S., U.K. linkers also underperformed, and breakevens cheapened – also the result of the broad risk-off move and softer inflation prints. On 31 January, the U.K. formally exited the EU and entered an 11-month transition period.



CREDIT

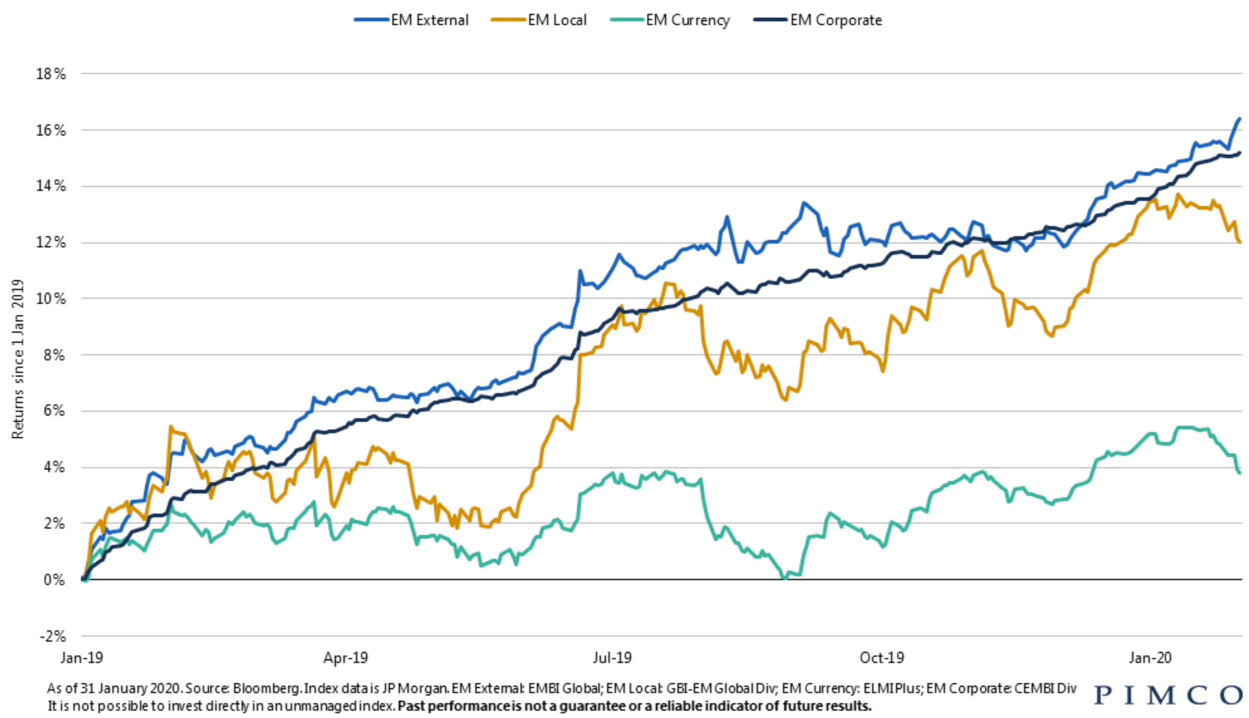
Global investment grade credit[11] spreads widened 4 bps in January to 96 bps, and the sector returned 2.05% for the month, underperforming like-duration global government bonds by 0.35%. Mid-month, spreads hit their lowest level since early 2018 on the back of strong U.S. economic data and corporate earnings. However, uncertainty surrounding the coronavirus outbreak weighed on risk sentiment, causing a flight to safety. Higher beta industries such as energy and metals/mining underperformed amid concerns over the potential impact of the new virus on growth and demand.

Global high yield bond[12] spreads widened 39 bps in January. The sector returned 0.12% for the month, underperforming like-duration Treasuries by 1.02%. Although high yield bonds extended December's rally through early January, they succumbed to a bout of equity volatility stemming from the coronavirus outbreak. The higher quality BB segment returned 0.34% for the month, while the CCC segment returned 0.24%.



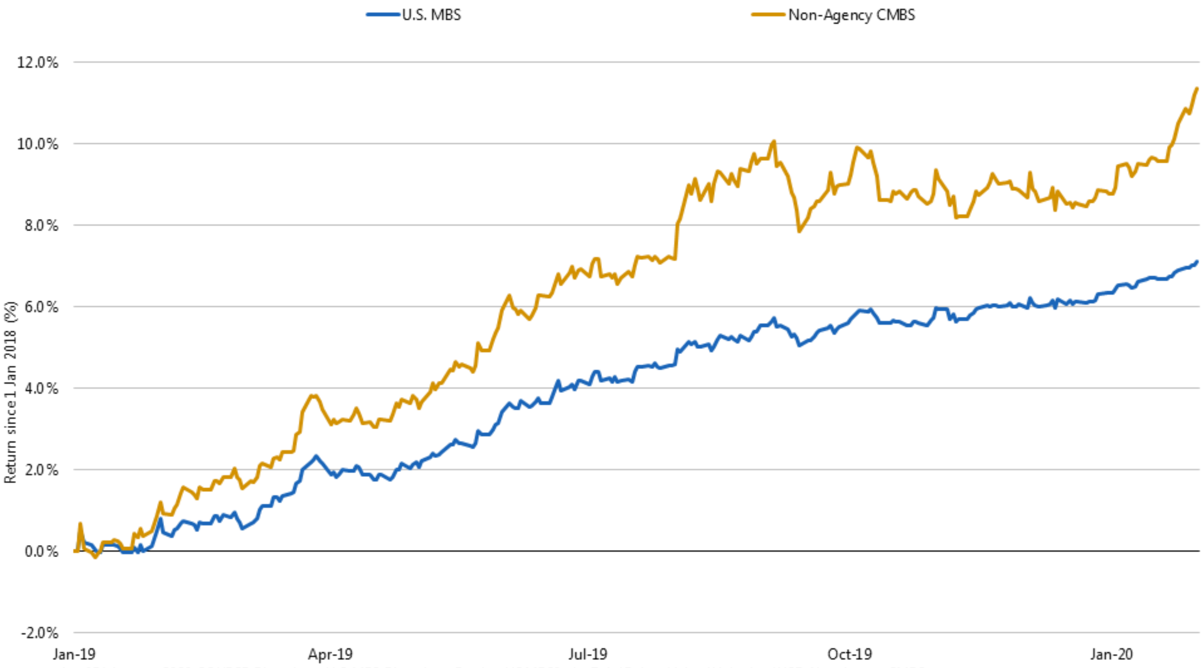
EMERGING MARKET DEBT

Emerging market (EM) debt[13] performance was bifurcated along currency lines in January. External debt returned 1.74%, driven by a 41-bp fall in the underlying U.S. Treasury yields[14] that outweighed a 22-bp rise in spreads. Local debt[15] posted weaker returns of –1.29% as the strong depreciation of EM currencies (–2.68%) outweighed the fall in local rates (–1.43%). Global risk sentiment generally soured as concerns grew that the coronavirus outbreak could meaningfully affect Chinese growth – a shock that could be quite damaging to global growth given the fragile recovery. This sentiment shift generally precipitated the fall in sovereign yields, both local rates and U.S. Treasury yields, and also drove the widening in spreads and weakening in EM currencies.



MORTGAGE-BACKED SECURITIES

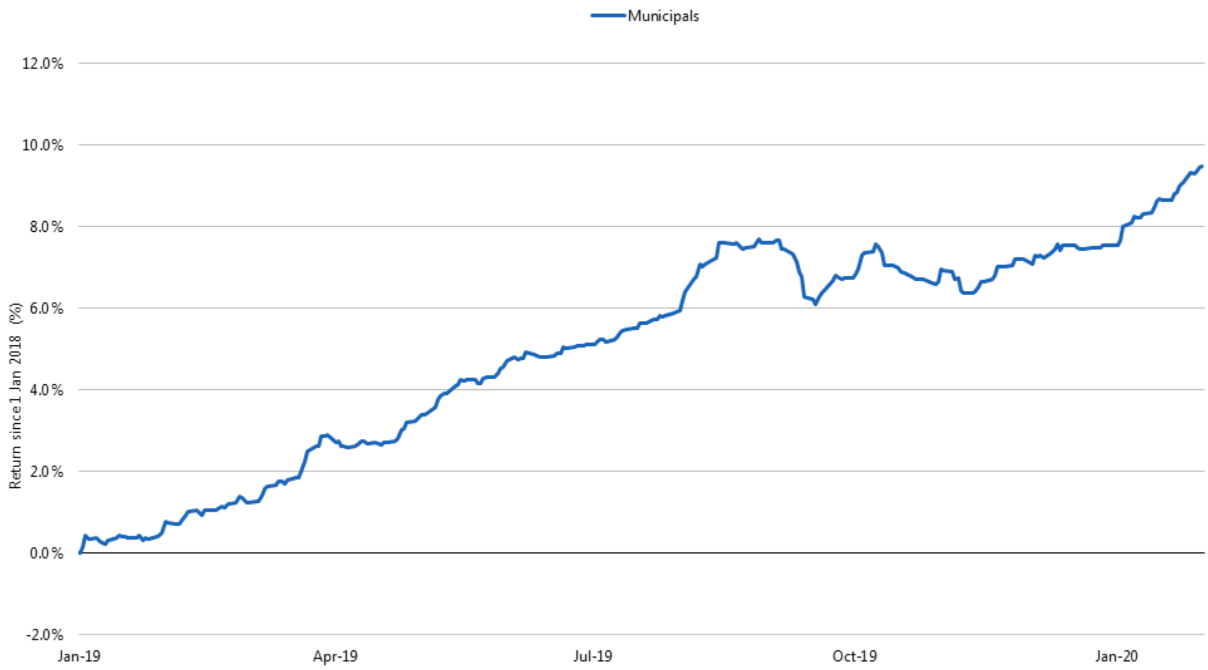
Agency MBS[16] returned 0.70%, underperforming like-duration Treasuries by 53 bps. January was the 16th month of the Federal Reserve's balance-sheet unwinding: The Fed has cumulatively sold $400 billion in agency MBS, and its runoff in January exceeded the $20 billion monthly cap again, which allowed the Fed to reinvest an additional $7 billion back into agency MBS. Similar to many other markets, agency MBS gave back a substantial portion of their early gains as fear over the coronavirus resulted in widespread risk-off sentiment and a rally in rates. Higher coupons outperformed lower coupons, 30-year MBS were mixed versus 15-year, and Ginnie Mae MBS underperformed Fannie Mae. Gross MBS issuance in January hit an historical high at $166 billion. In December, prepayment speeds decreased 1% (most recent data available), which was in line with expectations. Non-agency residential MBS spreads remained unchanged in January, while non-agency commercial MBS returned 2.39%, outperforming like-duration Treasuries by 43 bps.



As of 31 January 2020. SOURCE: Bloomberg. U.S. MBS: Bloomberg Barclays US MBS Index Total Return Valued Unhedged USD; Non-Agency CMBS: Bloomberg Barclays Non-Agency CMBS Total Return Index Value Unhedged USD: It is not possible to invest directly in an unmanaged index. **Past performance is not a guarantee or a reliable indicator of future results.**

MUNICIPAL BONDS

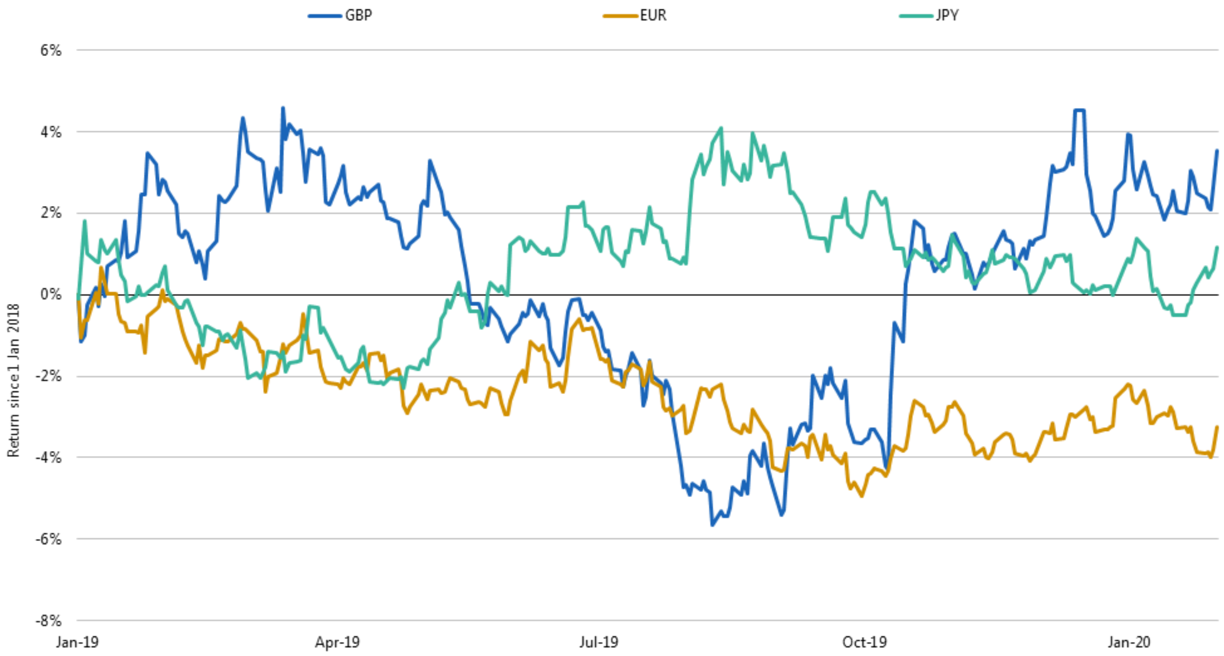
The Bloomberg Barclays Municipal Bond Index returned 1.8% in January, bolstered by strong technicals. Still, munis underperformed the U.S. Treasury index over the month, with mixed performance across the curve. The high yield segment outperformed investment grade, returning 2.5% for January, as record high inflows and lower supply continued. Positive returns in the special tax and transportation sectors also contributed to high yield muni performance over the month. Total muni supply of $31 billion in January was down 20% versus the previous month but up 25% year-over-year. Muni fund flows remained robust for the month at $11.5 billion, marking 56 straight weeks of positive inflows.



As of 31 January 2020. SOURCE: Bloomberg. Municipals: Bloomberg Barclays Municipal Bond Index Total Return Index Value Unhedged USD
It is not possible to invest directly in an unmanaged index. **Past performance is not a guarantee or a reliable indicator of future results.**

CURRENCIES

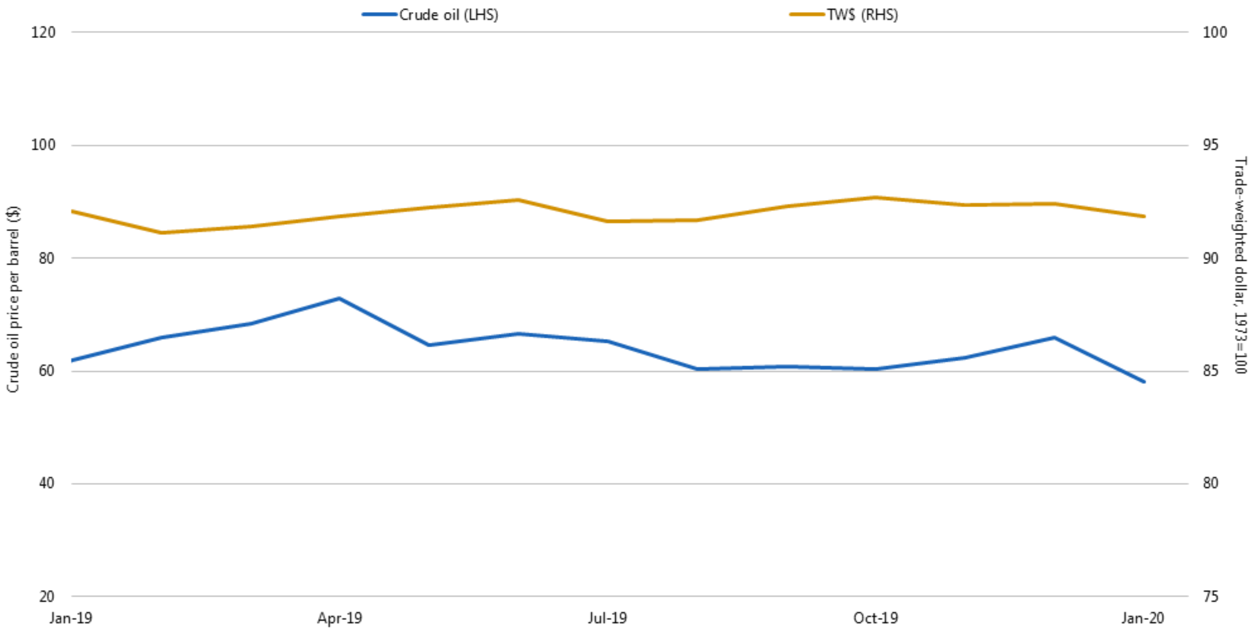
The U.S. dollar ended the month stronger (1.0% based on DXY) than its developed-market counterparts as U.S.-Iran geopolitical tensions and the coronavirus outbreak weighed on global risk sentiment. Reflecting dollar strength and generally mixed economic data, the euro weakened 1.1% versus the dollar The British pound fared somewhat better, losing 0.4% versus the dollar, thanks to better-than-expected economic data late in the month. Due to the risk-off environment, the Japanese yen – a traditional "safe-haven" currency – strengthened 0.2% versus the dollar. By contrast – and in spite of relatively strong data – the Australian dollar was the weakest performing G10 currency (down 4.7% versus the dollar) as concerns grew over the potential impact of the coronavirus outbreak on growth in China – a major Australian trading partner.



As of 31 January 2020. SOURCE: Bloomberg. All currencies vs. the U.S. dollar
It is not possible to invest directly in an unmanaged index. **Past performance is not a guarantee or a reliable indicator of future results.**

COMMODITIES

The outbreak of the coronavirus in China’s Hubei province dominated commodities markets in January, and led to negative returns. Despite escalating geopolitical tensions at the beginning of the year, oil prices slid over the month on worry that the new virus outbreak will weigh on economic activity and demand for refined products; warm weather on a global basis was also a headwind to heating fuel demand. Forecasts for a continued mild winter in the U.S. along with strong supply dragged natural gas prices lower. Agricultural commodities also declined amid uncertainty around purchases from China in light of the growing public health crisis. Base metals fell, led by copper and nickel, on the back of investor concern that the virus may have negative implications for China’s manufacturing industry. The one bright spot over the month: Precious metals saw strong demand as a “safe-haven” asset; robust fundamentals helped palladium reach fresh highs.



As of 31 January 2020. SOURCE: Bloomberg

PIMCO

Bonds	U.S.				U.K.				Eurozone				Japan				Brazil			
	Jan '20	MTD	YTD	2019	Jan '20	MTD	YTD	2019	Jan '20	MTD	YTD	2019	Jan '20	MTD	YTD	2019	Jan '20	MTD	YTD	2019
	Level	Change (bps)			Level	Change (bps)			Level	Change (bps)			Level	Change (bps)			Level	Change (bps)		
Target Rate*	1.75				0.75				-0.50				-0.10				4.50			
2 YR	1.31	-26	-26	-92	0.50	-4	-4	-21	-0.67	-7	-7	+1	-0.14	-1	-1	+1	5.08	-18	-18	-210
5 YR	1.31	-38	-38	-82	0.41	-19	-19	-30	-0.64	-17	-17	-16	-0.17	-5	-5	+2	6.25	-19	-19	-242
10 YR	1.51	-41	-41	-77	0.52	-30	-30	-46	-0.43	-25	-25	-43	-0.07	-6	-6	-1				
30 YR	2.00	-39	-39	-62	1.04	-29	-29	-49	0.07	-28	-28	-53	0.38	-5	-5	-29				
5 YR ILBs	-0.28	-27	-27	-101	-2.39	-12	-12	-3	1.20	-9	-9	-17					1.47	+154	+154	-310
10 YR Muni[a]	1.18	-30	-30	-83																

Currencies	USD**				GBP/USD				EUR/USD				USD/JPY				USD/BRL			
	Jan '20	MTD	YTD	2019	Jan '20	MTD	YTD	2019	Jan '20	MTD	YTD	2019	Jan '20	MTD	YTD	2019	Jan '20	MTD	YTD	2019
	Level	Change			Level	Change			Level	Change			Level	Change			Level	Change		
	97.39	1.0%	1.0%	0.2%	1.32	-0.4%	-0.4%	3.9%	1.11	-1.1%	-1.1%	-2.2%	108.37	0.2%	0.2%	0.9%	4.28	-5.9%	-5.9%	-3.9%

Equities	S&P 500				FTSE 100				EURO STOXX 50				NIKKEI				BOVESPA			
	Jan '20	MTD	YTD	2019	Jan '20	MTD	YTD	2019	Jan '20	MTD	YTD	2019	Jan '20	MTD	YTD	2019	Jan '20	MTD	YTD	2019
	Level	Change			Level	Change			Level	Change			Level	Change			Level	Change		
	3,226	0.0%	0.0%	31.5%	7,286	-3.4%	-3.4%	17.3%	3,641	-2.7%	-2.7%	28.2%	23,205	-1.9%	-1.9%	20.2%	113,761	-1.6%	-1.6%	31.6%

Sector Spreads***

	Dec '19	MTD	YTD	2018
	Level	Change (bps)		
MBS[b]	48	+9	+9	+4
IG[c]	96	+4	+4	-49
HIGH YIELD[d]	469	+46	+46	-122
EM External[e]	299	+22	+22	-157

Commodities

	Dec '19	MTD	YTD	2018
	Level	Change		
Oil	$52	-15.6%	-15.6%	34.5%
Gold	$1,583	3.9%	3.9%	18.9%
Copper	$252	-10.0%	-10.0%	6.3%
Grains[f]	$28	-4.3%	-4.3%	-3.2%

* Central Bank Policy Rate
** U.S. Dollar Index (DXY)
***Sector spreads to like-duration government bonds
Source: Bloomberg
a Thomson Municipal Market Data (MMD) AAA Curve
b Barclays Global Agg MBS Index
c Bloomberg Barclays Global Agg Credit Average OAS
d Barclays Global Agg High Yield Index
e JPMorgan Emerging Markets Bond Index
f Dow Jones – UBS Grains Subindex

FOOTNOTES:

1MSCI World Index, 2S&P 500 Index, 3MSCI Europe Index (MSDEE15N Index), 4FTSE 100 Index 5Nikkei 225 Index (NKY Index), 6MSCI Emerging Markets Index Daily Net TR, 7IBOVESPA Index (IBOV Index), 8Shanghai Composite Index (SHCOMP Index), 9S&P BSE SENSEX Index (SENSEX Index), 10MICEX Index (IMOEX Index) 11Bloomberg Barclays Global Aggregate Credit USD Hedged Index, 12BofA Merrill Lynch Developed Markets High Yield Index, Constrained, 13JP Morgan EMBI Global, 14Generic U.S. 10-year Treasury, 15JP Morgan GBI-EM Global Diversified, 16Bloomberg Barclays Fixed Rate MBS Index (Total Return, Unhedged)