Before the Bell
Morning Market Brief

March 3, 2020

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MORNING MARKET COMMENTARY: Anthony M. Saglimbene, Global Market Strategist

• **Quick Take:** U.S. futures are pointing to a higher open with added volatility; European markets are trading higher; Asia ended higher overnight; West Texas Intermediate (WTI) oil trading at $47.68; 10-year U.S. Treasury yield up to 1.13%.

• **The Market Is Moving In Extremes — The Truth Likely Sits Somewhere In The Middle:** On Monday, the S&P 500 Index posted its best day since December 2018 and on the heels of experiencing its worst week of performance since the financial crisis in 2008. Every sector was higher on the day by more than +2.0%. Utilities, Technology, and Consumer Staples led stocks higher by well over +5.0% each yesterday. Although breadth across sectors was wide and strong, leadership among the more defensive areas show traders/investors remain cautious.

• News that G7 finance ministers and central bankers were preparing to hold a joint call today regarding a coronavirus response helped lift sentiment during trading on Monday. Investors interpreted the teleconference call as a sign a possible coordinated global response to the viral outbreak was underway. After markets closed yesterday, reports that Treasury Secretary Steven Mnuchin and Fed Chair Jerome Powell would represent the U.S. in today’s meeting was reported on by Bloomberg. A joint communique was released following the call this morning — more on that in a moment.

• Though trading was volatile and extreme on Monday, the Dow Jones Industrial Average experienced its largest point increase ever (1,293 points) and its biggest daily percentage move since March 2009 (+5.1%). The historic moves across the stock market over the last several trading sessions suggests everyone, including traders and investors, are still trying to figure out the impact of the coronavirus on profits/growth.

• **This morning, U.S. stock futures are pointing to a modestly higher open despite a G7 communique that disappointed investors and did not include specific actions or steps.** In the statement, G7 countries pledged to work together to mitigate the damage to their economies from the coronavirus and stood ready to act in a coordinated fashion. While we believe it was unreasonable for the market to expect specific action today, we do expect large central banks to react quickly and provide more accommodation if necessary. Current government bond rates, as well as rate futures, already reflect high odds that monetary policy across the globe is set to ease. Today’s G7 statement reinforces that assessment — which could be a longer-term positive for asset prices.

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The S&P 500 attempts to find some support

- As the *first FactSet chart* above shows, the S&P 500 Index quickly moved back above its 200-day moving average yesterday. We believe traders are likely to test and retest this level over the coming days to see if support can be formed after last week’s steep declines and volatile trading.

Is too much of the market trading below the 50-day moving average?

- The *second FactSet chart* above shows the number of S&P 500 stocks trading below their 50-day moving average dipped lower on Monday from above 95% coming into the day’s trading. It is abnormal for so many stocks in the S&P 500 to trade below their 50-day. As markets eventually find their footing, a wider swath of stocks could start to see better pricing, which would cause this metric to fall back to a more normal level.
Volatility spikes can be scary, but they tend to fade quickly

Speaking of normal activity, stock volatility, shown in the last FactSet chart above, also remains at an abnormal level, based on its five-year history. Such spikes in volatility are not long-lasting. We suspect equity volatility could ebb lower over the coming weeks, which would be positive for stock prices over the near-term.

Although the historic speed and magnitude of the daily changes in stock prices over the last week certainly are unsettling, the market process of resetting is quite normal. Coming into the current sell-off, stocks were at all-time highs, priced for perfection, and investors appeared rather complacent about the underlying risks to growth. Today, after a historically swift correction, brought on by fears of a global virus pandemic, growth expectations are in the process of finding a new lower base.

But because quantifying the effects of the coronavirus is nearly impossible at the moment, the extremes in expectations are so far playing out in stock prices daily. As we indicated in our headline this morning, the truth lies somewhere between “the virus is a minor speedbump” and “stock up the house we are going into hibernation mode until spring.” Eventually, markets will settle down, find a new equilibrium, and more data will become available. As panic selling and buying give way to the new realities of the global growth situation, longer-term investors can begin making more informed decisions about how to position their portfolio. Until then, please, refrain from getting caught up in the day-to-day market swings as difficult as we know that is to do right now.

Asia-Pacific: Asian equities finished higher on Tuesday. Despite the number of coronavirus (COVID-19) cases increasing around the globe, China reported its lowest daily spread since January. Officials in Beijing said just 125 new cases of the virus were reported across mainland China overnight. However, South Korea reported 600 new infections, bringing the country’s total to over 4,800.

Europe: Markets across the region are trading in the green at mid-day. Virus infections in Italy rose past 2,000 yesterday, while Germany and France reported an increase in the outbreak.

Goldman Sachs downgraded its expectations for European earnings per share (EPS) growth to recession levels, based on the coronavirus. The firm has been quick to lower its growth and earnings forecasts to near zero. However, the firm pointed out it sees a recovery in asset prices during the first half of this year, as easier monetary policy and investors start to discount a better third quarter and beyond outlook.

U.S.: Equity futures are pointing to a higher open. It’s Super Tuesday. Former Vice President Joe Biden was given a boost overnight following challenger exits and subsequent endorsements by Mayor Pete Buttigieg and Senator Amy Klobuchar. The move allows Mr. Biden to potentially consolidate the moderate wing of the Democratic party and ahead of today’s crucial primary benchmark.
• Reports suggesting establishment Democrats were concerned too many moderate candidates would split the vote today, may have been behind the sudden exits of Mr. Buttigieg and Mrs. Klobuchar.

• Fourteen states will hold their primaries today, with one-third of the Democratic delegates up for grabs. The Democratic presidential field has now narrowed to just four candidates. Vermont Senator, and self-proclaimed socialist, Bernie Sanders is expected to perform well today in delegate-rich states such as California and Texas. Following Super Tuesday results, the market should be able to identify clear front-runner candidates. Unfortunately, it may still be difficult to determine who will eventually receive the Democratic presidential nomination based on today’s results alone.

• Per FactSet, Vice President Mike Pence said travel curbs might be widened ahead of a meeting with airline CEOs on Saturday. National Institutes of Health expert Anthony Fauci said the coronavirus outbreak has likely reached pandemic proportions.

### WORLD CAPITAL MARKETS

**3/3/2020**

**As of: 8:30 AM ET**

<table>
<thead>
<tr>
<th>Americas</th>
<th>% chg.</th>
<th>% YTD</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P 500</td>
<td>4.60%</td>
<td>-0.40%</td>
<td>3,090.2</td>
</tr>
<tr>
<td>Dow Jones</td>
<td>5.09%</td>
<td>-0.00%</td>
<td>26,703.3</td>
</tr>
<tr>
<td>NASDAQ Composite</td>
<td>4.49%</td>
<td>-0.01%</td>
<td>8,952.2</td>
</tr>
<tr>
<td>Russell 2000</td>
<td>2.85%</td>
<td>-6.83%</td>
<td>1,518.5</td>
</tr>
<tr>
<td>Brazil Bovespa</td>
<td>Closed</td>
<td>-7.80%</td>
<td>106,625</td>
</tr>
<tr>
<td>S&amp;P/TSX Comp. (Canada)</td>
<td>1.78%</td>
<td>-2.51%</td>
<td>16,553.3</td>
</tr>
<tr>
<td>Mexico IPC</td>
<td>2.04%</td>
<td>-3.11%</td>
<td>42,167.2</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Europe (Intra-day)</th>
<th>% chg.</th>
<th>% YTD</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>DJ Stoxx 50 (Europe)</td>
<td>1.38%</td>
<td>-9.35%</td>
<td>3,384.9</td>
</tr>
<tr>
<td>FTSE 100 (U.K.)</td>
<td>1.52%</td>
<td>-6.67%</td>
<td>6,756.2</td>
</tr>
<tr>
<td>DAX Index (Germany)</td>
<td>1.78%</td>
<td>-9.11%</td>
<td>12,086.9</td>
</tr>
<tr>
<td>CAC 40 (France)</td>
<td>1.24%</td>
<td>-9.53%</td>
<td>5,399.4</td>
</tr>
<tr>
<td>FTSE MIB (Italy)</td>
<td>0.93%</td>
<td>-7.02%</td>
<td>21,855.6</td>
</tr>
<tr>
<td>IBEX 35 (Spain)</td>
<td>1.63%</td>
<td>-6.67%</td>
<td>8,884.1</td>
</tr>
<tr>
<td>MOEX Index (Russia)</td>
<td>1.99%</td>
<td>-7.12%</td>
<td>2,820.8</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Asia/Pacific (Last night)</th>
<th>% chg.</th>
<th>% YTD</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nikkei 225 (Japan)</td>
<td>-1.22%</td>
<td>-10.81%</td>
<td>21,082.7</td>
</tr>
<tr>
<td>Hang Seng (Hong Kong)</td>
<td>-0.03%</td>
<td>-6.44%</td>
<td>26,284.8</td>
</tr>
<tr>
<td>Korea Kospi 100</td>
<td>0.58%</td>
<td>-8.35%</td>
<td>2,014.2</td>
</tr>
<tr>
<td>Singapore STI</td>
<td>0.39%</td>
<td>-6.13%</td>
<td>3,019.6</td>
</tr>
<tr>
<td>Shanghai Comp. (China)</td>
<td>0.74%</td>
<td>-1.88%</td>
<td>2,992.9</td>
</tr>
<tr>
<td>Bombay Sensex (India)</td>
<td>1.26%</td>
<td>-6.27%</td>
<td>38,623.7</td>
</tr>
<tr>
<td>S&amp;P/ASX 200 (Australia)</td>
<td>0.69%</td>
<td>-2.80%</td>
<td>6,435.7</td>
</tr>
</tbody>
</table>

Note: International market returns shown on a total currency basis. Equity index data is total return, inclusive of dividends.

### U.S. Equity Sector - Tactical View

**Ameriprise Global Asset Allocation Committee**

<table>
<thead>
<tr>
<th>Sector</th>
<th>S&amp;P 500 Index</th>
<th>GAAG Tactical</th>
<th>GAAG Recommended</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Communication Services</td>
<td>10.5%</td>
<td>Underweight</td>
<td>2.0%</td>
</tr>
<tr>
<td>2) Consumer Discretionary</td>
<td>9.7%</td>
<td>Overweight</td>
<td>+2.0%</td>
</tr>
<tr>
<td>3) Consumer Staples</td>
<td>7.2%</td>
<td>Equalweight</td>
<td>-</td>
</tr>
<tr>
<td>4) Energy</td>
<td>4.3%</td>
<td>Equalweight</td>
<td>-</td>
</tr>
<tr>
<td>5) Financials</td>
<td>13.1%</td>
<td>Equalweight</td>
<td>-</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sector</th>
<th>S&amp;P 500 Index</th>
<th>GAAG Tactical</th>
<th>GAAG Recommended</th>
</tr>
</thead>
<tbody>
<tr>
<td>6) Health Care</td>
<td>14.2%</td>
<td>Equalweight</td>
<td>-</td>
</tr>
<tr>
<td>7) Industrials</td>
<td>9.1%</td>
<td>Equalweight</td>
<td>-</td>
</tr>
<tr>
<td>8) Information Technology</td>
<td>23.1%</td>
<td>Equalweight</td>
<td>-</td>
</tr>
<tr>
<td>9) Materials</td>
<td>2.6%</td>
<td>Equalweight</td>
<td>-</td>
</tr>
<tr>
<td>10) Real Estate</td>
<td>2.9%</td>
<td>Overweight</td>
<td>+1.0%</td>
</tr>
<tr>
<td>11) Utilities</td>
<td>3.3%</td>
<td>Underweight</td>
<td>-1.0%</td>
</tr>
</tbody>
</table>

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BY THE NUMBERS: ECONOMIC ACTUALS AND FORECAST:

Current Projections:

<table>
<thead>
<tr>
<th>Actual</th>
<th>Actual</th>
<th>Actual</th>
<th>Actual</th>
<th>Est.</th>
<th>Est.</th>
<th>Actual</th>
<th>Actual</th>
<th>Actual</th>
<th>Actual</th>
<th>Est.</th>
<th>Est.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP (YOY)</td>
<td>1.6%</td>
<td>2.4%</td>
<td>2.9%</td>
<td>2.3%</td>
<td>2.1%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>1.5%</td>
<td>2.6%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>4.7%</td>
<td>4.1%</td>
<td>3.9%</td>
<td>3.5%</td>
<td>3.4%</td>
<td>3.5%</td>
<td>3.5%</td>
<td>3.4%</td>
<td>3.4%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CPI (YoY)</td>
<td>1.3%</td>
<td>2.1%</td>
<td>2.4%</td>
<td>1.8%</td>
<td>2.0%</td>
<td>2.1%</td>
<td>1.8%</td>
<td>2.0%</td>
<td>2.3%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Core PCE (YoY)</td>
<td>1.7%</td>
<td>1.6%</td>
<td>1.9%</td>
<td>1.6%</td>
<td>1.7%</td>
<td>1.9%</td>
<td>1.6%</td>
<td>1.8%</td>
<td>1.8%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

ECONOMIC NEWS OUT TODAY:

<table>
<thead>
<tr>
<th>Time</th>
<th>Period</th>
<th>Release</th>
<th>Consensus Est.</th>
<th>Actual</th>
<th>Prior</th>
<th>Revised to</th>
</tr>
</thead>
<tbody>
<tr>
<td>NA</td>
<td>FEB</td>
<td>U.S. Light Vehicle Sales (annualized)</td>
<td>16.8M</td>
<td>16.8M</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

FIXED INCOME NEWS & VIEWS: Brian M. Erickson, CFA, Fixed Income Research & Strategy

G7 Policy Response and How We See Bond Markets Evolving

- G7 central bankers and finance ministers are holding a call this morning aimed at asserting confidence for markets. Risk sentiment in credit rebounded modestly Monday on anticipation that governments and central banks would offer shock absorbers for the potential economic impact of consumer and business behavior from the spread of the coronavirus. Fed futures suggest a one to two quarter point rate cut by the Fed by the March 18.
- The joint statement noted four take-aways: 1) The G7 central banks would closely monitor the spread of the virus. We believe this targets the wall of worry markets can climb when they assume negative trends extend in isolation; a policy response likely truncates the markets deepest concerns. A policy response could mute the outcome and markets need not climb a wall of worry. 2) Central banks will respond accordingly. The statement stopped short of a commitment to cut rates or act as priced into markets. 3) Reassert that the G7 central banks have the necessary tools and dry powder to address what might unfold within the global economy. We believe markets could test this assertion over the next year. 4) The G7 is prepared to act in unison to exert greater influence on the global economy.
- At the end of the day, we do not believe this is a monetary problem. The virus hits both supply and demand within the economy and there is little the Fed can do by lowering the cost of funds to move the needle as effectively as a fiscal solution would. We believe the principal role for the Fed is liquifying short-term lending markets if necessary and working to address financial disruptions that occur from temporary dislocations.
• **Implications for bondholders:** We view the meeting and the statement as a reassertion of what we would expect finance ministers and central bankers to say from a fundamental perspective yet stopping short of market hope that an immediate intervention could be forthcoming. From a fixed income perspective, we push back against the secular tendency to see the Fed as the unwitting sponsor of the market’s rally. Congress defines the Fed’s role and as much as some investors want that to be different by responding to the instant gratification needs of the market, and that role requires a measured, methodical approach to be effective and to administer in our view.

• **Treasury market reaction:** The initial reaction to the joint statement sent a bid into Treasuries immediately after the release, sending 10-year yields through Friday’s record close of 1.15% to 1.12%. In the near-term Treasury yields may move lower as disruption from the virus spreads to additional nations and as the case count continues to blossom. Should the expansion show signs of slowing, or measures prove effective in snuffing out the virus, we believe fixed income investors likely shift from bidding up Treasuries to looking for value in credit and emerging markets. At this point, the virus footprint expansion over the weekend and into this morning suggests the inflection point lies still ahead.

• **Thinking ahead:** Factors that can push out the inflection point include additional person to person transmission in the U.S.; formal closures, travel restrictions, or work from home efforts in the U.S.; or the spread to less developed markets where the formal the spread could expand significantly. Conversely, we believe more effective diagnostic tools, improved anti-viral treatments, or the potential for seasonal changes to ease the spread could bring the inflection point close to fruition.

• **Bottom line:** The economic impact is not driven by the virus, rather the impact of policies aimed at controlling its spread or protecting at-risk populations. Time is the primary driver in our view. The longer the disruption extends the greater the cumulative impact on activity and the greater potential for a dislocation to break something within financial markets.

**Treasury Yields Lower Once Again This Morning; G7 Offers Supportive Message**

• Ten-year Treasury yields ended trading Monday yielding 1.16%, up a basis point from Friday’s closing level. This morning, the price of 10-year Treasuries rose slightly sending yields 1.13% this morning an hour before the open to U.S. open.

![Treasury Yield Curve Comparison](source: Bloomberg L.P.)

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Before The Bell

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Investments in a narrowly focused sector may exhibit higher volatility than investments with broader objectives and is subject to market risk and economic risk.

**Income Risk:** We note that dividends are declared solely at the discretion of the companies' boards of directors. Dividend cuts or eliminations will likely negatively impact underlying company valuations. Published dividend yields are calculated before fees and taxes. Dividends paid by foreign companies to ADR holders may be subject to a withholding tax which could adversely affect the realized dividend yield. In certain circumstances, investors in ADR shares have the option to receive dividends in the form of cash payments, rights shares or ADR shares. Each form of dividend payment will have different tax consequences and therefore generate a different yield. In some instances, ADR holders are eligible to reclaim a portion of the withholding tax.

**International investing** involves increased risk and volatility due to political and economic instability, currency fluctuations, and differences in financial reporting and accounting standards and oversight. Risks are particularly significant in emerging markets.

**Market Risk:** Equity markets in general could sustain significant volatility due to several factors. As we have seen recently, both economic and geopolitical issues could have a material impact on this model portfolio and the equity market as a whole.

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For additional information on individual ETFs, see available third-party research which provides additional investment highlights. SEC filings may be viewed at sec.gov

All fixed income securities are subject to a series of risks which may include, but are not limited to: interest rate risk, call risk, refunding risk, default risk, inflation risk, liquidity risk and event risk. Please review these risks with your financial advisor to better understand how these risks may affect your investment choices. In general, bond prices rise when interest rates fall and vice versa. This effect is usually more pronounced for longer-term securities. This means you may lose money if you sell a bond prior to maturity as a result of interest rate or other market movement.

Any information relating to the income or capital gains tax treatment of financial instruments or strategies discussed herein is not intended to provide specific tax advice or to be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.

A real estate investment trust or REIT is a company that owns and operates income-producing real estate. In addition, some REITs participate in the financing of real estate. To qualify as a REIT, a company must: I) invest at least 75% of its total assets in real estate assets, II) generate at least 75% of its gross income from real property or interest, and III) pay at least 90% of its taxable income to shareholders in the form of dividends. A company that qualifies as a REIT is permitted to deduct the distributions paid to shareholders from its corporate income. Consequently, many REITs target to payout at least 100% of taxable income, resulting in virtually no corporate taxes.

An investment in a REIT is subject to many of the same risks as a direct investment in real estate including, but not limited to: illiquidity and valuation complexities, redemption restrictions, distribution and diversification limits, tax consequences, fees, defaults by borrowers or tenants, market saturation, balloon payments, refinancing, bankruptcy, decreases in market rates for rents and other economic, political, or regulatory occurrences affecting the real estate industry.

Definitions of Terms

Agency - Agency bonds are issued by Government Sponsored Enterprises (GSE), but are NOT direct obligations of the U.S. government. Common GSE's are the Federal Home Loan Mortgage Corp. (Freddie Mac) Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Bank (FHLB).

Beta: A measure of the risk arising from exposure to general market movements as opposed to company-specific factors. Betas in this report, unless otherwise noted, use the S&P 500 as the market benchmark and result from calculations over historic periods. A beta below 1.0, for example, can suggest the equity has tended to move with lower volatility than the broader market or, due to company-specific factors, has had higher volatility but generally low correlations with the overall market.

Corporate Bonds – Are debt instruments issued by a private corporation. Non-Investment grade securities, commonly known as “high-yield” or “junk” bonds, are historically subject to greater risk of default, including the loss of principal and interest, than higher-rated bonds, which may result in greater price volatility than experienced with a higher-rated issue.

Mortgage Backed Securities – Bonds are subject to prepayment risk. Yield and average lives shown consider prepayment assumptions that may not be met. Changes in payments may significantly affect yield and average life. Please contact your financial advisor for information on CMOs and how they react to different market conditions.

Municipal Bonds – Interest income may be subject to state and/or local income taxes and/or the alternative minimum tax (AMT). Municipal securities subject to AMT assume a “nontaxable” status for yield calculations. Certain municipal bond income may be subject to federal income tax and are identified as “taxable”. Gains on sales/redemptions of municipal bonds may be taxed as capital gains. If the bonds are insured, the insurance pertains to the timely payment of principal (at maturity) and interest by the insurer of the underlying securities and not to the price of the bond, which will fluctuate prior to maturity. The guarantees are backed by the claims-paying ability of the listed insurance company.

Treasury Securities – There is no guarantee as to the market value of these securities if they are sold prior to maturity or redemption.

Price/Book: A financial ratio used to compare a company's market share price, as of a certain date, to its book value per share. Book value relates to the accounting value of assets and liabilities in a company’s balance sheet. It is generally not a direct reflection of future earnings prospects or hard to value intangibles, such as brand, that could help generate those earnings.

Price/Earnings: An equity valuation multiple calculated by dividing the market share price, as of a certain date, by earnings per share. Trailing P/E uses the share price divided by the past four-quarters’ earnings per share. Forward P/E uses the share price as of a certain date divided by the consensus estimate of the future four-quarters’ EPS.
Price/Sales: An equity valuation multiple calculated by dividing the market share price, as of a certain date, by the company’s sales per share over the most recent year.

INDEX DEFINITIONS
An index is a statistical composite that is not managed. It is not possible to invest directly in an index.

Definitions of individual indices mentioned in this report are available on our website at ameriprise.com/legal/disclosures in the Additional Ameriprise research disclosures section, or through your Ameriprise financial advisor.

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