



Coronavirus Jumbles Global Outlook

January started with President Trump approving the drone assassination of top Iranian General Soleimani in response to an attack on the US Embassy in Iraq. Markets braced for Iran's strong retaliation, which targeted US military structures in Iraq, thankfully causing no US casualties or further escalations.

On January 15, the US and China sealed phase one of a \$200b, two-year trade deal. A natural disaster clause is part of the deal, allowing purchase commitment flexibility due to "unforeseeable events." A few days later, reports surfaced of a novel coronavirus in China's Hubei province. It spread at an alarming rate, rattling markets, health regulators, and businesses. Equities sold off in response, as US firms temporarily closed thousands of stores across China.

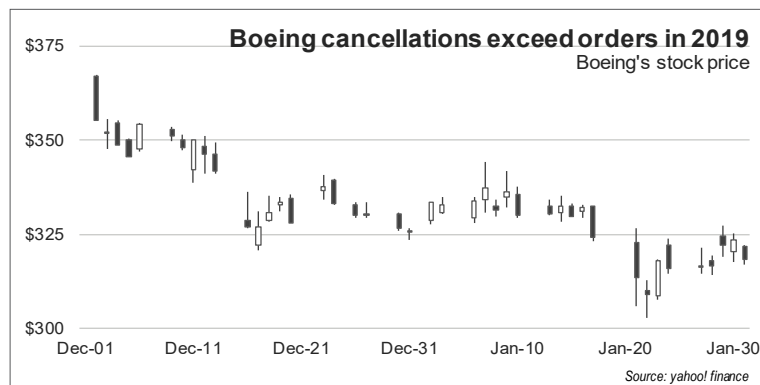
The FOMC, ECB, and BOE kept policy on-hold, but the FOMC tweaked its IOER and repo rates. The ECB said it will swap parts of its QE portfolio for climate friendly green bonds. The S&P hit new highs before a sharp correction at month-end; 10-year yields fell 41bp from 1.92% to 1.51% on heightened global uncertainty.

ECONOMICS

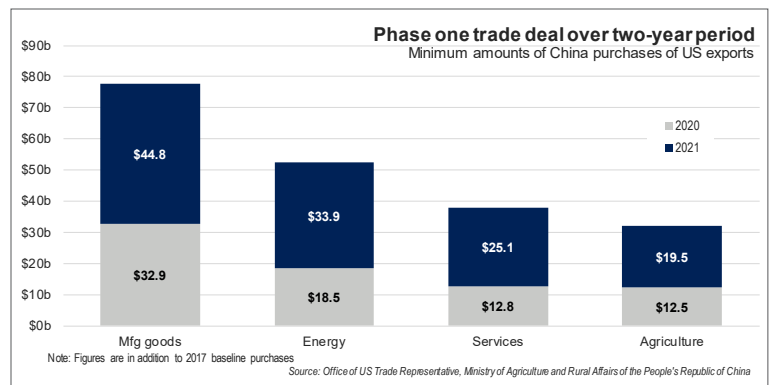
Chris Low
Chief Economist
212.418.7909
chris.low@fhnfinancial.com

Rebecca Kooshak
Economic Analyst
212.418.7966
rebecca.kooshak@fhnfinancial.com

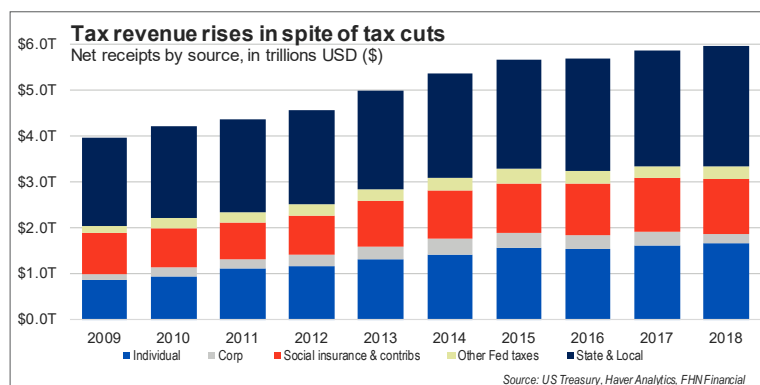
FHNFINANCIAL.COM
800.456.5460



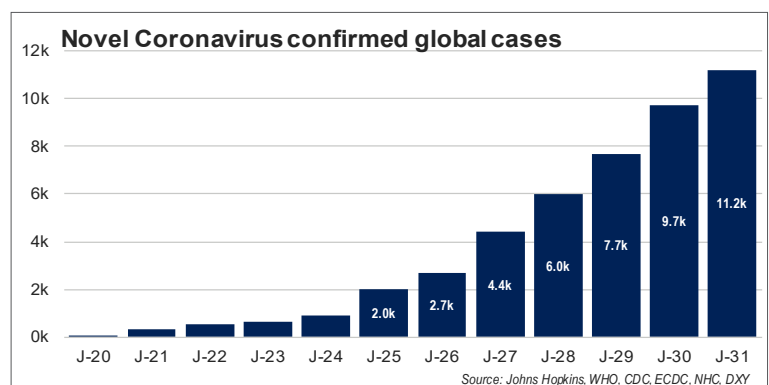
Boeing announced cancellations exceeded orders in 2019, but its share price barely budged. Shares fell a few days later when the company announced regulatory approval was unlikely before 1H 2020, prompting airlines to reconsider leasing the aircraft. It later reported an \$18.6b loss associated with its Max 737 problems, double its initial \$9.2b estimate, and its first loss since 2003.



Manufacturing accounted for the largest chunk of phase one, with aircraft, autos, pharmaceuticals, medical instruments, and industrial equipment expected to benefit. Liquefied natural gas, oil, and coal also should benefit from the \$52.4b energy commitment. China avoided an explicit agricultural commitment; agricultural purchases will be based on market and commercial considerations within a given year.

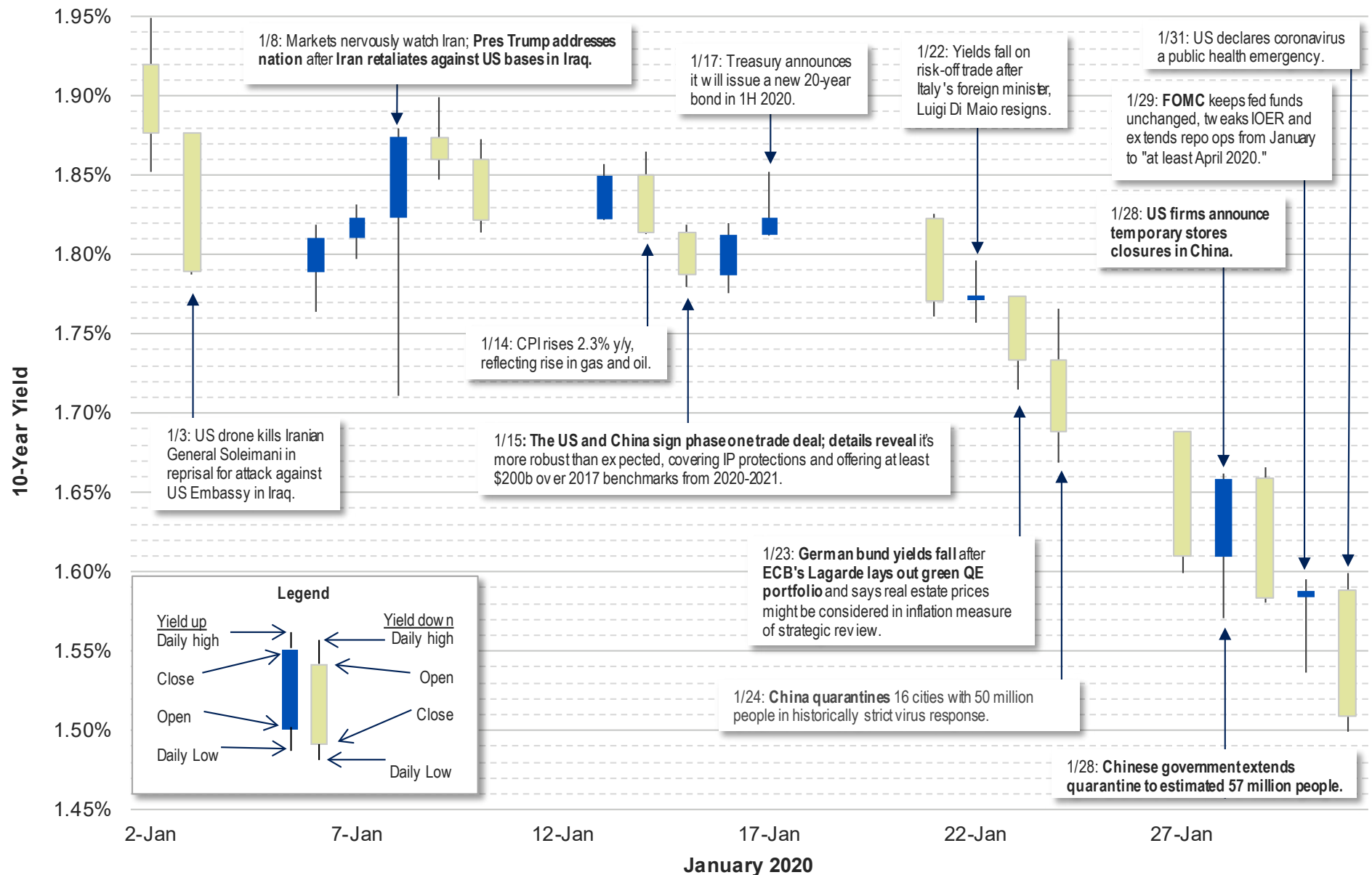


Despite President Trump's tax cuts, federal and state revenues rose nearly \$400b since 2016 to nearly \$6.0t in 2018. Federal taxes rose from \$3.24t in 2016 to \$3.3t, and state revenues rose from \$2.43t in 2016 to \$2.62t in 2018. The tax-to-GDP ratio fell due to a larger-than-expected increase in real annual GDP, which rose 5.4% during the period.

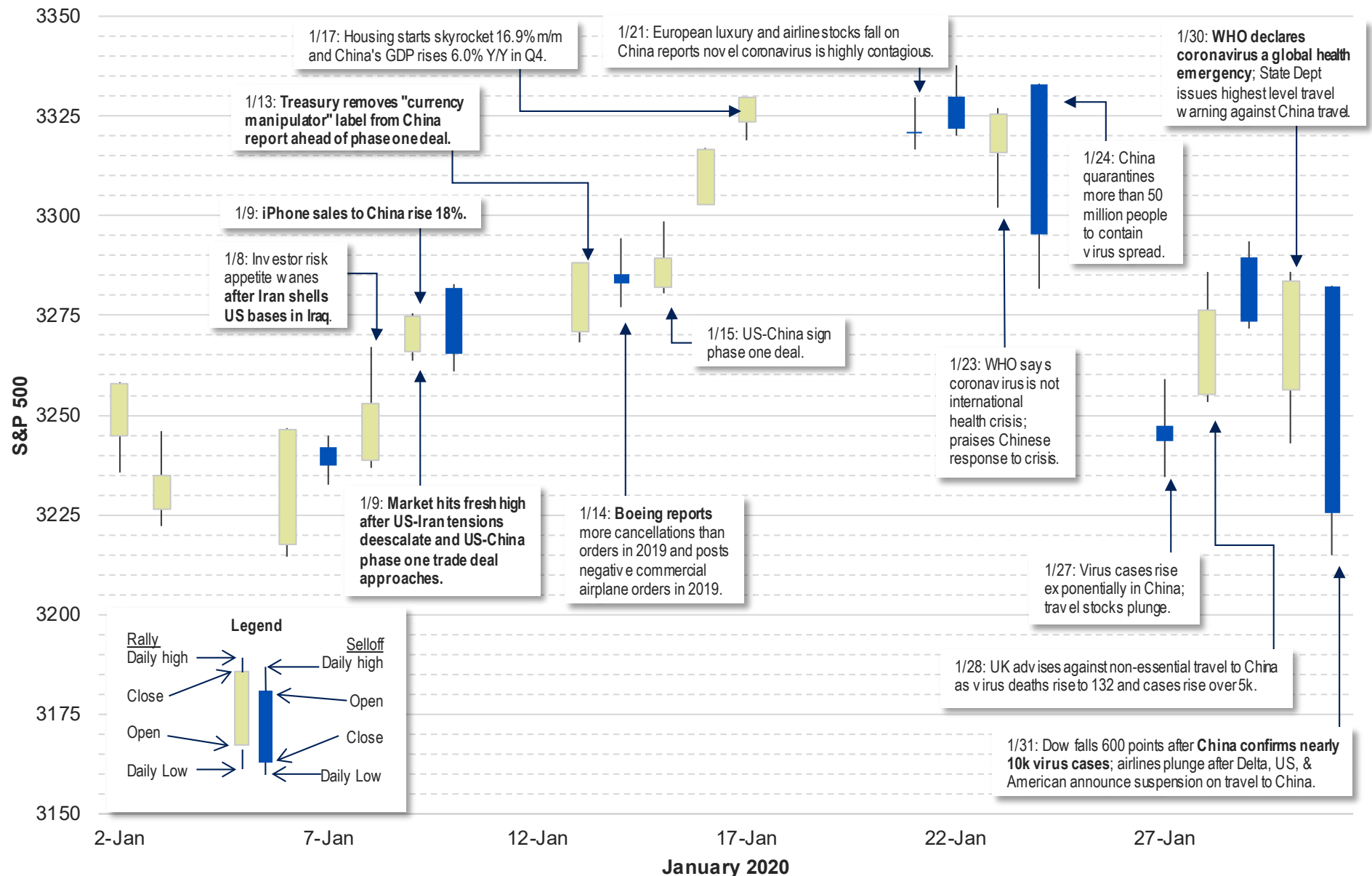


Chinese residents self-quarantined after the coronavirus caused hundreds of deaths in a few weeks. On January 24, China quarantined Hubei province, then extended restrictions to 16 cities, impacting 57 million people, the largest quarantine in modern history. Factory shutdowns caused supply shortages across global supply chains. Lost Chinese Q1 consumption caused commodities to reprice and reversed the year-end run-up in equities.

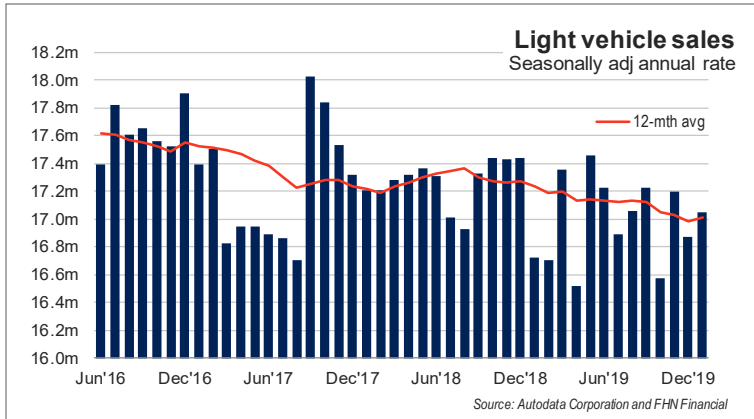
Market-Moving Events: 10-Year Treasury



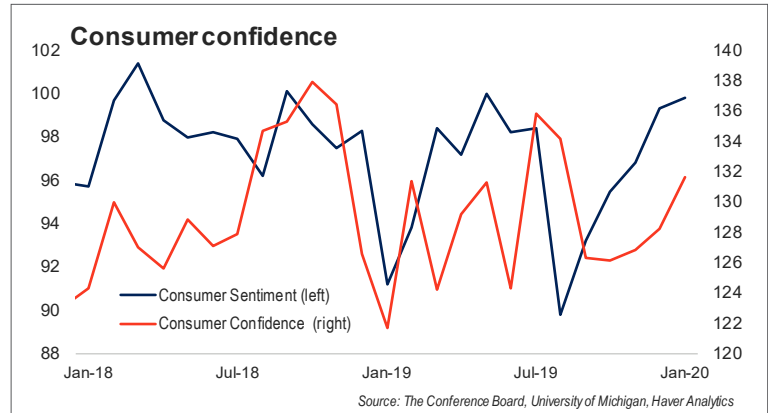
Market-Moving Events: S&P 500



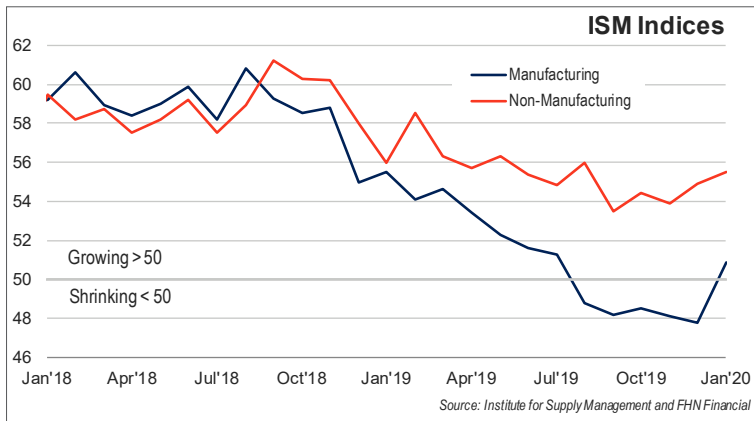
Data Watch: Key Economic Indicators



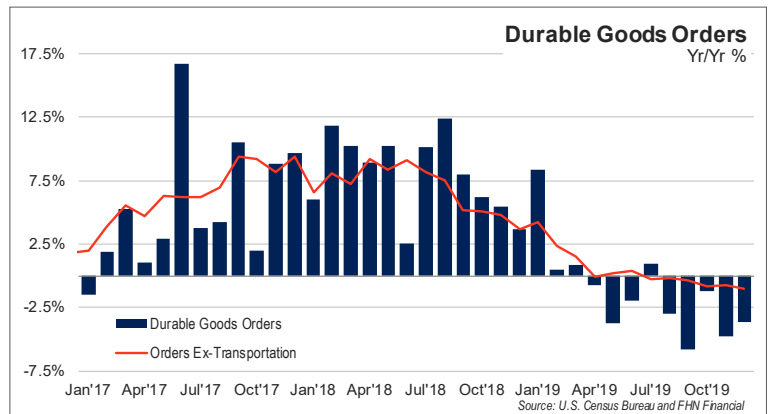
January's auto sales rose to an estimated 17.05m on an annualized basis. SUVs and light trucks account for all of the increase, rising 420k since December, while auto sales dropped 250k over the month. Automakers and dealers are using record incentives to move 2019 inventories off lots.



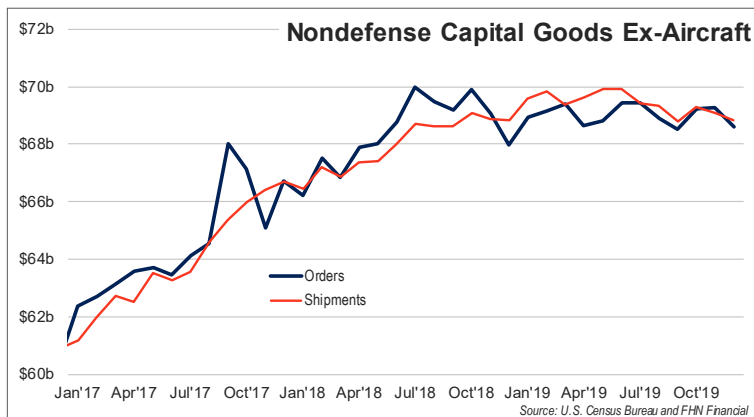
Consumer confidence rebounded strongly in January, from 128.2 to 131.6, driven by a strong labor market. Sentiment also rose from 99.3 to 99.8 in January, close to its cyclical peak. Consumer resilience was attributed to record lows in unemployment, record gains in stocks, and record low interest rates.



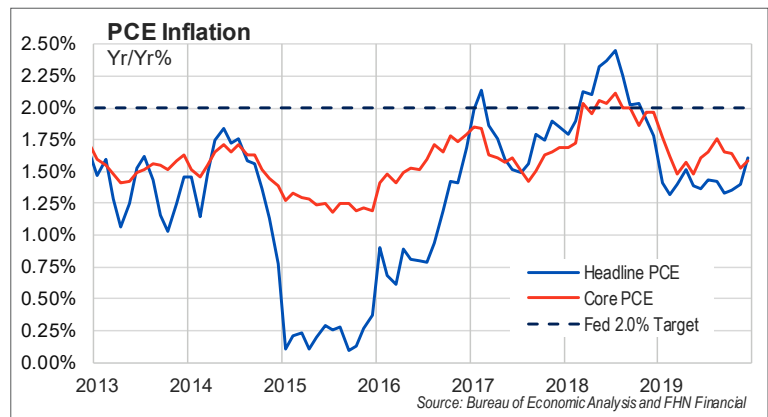
January's ISM manufacturing rose 3.1 points out of contractionary territory, from 48.4 to 50.9 reflecting a rebound in new orders and production. Those components also strengthened in non-manufacturing, which rose from 54.9 to 55.5. The strength of the pre-virus surveys reflect the phase one deal.



Durable goods orders rose 2.4% m/m in December, well-above the 0.3% consensus driven by a spike in defense goods orders. November's numbers were revised lower, from -2.1% to -3.1% m/m, taking the year-over-year pace down 3.7% and marking five straight months of negative year/year growth.



December's capital goods orders excluding aircraft fell 0.9% m/m, recording its steepest decline in eight months. Shipments also dropped 0.4% m/m reflecting slowing global demand. Inventories rose 0.5% m/m in December and 0.4% in November, but failed to offset falling inventories in Q4's GDP report.



Chair Powell said he expected December inflation to be similar to November, which is exactly what he got. December's PCE rose from November 1.4% to 1.6% y/y, while the core PCE was relatively flat at 1.58% y/y, up from 1.53%. Durable goods are on a long-term down trend, while more volatile nondurables rose in December.

Although this information has been obtained from sources which we believe to be reliable, we do not guarantee its accuracy, and it may be incomplete or condensed. This is for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security. All herein listed securities are subject to availability and change in price. Past performance is not indicative of future results, and changes in any assumptions may have a material effect on projected results. Ratings on all securities are subject to change.

FHN Financial Capital Markets, FHN Financial Portfolio Advisors, and FHN Financial Municipal Advisors are divisions of First Horizon Bank. FHN Financial Securities Corp., FHN Financial Main Street Advisors, LLC, and FHN Financial Capital Assets Corp. are wholly owned subsidiaries of First Horizon Bank. FHN Financial Securities Corp. is a member of FINRA and SIPC — <http://www.sipc.org/SIPC>.

FHN Financial Municipal Advisors is a registered municipal advisor. FHN Financial Portfolio Advisors is a portfolio manager operating under the trust powers of First Horizon Bank. FHN Financial Main Street Advisors, LLC is a registered investment advisor. None of the other FHN entities, including FHN Financial Capital Markets, FHN Financial Securities Corp., or FHN Financial Capital Assets Corp. are acting as your advisor, and none owe a fiduciary duty under the securities laws to you, any municipal entity, or any obligated person with respect to, among other things, the information and material contained in this communication. Instead, these FHN entities are acting for their own interests. You should discuss any information or material contained in this communication with any and all internal or external advisors and experts that you deem appropriate before acting on this information or material.

FHN Financial, through First Horizon Bank or its affiliates, offers investment products and services. Investment products are not FDIC insured, have no bank guarantee, and may lose value.