Jan 19, 2021

Daily Market Notes

Market Update :

DJIA:	**30923.3**
S&P 500:	**3788.88**
Nasdaq:	**13111.96**
10YR T-Note:	**1.099%**
EUR/USD:	**1.212**
VIX:	**22.87**
Gold:	**$ 1,840**
Crude Oil:	**$ 52.94**

Prices Current as of

11:59 AM

Source: CNBC

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After weeks of ignoring the weak economic reports and the overbought nature of the major indices, the bad news finally caught up with the market on Friday as things opened lower and could not really get it together on the upside and as a result the Dow and Nasdaq saw their first losing week in five weeks, the first three-day losing streak for the Dow since October 28th and the worst overall week for the indices since October 30th. These statistics illustrate how long things have been moving along to the upside despite a plethora of weaker than expected economic reports.

For instance on Friday, it was reported that December retail sales declined by 0.7% and excluding autos were lower by 1.4% for their third straight monthly loss while the University of Michigan mid-month Consumer Sentiment Survey fell by more than expected at 79.1. And let's not forget that now a hard to believe 2 million people worldwide have succumbed to the pandemic, and the number in the U.S. has reached the unheard of level of 400,000 with more than 4,000 a day average at the end of last week.

The Dow, which was down by a large 378 at 10:30am, managed to claw its way back from those worst levels and finally ended with a closing decline of 177 to 30,814. It was finally led on the downside by the financials after their blistering upside run this month with GS and JPM weakening after the latter released its fourth-quarter report which was excellent but it was a case of the old "buy the rumor/sell the news" scenario as those who bought upside calls hoping to profit from further advances were left hanging out to dry in the typical pattern as far as this dynamic is concerned.

In addition, BA and CAT were weaker on selling in industrials and talking about another group that has been on fire lately, CVX ended down after the energy group had also been rallying like crazy this year. On the other hand, gains in HD and AMGN helped limit the Dow's declines relative to the S&P.

The latter did the worst with an early 46 point shellacking turning into a final loss of 27 down to 3768 as it also was able to improve from its awful morning collapse. The Nasdaq had nothing going for it as all of the big former leaders were weak with the exception of ZM, which has been making a nice recovery from its recent collapse, in addition to beaten-up FB finally showing some stabilization after its decline of 18% from the highs.

Even the mighty Russell 2000 Index of small stocks, which has done better than the big averages this year, could not get it together and ended with a 32 point loss down to 2123. Breadth numbers were negative at a 1 to 3 downside ratio and the VIX moved up to 24.34.

Treasury yields also dipped as the weak retail sales number on holiday spending showed the effect of discouraging data on the economy. As a result, the 10-year slipped to 1.11%.

Friday offered the first chance for traders to act after the President- elect unveiled his plan to prop up the economy. He called for $1,400 cash payments for most Americans, the extension of temporary benefits for laid-off workers and a push to get COVID-19 vaccines to more Americans. It certainly fit with investors' expectation for a big and bold plan, but markets had already rallied powerfully in anticipation of it.

Biden's Democratic allies will have control of the House and Senate, but only by the slimmest of margins in the Senate. That could hinder the chances of the plan's passage while the urgency for providing such aid is ramping by the day. Even with Friday's drops, optimism about a brighter economic future because of vaccines is keeping stocks near records and Treasury yields close to their highest levels since last spring. The Russell 2000 remains 7.5% higher for 2021 so far, well ahead of the S&P 0.3% gain.

A big question for investors is what big stimulus for the economy from Washington would mean for interest rates. Treasury yields have been climbing on expectations that the government will borrow a lot more to pay for its stimulus, as well as rising forecasts for economic growth and inflation. For instance, the yield on the 10-year Note Treasury pushed above 1% two weeks ago for the first time since last spring and briefly topped 1.18% last week.

That is raising worries about how much further interest rates can go before upsetting the stock market. Fed Chair Powell addressed those concerns on Thursday with comments that investors took as leaning toward lower rates for longer.

For 2021, the consensus is for $170 in S&P earnings which means that the S&P is trading at a 22.4 multiple, higher than the historical average but not too much considering the record low interest rates currently in existence. The fourth quarter of 2020 is projected to show an earnings decline of 12% with a 6% drop in revenues and the results will be coming in this month, so this is still a weak profit picture, although companies can rise if they can beat the lowered expectations such as what happened during the third-quarter.

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The earnings decline for the third-quarter was solely due to poor results from the energy sector, restaurant and leisure stocks and airlines, no surprises here and if one removes these results, the overall earnings would have been higher by 4.3% which goes to show how well the other sectors have done.

Earnings reports for the fourth-quarter of 2020 will increase this week with the following lineup: - will begin this month, with the bulk of them coming in the next three weeks. This week will see: today – Dow component GS lower in addition to BAC, LOGI and STT with SCHW, HAL, CMA higher; tonight - high-flying NFLX; Wednesday – BNK, DFS, MS, USB plus Dow components PG and UNH, in addition to FAST and UAL; Thursday – Dow components IBM, INTC and TRV plus BHI and UNP; Friday – KSS and SLB.

Economic reports will see: Wednesday – December housing starts; Thursday – weekly jobless claims; Friday – December existing home sales.

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Disclosures

Don Selkin is the Chief Market Strategist at Newbridge Securities Corporation, member FINRA/SIPC and provides the Fair Value analysis for CNBC each morning. The commentary provided in this Market Letter is intended to provide our current or potential customers with timely market analysis and should not be considered a research report. This Market Letter may contain, and is limited to: Discussions of broad based indices; Commentaries on economic, political or market conditions; Technical analysis concerning the demand and supply for a sector, index or industry based in trading volume and price; Statistical summaries of multiple companies' financial data, including listings of current ratings; and, recommendations regarding increasing or decreasing holdings in particular industries or securities. This Market Letter does not make a financial or investment recommendation or otherwise promotes a product or service of the firm. This Market Letter contains only news, facts, and commentary on information previously reported from a news source believed to be accurate and reliable by the author. These news sources include the following: {Bloomberg Financial, Reuters, and Associated Press}. It is possible that at any given point in time, the author, Newbridge Securities, or one or more of its employees or registered individuals associated with Newbridge Securities, may hold a position, either long, or short, as well as options, bonds, or other instruments in the companies noted in this report.