

Daily Market Notes

Market Update :

DJIA: 26207.35

S&P 500: 3227.4

Nasdaq: 10491.67

10YR T-Note: .546%

EUR/USD: 1.178

VIX: 26.46

Gold: \$ 1,938

Crude Oil: \$ 39.76

Prices Current as of

11:14 AM

Source: CNBC

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Special Comment – The next edition of the Daily Market Notes will appear on Monday, August 3rd.

Yesterday's strong day followed the pattern set this week and late last week as for the fourth day in a row, the market did the opposite of what it had done the day before, as after Friday's and Tuesday's lower sessions, the market did yesterday what it had done on Monday, namely to go higher.

The major indices started out nominally better as has been the pattern on recent up-days and then sort of accelerated as the session moved along. Upside momentum picked up after the Federal Reserve said in the afternoon that it will keep interest rates at their record low as the economy struggles through the recession created by the coronavirus pandemic.

As a result, the Dow ended with a gain of 160 to 26,539 while the S&P did better with a 40 point advance for its best showing in two weeks up to 3258. This gain put it within 3.8% of its record all-time high on February 19th. The Nasdaq jumped by 140 to 10,543 while the Russell 2000 Index of small stocks did nicely with a 30 point advance to 1500.

Breadth numbers were strong at a 4 to 1 upside ratio and the VIX slid lower down to 24.10.

The Dow was restrained on a relative basis to the other indices because of weakness in BA after its report. On the other hand, it was helped by advances in CAT, JPM, UNH, AAPL and MSFT. The Nasdaq naturally got help from the big guns ahead of their reports tonight, as in addition to the prior two, FB and GOOG also did well and these earnings releases should be exciting in either direction.

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Besides keeping short-term rates pinned at nearly zero, the Fed also said it will continue to buy about \$120 billion in Treasury and mortgage and corporate bonds each month to support the economy. In its statement it remarked that even though economic activity has picked up, it remains well below January levels. Weak demand and low oil prices should continue to hold down inflation. They added that even though financial conditions have improved, health concerns due to the pandemic will continue to weigh heavily on economic activity, and this poses a medium-term economic risk. In conclusion, they basically said that the path of the economy depends on what happens with the virus.

This aid from the Fed, along with stimulus from Congress, helped launch the stock market's turnaround in March. Congress is currently deadlocked in negotiations for more support for the economy, with \$600 in weekly unemployment benefits about to expire tomorrow. Democrats and Republicans seem to remain far apart in their proposals, but investors are still hopeful about a deal's chances.

The big wild card for markets will continue to be the pandemic and whether a vaccine can be developed for it within the next year. This is what the bullish crowd is betting on, namely a vaccine hopefully before the end of the year and this is the argument being used to justify stock prices at this level. Of course, support from the Fed is also acting as a backstop for equities as well.

A standout yesterday was AMD, which rose by 12.5% after it reported a stronger jump in profit for its latest quarter than expected. The chip maker also raised its forecast for revenue through 2020.

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This is notable because many companies have been pulling their forecasts or declining to offer any given all the uncertainty in the economy created by the pandemic. SBUX gained 3.7% after it reported a loss for the spring that wasn't as bad as analysts were expecting. LB, the parent company of Victoria's Secret, soared 35.4% for the biggest gain in the S&P after announcing plans to slash its annual costs by \$400 million, including through laying off workers. The stock had been struggling for years before turning higher in the spring, and analysts say the cost cuts should help bolster the company's profitability. And the upside prize goes to EKOC, whose stock more than tripled for the second straight day after the company won a \$765 million government loan to launch a new business unit making pharmaceutical components. It surged 318% to \$33.20, up from \$2.62 on Monday, and got as high as would you believe - \$60 a share intraday!

Big technology CEO's testified at a House of Representatives subcommittee hearing on whether their companies have grown too big and thus have harmed competition. These four – AMZN, AAPL, FB and GOOG have been some of the market's strongest stocks through the pandemic, much as they have been for the last several years on investors' expectations that they can continue to grow almost regardless of what the economy does. Their stocks have become so valuable that they can sway the S&P and other indexes almost by themselves. Those four, plus MSFT, account for nearly 22% of the S&P's total value.

The yield on the 10-year Note dipped to .57% from .58% late Tuesday and the 2 and 5-year Notes traded at record low yields which caused the dollar to weaken again and guess what - gold extended its record run and ended at \$1,953.40 an ounce after getting as high as \$1,960 in the morning. Crude oil followed stocks higher and ended at \$41.27 a barrel.

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The S&P trades at unknown profit figures for 2020, as the earnings number will be lower this year due to the virus, probably around \$126. If that is the case, then the current P.E. multiple is a historically high 25.3. On the other hand, it is difficult to put a correct price/earnings multiple for 2020 at the present time because of the large variability in earnings predictions. First-quarter earnings came in at a decline of 13.5%. This was the biggest annual drop for the index since the third quarter of 2009 when earnings slumped by nearly 16%. The forecast for second-quarter earnings now stands at a decline of 41% which would be the worst since the fourth-quarter of 2008 when the number was negative 69.1%. Revenues are supposed to be lower by 11%. For 2021, the consensus is for \$173 in earnings which means that the S&P is trading at an 18.4 multiple, higher than the historical average but not too much considering the record low interest rates currently in existence. The third and fourth quarters are now projected to show earnings declines of 24% and 13% respectively, so this is a really bleak profit picture.

The earnings lineup is as follows: yesterday - Dow component BA lower in addition to ADP, EBAY, GE, JBLU while AMD, GM, BSX, FEYE, JNPR, SHOP were higher; today – Dow component PG plus QCOM, PYPL, HOME, QRVO, CI, UPS, CMCSA, TAP, K, NOC, MA higher and SPOT, CAKE, LLY, NEM, COP, GRUB and NOW lower; tonight - the big one as the four giants reporting make up as astounding 16% of the S&P just by themselves: Dow component AAPL and FB, GOOG, AMZN in addition to EA, EXPE, F, GILD and MHK, Friday – Dow components CAT, CVX, MRK and XOM plus ABBV, COL, PEG and UAA.

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Economic reports will see the following, with some really important ones – yesterday – June pending home sales rose by 16.6%, better than expected; today - first estimate of 2Q G.D.P. which came in at -32.9% with large drops in consumption and investment. This was the largest decline since the 1958 recession and will now officially end the longest economic expansion in history, which began in June 2009; weekly jobless claims increased for the second straight week at 1.434 million; Friday – July Chicago Purchasing Managers' Index, June personal income and spending and final July U. of Michigan Consumer Sentiment Survey.

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Disclosures

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