NEWBRIDGE SECURITIES CORPORATION

Daily Market Notes

Market Update :

DJIA:	**26573**
S&P	**3293**
Nasdaq:	**11201**
10YR T-Note:	**0.81%**
EUR/USD:	**1.167**
VIX:	**37.74**
Gold:	**$ 1873**
Crude Oil:	**$ 36.13**

Prices Current as of 11: 07AM

Source: CNBC

Donald M. Selkin
Chief Market Strategist
(561) 229-1128
dselkin@newbridgesecurities.com

The chickens really came home to roost yesterday as the major indices got crushed right at the opening and never really were able to get anything going on the upside. Then with the market lower by 707 in the Dow, 85 in the S&P and 300 in the Nasdaq at 3:35pm on a little comeback from what were then their worst levels, the sellers put the final dagger into investors as a very vicious selloff in those last 25 minutes resulted in the Dow ending with a huge loss of 943 down to 26,520 for its worst showing since June 11th. This was its fourth decline in a row for its longest such streak since February. And 29 of its 30 components were negative except for TRV for whatever reason. The worst showings were from BA, CAT, HD, MSFT after its “good” earnings report, CRM and UNH.

The S&P went from 85 points down to a closing shellacking of 119 to 3271, also its worst loss since June 11th as well. It is lower by 5.6% this week for its worst such showing since March. and the Nasdaq went from 300 down to a closing loss of 426 to 11,005 for its worst showing since September 8th. Virtually every Nasdaq stock did poorly with the exception of PTON which has been in an uptrend for most of the year and SNAP after its strong earnings report last week. The Russell 2000 Index of small stocks also got clobbered to the tune of 47 points down to 1543.

Breadth numbers were horrendous at a negative 1 to 10 ratio and the VIX loved it with a large gain up to 40.28 which was its highest level since June 15th.

The ostensible reason for the selloff was that surging coronavirus cases forced more shutdown measures in Europe and raised fears of more restrictions in the U.S. Investors are growing increasingly anxious that the economy will lose momentum should more shutdowns be imposed just as prospects for more economic support from Washington have dwindled as election day nears.

NEWBRIDGE SECURITIES CORPORATION

Daily Market Notes

The selling in U.S. markets followed broad declines in Europe, where the French president announced stringent measures to slow the virus' spread and German officials agreed to impose a four-week partial lockdown. The measures may not be as severe as the shutdown orders that swept the world early this year, but the worry is they could still hit the already weakened global economy.

Coronavirus counts are also increasing at a worrisome rate in much of the United States, and the number of deaths and hospitalizations due to COVID-19 are on the rise. Even if the most restrictive lockdowns don't return, investors worry that the worsening pandemic could scare away customers of businesses regardless and sap away their profits.

Crude oil tumbled on worries that an economy already weakened by the virus would consume even less energy and allow excess supplies to build higher as its price dropped to $37.39 a barrel.

Bond yields declined on the old "flight to safety" syndrome as the 10-year Note yield fell to .77% from .79% late Tuesday. It was as high as 0.87% last week.

Even the continued parade of better-than-expected reports on corporate profits for the summer failed to shift the momentum. As an example, MSFT, the second-biggest company in the S&P, reported stronger profit and revenue for its latest quarter than expected which one would like to believe would make it rise, but nevertheless it slumped by 5%. It gave a forecast for the current quarter that was relatively in line with forecasts, but analysts noted some caveats in it. This one was a classic example of the "buy the rumor, sell the news" syndrome.

UPS fell by 9% after also reporting better-than-expected earnings, although it said the outlook for its business is too cloudy due to the pandemic to offer any forecasts for its revenue or profits in the current quarter.

Companies broadly have not been getting as big a jump in their stock prices as they typically do after reporting healthier-than-expected profits. This suggests that the good news on profits has already been built into stock prices and that the market's focus is elsewhere, such as the large spikes in coronavirus cases around the world.

Investors' hopes that Congress and the White House could soon offer more big support for the economy as it struggles through the pandemic have largely faded. House Speaker Pelosi and Treasury Secretary Mnuchin have continued their talks, but investors see no chance of a deal happening before election day next week. The best hope is for something early next year.

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 $136. If that is the case, then the current P.E. multiple is a historically high 27. 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%. Second-quarter earnings were at a decline of 32% which was the worst since the fourth-quarter of 2008 when the number was negative 69%. Despite this awful number, earnings came in better than expectations with over 85% of S&P companies having beaten forecasts and by an average of 20% versus the traditional 71% that usually beat, which is one of the reasons for the higher move in stocks most of the quarter. Revenues were lower by 10%. For 2021, the consensus is for $166 in earnings which means that the

S&P is trading at a 21 multiple, higher than the historical average but not too much considering the record low interest rates currently in existence. The third and fourth quarters of this year are now projected to show earnings declines of 17% and 14% respectively, so this is still a weak profit picture, although companies can still rise if they can beat the lowered expectations.

This week will be the largest one in third-quarter earnings with around 150 S&P companies reporting and the lineup is as follows: yesterday - Dow components MSFT and BA lower along with AKAM, SIX, MA while MSTR, JNPR, FISV, FSLR and CB are higher; today – SAVE, F, ETSY, AMGN, PINS, WDC, GILD, MRNA, YUM, CMCSA, NEM, TPR, CARR, TAP, KHC, K, OSTK higher and Dow component V and ORLY, EBAY, TDOC, SHOP, NOK, COP lower; tonight - Dow component AAPL plus AMZN, FB, GOOG, SBUX, TWTR, CAKE, CAR, X, MGM, MHK, ATVI, SHAK, WWW, MOC; Friday – ABBV, MO, COL, WWY and Dow components CHV, HON and XOM.

The main concern here is whether or not leading stocks such as AMZN, AAPL, FB, GOOG (higher last week) and MSFT, most of which were down last week, can now gain back these losses with a lower bar set for them ahead of their reports. Unfortunately, the first one of the group to report, namely MSFT, was sharply lower yesterday.

Economic releases will see: today – weekly jobless claims dipped to 751,000 and the first estimate for 3Q G.D.P came in at 33.1%, which was a record increase after a record decline of 31.4% in the second-quarter, September pending home sales fell by 2.2% for the first decline in five months; Friday – September personal income and spending, final October U. of Michigan Consumer Sentiment Survey.

Donald M. Selkin

Chief Market Strategist

Daily Market Notes

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.