September 17, 2020

NEWBRIDGE SECURITIES CORPORATION

Daily Market Notes

Market Update :

DJIA:	**27999**
S&P	**3363**
Nasdaq:	**10923**
10YR T-Note:	**0.68%**
EUR/USD:	**1.182**
VIX:	**27.72**
Gold:	**$ 1954**
Crude Oil:	**$ 41.06**

Prices Current as of 11:35 AM

Source: CNBC

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In a very volatile day of trading on Wednesday, the old discrepancy theory between the Dow and the Nasdaq once again worked in favor of the latter. After a day when the Dow was the leader due to early strength in BA, which went from an early loss to a nice gain, in addition to CAT which has done well lately and GS, MCD and 3M, the index was higher by around 200 points when the Fed made its latest interest rate announcement at 2pm.

From there, for whatever reason and perhaps something that Chairman Powell said in the official statement, the Dow skyrocketed to a gain of as much as 369 by 2:40pm. Ditto for the S&P which went from a 9 point gain at Fed time to an advance of 28 by that time as well. The warning sign was that the Nasdaq was lower by 30 at 2pm and could only manage a 55 point advance when the highs in the previously mentioned two other indices were reached.

But from there, the negative influence of the Nasdaq made itself felt as everything turned southward in the final 80 minutes as the Dow turned that 369 point gain into a closing advance of only 37 to 28,032. The S&P gave back its gains and ended right on the lows with a closing decline of 15 to 3385. The Nasdaq really took it on the chin as it turned that weakish 55 point gain into a final decline of 140 down to 11,050. Meanwhile, the Russell 2000 Index of small stocks held up the best and ended with a final advance of 14 to 1552. So in a sense, it was as mixed a day as there could possibly be as breadth numbers were actually positive at a 1.3 to 1 upside ratio and the VIX moved up a bit to 26.04.

It was a classic “Revenge of the Nerds” session as the beaten-down energy and materials stocks did the best and when was the last time that XOM, of all things, was the best performer in the Dow? On the other hand, those high-flying technology leaders got sold off again, similar to what happened to them for the past two weeks before they had rallied on the first two days of this week.

What accounted for this wile action is difficult to explain, except that these technology high-fliers which have done so well this year are now vulnerable to selloffs and profit-taking after their tremendous advances.

And lost in all of the topsy-turvy action was what did the Fed say and stocks initially got a brief boost from the central bank's decision to leave interest rates unchanged at nearly zero into 2023 and they also issued a less dire outlook for economic growth and unemployment this year.

The Fed said it has adjusted its inflation target to seek price increases above 2% annually, a move that will likely keep interest rates low for years to come. Fed officials also indicated in a set of economic projections that they expect the rate to stay there at least through 2023. That interest rate influences borrowing costs for homebuyers, credit card users and businesses.\

Fed Chair Powell said that the economy has recovered more quickly than they had expected as they updated the forecast for G.D.P. to a decline of 3.7% this year compared to a June forecast of a 6.5% drop. On employment, the Fed projected an unemployment rate at the end of the year of 7.6% instead of the 9.3% it had predicted in June.

Powell acknowledged the economic outlook remains highly uncertain, and heavily dependent on the U.S. getting control of the pandemic. "A full economic recovery is unlikely until people are confident that it is safe to re-engage in a wide variety of activities," he said. Their statement will be more fully discussed in next Tuesday's Weekly Market Comments.

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One of the primary reasons the market has roared back to record heights despite the still-raging pandemic is the immense aid from the Federal Reserve. The central bank has cut short-term rates to nearly zero and is buying all kinds of bonds to support markets. Last month, Powell outlined a new strategy of providing support even if inflation rises above its target level.

FDX rose by 5.5% after reporting stronger profit growth for the latest quarter than analysts had expected. The boom in online shopping caused by the coronavirus pandemic has helped its revenue climb. The company said that the growth it expected to see over the next three to five years has happened in just three to five months.

On the other hand, high-flying ADBE, which was higher in the pre-market on its ostensibly good report, fooled its followers and opened lower instead and just kept selling off as the Nasdaq weakened as mentioned above.

Yesterday's losses followed that strong start this week following a tumultuous two-week stretch where high-flying technology stocks abruptly lost their momentum. Big tech stocks soared through much of the pandemic as investors increasingly bet their strong growth will continue as more of everyday life shifts online.

The gains were so powerful and consistent for these superstar stocks that critics warned they had become too expensive, and they tumbled sharply after carrying the S&P to a record on September 2nd. Their strong growth should continue to look attractive to investors in a slow-growth economy with ultra-low interest rates.

The economy has made some improvements since the worst of the lockdowns in the spring, but the budding recovery has been in fits and starts.

Investors say the economy and markets still crucially need all the support they can get from the Federal Reserve, as well as Congress.

Federal unemployment benefits and other Congressional aid for the economy approved earlier this year have expired, but partisan disagreements on Capitol Hill have prevented a renewal.

The August retail sales report came in lower than expected with an advance of only 0.6% partly due to the fact that unemployed workers are no longer getting the $600 boost to their weekly checks that used to come from the federal government.

Treasury yields dipped following the retail sales report but inched higher after the Fed statement. The yield on the 10-year Note was at .69% from .68% late Tuesday.

Earlier, a separate report from the Organization for Economic Cooperation and Development had said the global economy is not doing as badly as previously expected, especially in the United States and China. It projected the world's economy will shrink by 4.5% this year, less than the 6% plunge it had predicted in June.

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 are at a decline of 33% which would be the worst since the fourth-quarter of 2008 when the number was negative 69.1%. Despite this awful number, earnings came in better than expectations with over 80% of S&P companies having beaten forecasts versus the traditional 71%, which is one of the reasons for the higher move in stocks. Revenues were lower by 10%. For 2021, the consensus is for $170 in earnings which means that the S&P is trading at a 19 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 24% and 13% respectively, so this is a really bleak profit picture.

This coming week sees the start of third-quarter earnings for those companies whose fiscal quarter ended in August and the lineup is as follows: yesterday - ADBE lower and FDX higher; today - MLHR higher ; Thursday – CMD.

Economic reports will see: yesterday – NAHB September Housing Market Index rose to a record high of 83, August retail sales were up by less than expected at 0.6%. The s0-called “control group” which excludes automobiles, gasoline, building materials and food services and which correspond most closely with the consumer spending component of G.D.P., actually fell by 0.1% after a downwardly revised 0.9% increase in July; today - August housing starts declined by 5.1% and building permits which are an indicator of future activity, slipped by 0.9%, weekly jobless claims were 860,000, September Philadelphia Fed Manufacturing Survey remained the same at 15; Friday – August L.E.I., September preliminary U. of Michigan Consumer Sentiment Survey.

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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.