February 20, 2020

NEWBRIDGE SECURITIES CORPORATION

Daily Market Notes

Market Update :

DJIA:	**29145**
S&P 500:	**3362**
Nasdaq:	**9707**
10YR T-Note:	**1.52%**
EUR/USD:	**1.079**
VIX:	**16.03**
Gold:	**$ 1620**
Crude Oil:	**$ 54.03**

Prices Current as of 01:48 PM

Source: CNBC

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The upside motivation yesterday was the fact that it was reported that there were the slowest rate of increases in the number of coronavirus cases since January 29th and also the fact that the Chinese government was going to cut interest rates last night, which they did. As a result, the market started out higher and basically remained at the better levels all way, except for a little slip from the highs in the last hour which was made after the release of the 2pm Fed minutes from the January meeting.

In a sense, despite all of the hand-wringing about the coronavirus and despite all of the potential disruption to worldwide economic growth, both the S&P and Nasdaq reached all-time high best ever closing levels and the Dow got close. It ended with a nice gain of 116 to 29,348 while the S&P ended higher than ever at plus 16 to 3386 and ditto for the Nasdaq at 84 up to 9817. Even the lagging Russell 2000 Index of small stocks got dragged higher with a 9 point gain to 1692.

And how about those who sold AAPL down to as much as an intraday 9 point loss on Monday, only to see it improve by almost 10 points from that level, and this is indicative of the buy on the dip mentality that has been so prevalent this year. In addition to this one, the Dow was also helped by gains in DIS, UNH and V at another new high. The Nasdaq was helped, in addition to AAPL, once again by high-flying NVDA at a new record, TSLA, GOOG, ADBE at a high, AMZN and LULU also better than ever. This was its 16th record close so far this young year.

Breadth numbers were positive at 2.4 to 1 upside ratio and once again the VIX was ridiculously too high relative to this level of the market with a small decline down to 14.38 which as I have said so many times, still gives the market room to move higher, even from these extended levels.

So once again, the people buying negative calls on the VIX or negative puts on the SPX are really hurting themselves by not allowing the VIX to get down to around 12, which would then indicate an overbought market at those prices.

Bond yields moved a little higher at 1.42% for the 2-year Note and 1.57% for the 10-year. Gold was up despite this and also by strength in the dollar against the Chinese yuan which reached a two-month low against the greenback and the precious metal was now at $1,611 an ounce while crude oil finally pushed nicely off of the $50 support level from last week and ended at $53.30 a barrel.

The Fed said that rates are likely to remain at current “appropriate” levels, the chances of recession have fallen but that the coronavirus does present a new possible risk to the global growth outlook.

Fourth-quarter earnings continue to move ahead this week with the following lineup: yesterday – DISH, LZB, GRMN, ADI higher and GRPN, A, FLR lower; today – CAR, NTES, Z, DPZ, STMP sharply higher for the last two and SAM, SIX, VIAC, HRL lower; Friday – DE, TZOO. With 380 of the S&P Companies having reported, around 71% of them have beat the consensus and now the projection is for a gain of 2.4%, much higher than the initial projection of a decline of less than 1%.

Economic reports will have: yesterday – January P.P.I. rose by 0.5% for both the headline and core rates and this was due to higher medical costs. The year over year increase is now up to 2.1%; today – weekly jobless claims rose by 4K to 210K, the February Philadelphia Fed Manufacturing Index rose to 36.7 which was the highest level in three years and January L.E.I. rose by 0.8%; Friday – January existing home sales.

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Well, well, well – after yesterday's optimism that the number of coronavirus cases were lessening, which resulted in those record highs for the S&P and Nasdaq, the market was cruising along in the morning on either side of unchanged when all of a sudden at 11am things fell apart with the Dow declining by over 380 points in a matter of 20 minutes. The other indices followed to the downside as well, and surprise, surprise, the selling was led by those stocks that had done the best lately, and we all know who they are – AAPL, AMZN, SPCE, TSLA, ADBE and so on.

From there, things have steadied a bit and as this is being written, the Dow has battled its way back to a loss of "only" 220 while the others are also steadying as well, with the S&P and Nasdaq at 24 and 110 down respectively. Ostensibly the "explanation" for the decline was the spread of the virus to other countries and further perceptions that AAPL's revenues are going to take a hit because of its deep exposure to China.

And sure enough, all the safe havens really took off as well, with bond yields now at their lowest levels since last September with the 2-year Note down to 1.39% and the 10-year is at 1.52%. And gold is higher again at $1,620 on the flight to quality as well while crude oil is up to $54 on the increasing probability of production cuts.

For the first quarter of 2018, earnings gains were 27% the best such showing in seven years, the second-quarter was 25%, the third-quarter saw a gain of 28% and the fourth-quarter was 13.1% and this was the fifth straight quarter of profit growth in excess of 10%. The final number for the first and second quarters of 2019 were fractionally lower with the third quarter down by around 2%. The fourth quarter is now projected to show a gain of 2.4% while the first-quarter of 2020 is supposed to show a gain of 5.8%.

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This is now the longest bull market ever as the S&P escaped the ignominy of falling 20% last December by 0.1% on a closing basis. Since its beginning on March 9, 2009 the S&P has now gained 475%. The second-best bull market was from 1949 to 1956 with a 454% advance while the 1990's bull run increased by 391% and the 2002 – 2007 gains were 121%.

The S&P now trades at almost 20 times for 2019's projected profits of $167 and at 19 times what are supposed to be $178 profits in 2020. These multiples have expanded on the recent higher move in equities this month and there is no guarantee that the earnings projections will be reached either for this year or next year.

Economic growth for 2017 was at 2.6% for the entire year and in 2018, G.D.P. was revised down to 2.5% for the year. For 2019, the first quarter of 2019 came in at 3.1%, the second quarter was 2% while was at 2.1% and the first estimate for the fourth-quarter was also 2.1%.

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Disclosures

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