

Daily Market Notes

Market Update :

DJIA: 29184

S&P 500: 3319

Nasdaq: 9358

10YR T-Note: 1.77%

EUR/USD: 1.109

VIX: 12.96

Gold: \$ 1558

Crude Oil: \$ 58.49

Prices Current as of

02:06 PM

Source: CNBC

Ho, hum – Friday ended another historic week with another day, another advance as those strong housing starts and some better economic news from China got the bulls going again as the former number reached its best level in 13 years and this combined with Thursday's better than expected retail sales report resulted in the justification for further buying.

As a result, the Dow ended at another all-time high at a gain of 50 to 29,348 while the S&P did the same with a 13 point advance to 3329. The Nasdaq also reached its best ever level with a 32 point gain to 9389. This was the seventh advance in the past eight weeks for the S&P while the major indices compiled their best weekly showing since August with gains in the vicinity of 2% while the S&P is already up by 3.1% in less than a month to start the new year. One would like to think that these gains are unsustainable but as long as the strange action in the VIX continues, things can still advance.

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And by strange I mean its refusal to go lower by as much as it should be given this level of the indices. And Friday was no exception, as similar to Thursday, there was a late upward push in the last hour to get things to end at their best level of the session while the VIX declined by only a small amount, a .16 drop to 12.16, still not low enough to end this relentless advance. And for the entire week the VIX made a net decline of only .46 points while the S&P rose by an astounding 64 points which is really hard to believe.

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And by now we all know the reason for this and it is that there has been huge buying of bearish puts on the SPX and bearish calls on the VIX and at least on Wednesday those 180,000 January 22 strike price call buyers will be taken out of their misery as their \$9 million supposed “hedge” will finally go out the window and as I have said before, they would have been better off donating this money to a worthwhile charity instead.

The Dow was restrained by declines in BA and UNH while AAPL led the way at another record high and GOOG joined the \$1trillion club along with AAPL and MSFT which are already there.

Breadth numbers were positive at a 1.2 to 1 upside ratio and bond yields went a little higher at 1.57% for the 2-year, the 10-year Note was up to 1.83% and gold was up to \$1,560 an ounce and crude oil did nothing at \$58.54 a barrel.

Earnings reports for the fourth-quarter continue this week with the following lineup: today – HAL higher and UAL, IBKR, LVS, SLM and NFLX tonight; Wednesday – ALK, ABT, CRXS, STLD, RJF, TXN, TER and Dow component JNJ; Thursday – Dow components INTC, PG and TRV plus ABBV, AAL, LUV, JBLU, MTB, GTFC, CL, UNP, KMB, FCX, ISRG and SWKS; Friday – Dow component AXP plus SYF.

Economic reports will have: Wednesday – December existing home sales; Thursday – December L.E.I.

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The extended level of the market had to bring something negative into play and overnight we had a downgrade by Moody's of Hong Kong's debt because of all the protests there which has negatively impacted business and then we had a bit of a replay of the 2003 SARS virus which killed 800 people. Now it is the coronavirus which probably comes from seafood and which has killed 6 people so far in China in the city of Wuhan and 1 person in Seattle in the U.S.

As a result, stocks such as airlines, travel companies, LVS and WYNN and Chinese internet companies like BABA are selling off sharply. As a result, the Dow opened with a decline greater than 100 points but was able to rally back to almost unchanged while the Nasdaq actually went positive as did the S&P by a little and this was just before 1pm. Then when the news about further fatalities hit, the indices resumed their downtrend and as this is being written the Dow is lower by 90 points, the S&P is off by 9 and the Nasdaq down by 27.

Breadth numbers are negative at a 1 to 1.4 downside ratio and the VIX is up a little at 12.86 so the low level close to 12 finally did put in a temporary top to the market for the time being.

Bond yields are lower on the slower economic situation with the 2-year Note at 1.54% while the 10-year is at 1.78%. They are also being negatively impacted by the lowering of worldwide economic growth by the I.M.F. Gold is \$1,558 a little lower and crude oil is also a little lower at \$58.42 a barrel.

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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 small loss of 0.8% while the first-quarter of 2020 is finally supposed to show a gain of 5.8%. This would be the first time that earnings for the S&P would have declined for four straight quarters in a row since the period ending in mid-2016.

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 18.7 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 the 3Q is officially at 2.1%.

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Disclosures

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