March 27, 2020

Daily Market Notes

Market Update :

DJIA:	**21714.01**
S&P 500:	**2540.86**
Nasdaq:	**7537.30**
10YR T-Note:	**.739%**
EUR/USD:	**1.1049**
VIX:	**65.05**
Gold:	**$ 1,648**
Crude Oil:	**$ 21.39**

Prices Current as of 11:41 AM

Source: CNBC

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In one of the strangest sessions in a series of really strange ones lately, the various stock index futures were trading sharply lower in the morning session to the tune of around 500 Dow points lower. Then at 8:30am the release of the historically awful weekly jobless claims reports actually got these stock futures to begin in elevate off of their worst early morning levels and things just kept improving from there right up to the 9:30am start which actually got the Dow to open around 350 points higher!

So how did this miserable report manage to accomplish such a huge upside reversal and that is a good question. Experts gave varying answers such as some people were looking for a number worse than the record of nearly 3.3 million Americans who applied for unemployment benefits last week, easily shattering the prior record set in 1982, as layoffs and business shutdowns sweep across the country. Nonetheless, the market shot higher ay because Wall Street "knew" the bad news on unemployment was coming, whatever that is supposed to mean, but more importantly the Senate finally passed a $2.2 trillion economic aid package as part of an astonishing amount of support being pushed into the economy by Congress and the Federal Reserve. One could argue that markets have had several days to digest what everyone knew was coming; therefore, the response to these numbers obviously differed than what people might expect.

From that strong opening, the major indices kept pushing and pushing to the upside as the session wore on and in a finale that was the complete opposite of the day before, when things collapsed from their best levels in the last 25 minutes, yesterday the Dow leapt by 490 points in the final 10 minutes of trading to end with a closing advance of 1351 to 22,552.

It was led in this endeavor by further gains in BA, which has now rallied 100% from last week's low, and is this normal in both directions? Adding to the upside were strong advances in AAPL, HD and UNH. The S&P followed the same pattern as the Dow and leapt up by an incredible 50 points in those final 10 minutes to close with a 154 point advance to 2630. The Nasdaq gained 413 to 7797 while the Russell 2000 Index of small stocks leapt up by 70 to 1180.

So after the worst week since 1987, the Dow has now undergone its best gain since the 1930's and has now advanced by 22% from its lows, so in a sense its bear market is now over for the time being. The S&P rose by 6.2%, bringing its three-day rally to 17.6%. But despite the big gains, the S&P remains 22% below its February high and analysts expect more dire economic headlines, and market turbulence, in the days ahead.

Companies are also expected to report discouraging results in just a few weeks as earnings season begins. Very few have dared to issue forecasts capturing how big a hit the virus will inflict on their profits.

The market's rally began Tuesday amid expectations that Congress would approve the massive rescue plan, which includes direct payments to U.S. households and aid to hard-hit industries. The House of Representatives is expected to approve it today. The prospect of a big financial shot in the arm for businesses and households helped offset some of the concerns about the steep job losses the economy is beginning to see due to the coronavirus.

Investors still need to see stability in banks and, especially, in oil prices to maintain confidence, because markets could be in for another slide if oil goes below $20 a barrel and yesterday it slipped back down to $22.6 again despite the strong rally in stocks. The problem is that storage will be filled to the brim and wells will have to be shut in.

Investors say the market needs three main things to slow its breathtaking drop, which has sliced one quarter off the S&P 500 since it set its record last month. The first is already here after the Federal Reserve has slashed interest rates back to nearly zero and offered to buy an unlimited amount of Treasuries to get lending markets running more smoothly. The second is making progress, as the economic rescue plan moves through Capitol Hill. The third, though, is getting more concerning by the day, namely the accelerating spread of the virus as the United States has more than 69,000 known cases, and the worldwide number of infections has topped a half-million. The death toll has climbed to more than 23,000, while more than 120,000 have recovered.

The yield on the 10-year Note fell to .83% from 0.85% late Wednesday. It had been as low as 0.77% just before the jobless report was released. Lower yields reflect dimmer expectations for economic growth and greater demand for low-risk assets.

Federal Reserve Chair Powell said that progress in controlling the spread of the coronavirus would determine when the economy reopens but assured them the Fed was taking every action to support a vigorous rebound when it comes. In a rare network television interview on NBC's Today Show, Powell said the United States"

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may well be in recession" but that confidence would return once the virus was under control. He spoke just about an hour before the horrible weekly jobless claims, evidence that "social distancing" to fight the pandemic has taken hold, but may also have ended the country's more than decade-long economic expansion.

His choice of venue - a network morning show when many Americans are homebound and paying close attention - was itself part of a message that seemed meant to prepare people for the dismal economic data to come, counsel patience in any rush back to work, and reassure that the Fed would act "aggressively" to keep firms and families afloat. "We are not experts in pandemic... We would tend to listen to the experts. Dr. Fauci said something like the virus is going to set the timetable, and that sounds right to me," Powell said, in reference to Anthony Fauci, head of the National Institute of Allergy and Infectious Diseases who is on the White House's coronavirus task force.

"The first order of business will be to get the spread of the virus under control and then resume economic activity," he added and this is in contrast to the urging by some of the President's advisers for a faster reopening. The president himself has said he wants the economy to be "roaring" by Easter, in a little over two weeks. The Fed officials who have spoken to the issue, now including Powell, have taken a more somber approach, focusing on the need to first control the virus, then restore confidence among workers and consumers that it is safe to go back to business.

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Earnings for the first-quarter are starting to come in and this week sees the following: yesterday – MU and SIG higher; today – LULU lower and KBH higher.

Economic reports will see: yesterday - February durable goods orders unexpectedly rose by 1.2%; today – the big one, namely weekly jobless claims were an astounding 3.3 million, final estimate for 4Q G.D.P. came in at 2.1%; Friday – February personal income and spending rose by 0.1%, final U. of Michigan Consumer Sentiment Survey for March fell to 89.1 from 90 the previous month.

The S&P now trades at almost 14 times for 2019's profits of $167 and at 14 times what are supposed to be $167 profits in 2020, although the profit number should be lower this year due to the virus. These multiples expanded on the higher move in equities until a month ago but have now contracted as the market has had this large comedown in such a short period of time. It is difficult to put a correct price/earnings multiple at the present time because of the large variability in earnings predictions.

Economic growth for 2019 came in at 2.3% for the year. The first quarter of 2020 is now expected to be lower by as much as 24% while the second quarter could be negative by as much as 15% according to the most negative predictions. This means that the "r" word, otherwise known as "recession", is upon us.

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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.