May 22, 2020

NEWBRIDGE SECURITIES CORPORATION

Daily Market Notes

Market Update :

DJIA:	**24327.56**
S&P 500:	**2938.76**
Nasdaq:	**9271.46**
10YR T-Note:	**.661%**
EUR/USD:	**1.089**
VIX:	**29.62**
Gold:	**$ 1,731**
Crude Oil:	**$ 32.83**

Prices Current as of 12:17 PM

Source: CNBC

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Yesterday's primarily lower session was a function of the old dichotomy between the Dow and Nasdaq on full display once again as the former got to a gain of as much as 143 points in an attempted follow-through to Wednesday's upside moonshot. It was led by a strong advance in BA on a brokerage upgrade. But the Nasdaq barely moved into positive territory as some of the big guns such as AMZN and AAPL faltered after early gains, the former at an all-time intraday high over 2500.

So as the day wore on, the ending result was the usual one when there is a discrepancy between these two items, as the Dow succumbed to selling and ended with a closing decline of 102 down to 24,474 while the Nasdaq ended lower by 91 down to 9285. The S&P as usual moved more than the Dow in its typical pattern as it lost 23 back to 2948 and Mr. Fibonacci must be smiling as this is the exact number that I have been mentioning as sort of an equilibrium area after the tremendous upside recovery that the S&P has made since the March 23rd lows. And how about the Russell 2000 Index of small stocks with its fifth gain in the past six sessions at a 1 point advance to 1347.

Breadth numbers were only slightly negative and the VIX once again had trouble in the 27 area as it moved higher up to 29.53 and the reason it is having trouble breaking below 27 is that this VIX area corresponds to the big resistance level of around 2975 that has stopped further S&P advances for the time being.

And as usual, as I have pointed out so many times, on lower days investors now use the "explanation" of more data showing the economic damage being caused by the coronavirus pandemic and another flareup in tensions between the U.S. and China

. And you can be sure that on the next higher day the reasoning will be that investors were encouraged by the massive amounts of monetary and fiscal stimulus from the Federal Reserve and Congress and the potential benefits of re-opening the economy to potential improvement.

Despite yesterday's declines, the Dow is poised to put in its best gain in six weeks depending on what happens at the end of the trading day today.

Technology and health care stocks took some of the heaviest losses with recently beloved MRNA getting whacked back down, along with previously unstoppable AMZN as mentioned above that sort of collapsed after failing to hold its new beachhead above 2500.

Homebuilders, of all things despite another awful report as mentioned below, moved broadly higher, extending the group's solid rally this month. This was because Inventories on the market fell to a record low last month. A drop in homes for sale favors builders because it represents less competition. KBH rose by over 5%.

The selling was tentative at first but gained momentum as the day progressed. Initially, traders reacted to news that the White House had issued a report attacking China's economic and military policies in addition to its human rights violations. The report expands on the President's get-tough rhetoric that he hopes will resonate with voters angry about China's handling of the disease outbreak. The State Department announced that it had approved the sale of advanced torpedoes to the Taiwanese military, a move sure to draw a rebuke from Beijing, which regards the island as a renegade province.

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The government's latest weekly snapshot of applications for unemployment aid didn't help either as more than 2.4 million people applied for unemployment benefits last week. This brings the total number of Americans who have lost their jobs in the last nine weeks since the coronavirus led to a near shutdown of the economy to 38.6 million.

Despite a week of uneven finishes, the market is on track to re-coup its losses from last week amid fresh hopes for a U.S. economic recovery in the second half of the year and optimism about a potential vaccine for COVID-19. A strong rally on Monday reversed all of the market's losses for the month, but the S&P is still down about 13% from its February 19th high.

Investors are betting that the economy and corporate profits will begin to recover from the coronavirus pandemic as the U.S. and countries around the world slowly open up again. However, concerns remain that the relaxing of stay-at-home mandates and the re-opening of businesses could lead to another surge in infections, potentially ushering in another wave of shutdowns. As mentioned above, these will be the two playbook scenarios that will be put forth to "explain" either higher or lower days as the case may be.

Oil prices closed higher for the sixth day in a row as July delivery crude rose by.43 cents to $33.92 a barrel. Crude oil started the year at about $60 a barrel but plummeted earlier this year as demand sank due to widespread travel and business shutdowns related to the coronavirus. The price has risen this month as oil producing nations cut back on output and the gradual re-opening of economies around the globe have driven up demand.

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Bonds yields were mixed with the 10-year Note falling to .66% from 0.68% late Wednesday.

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 $128. It is difficult to put a correct price/earnings multiple for 2020 at the present time because of the large variability in earnings predictions. With earnings in the home stretch for the first-quarter, the latest estimate is for a 12.5% decline. This would be the biggest annual drop for the index since the third quarter of 2009 when earnings slumped by nearly 16%. The projection is now for the worst earnings from energy at off by 50%, industrials lower by 32% and consumer discretionary lower by 31%. On the positive side are consumer staples, up 7%, technology and utilities higher by 2%. For 2012, the consensus is for $163 in earnings which means that it is trading at a 17.5% multiple, a little higher than the historical average but not too much considering the record low interest rates currently in existence.

Economic growth for 2019 came in at 2.3% for the year. The initial read for the first quarter of 2020 was negative 4.8%, the lowest since the 4Q of 2008 while the second quarter could be down by as much as 30% according to the most extreme predictions. This means that the “r” word, otherwise known as “recession”, is upon us.

This week will see home stretch for first-quarter earnings with retailers bringing up the rear as they usually do. The lineup is as follow: yesterday - EXPE, SCVL, ROST, TJX, BJ, LB higher while TTWO, BBY, HRL, MDT were lower; today – PANW, SPLK, A, NVDA, DE higher and HPE, INTU, BABA, FL lower.

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Economic reports this week will see: today – April existing home sale fell by 17.8%, April L.E.I. fell by 4.4% after March's largest decline in history of 7.4%, May Philadelphia Fed Manufacturing Index slipped to 43.1 which was the fifth worst reading of all time and weekly jobless claims increased by 2.44 million which means that over the past nine weeks, nearly 40 million Americans have lost their jobs.

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Disclosures

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