



MORNING BRIEFING

March 5, 2020

'We Are Very Much Alive!'

Check out the accompanying [chart collection](#) and [podcast](#).

(1) COVID-19 pushes scientists to find solutions fast. (2) Big money is being thrown at the problem. (3) Novel vaccines using mRNA are being tested. (4) Mice helping out. (5) Chinese using CTs and blood tests to better diagnose the illness. (6) Gilead's drug, remdesivir, is being tested as a treatment. (7) Health care stocks celebrate Biden's Super Tuesday win. (8) Moderate Dems lining up like good soldiers. (9) Health care sector stocks have underperformed while still delivering earnings.

Virology 101: 'Never Let a Good Crisis Go to Waste.' That was the insensitive sentiment expressed by Rahm Emanuel during the Great Financial Crisis just before he became the chief of staff of former President Obama. He viewed the crisis as an opportunity to push through programs that otherwise would never have been adopted.

A more constructive spin can be put on "Rahm's Rule" today. The continuing global spread of the COVID-19 virus is giving scientists the resources to fast-track biotechnologies that hopefully will protect people from the virus, identify its presence faster, and help cure patients more quickly. Yesterday, US lawmakers proposed \$8.3 billion of emergency funding specifically earmarked to fight COVID-19. Knowledge gained from this experience can be harnessed to mitigate damage from the next viral pandemic or perhaps even prevent a next one. I asked Jackie to have a close look at what the scientific community is doing to deal with the latest global health crisis. Here's her report:

(1) *Better prevention.* President Trump met with drug company executives on Monday, asking them to speed up work on a vaccine. Normally, it takes years to formulate a new vaccine, move it through trials, get it approved, and distribute it through the health care system. But a number of companies are working on ways to make new vaccines in a matter of months using vaccine rapid response platforms. The difference means doctors could inoculate individuals with the vaccine while an outbreak is ongoing rather than years after it has passed. Larger quantities of vaccines can also be made using the new method.

The traditional method of making a vaccine involves killing or weakening a virus and injecting it into the body. Proteins in the virus trigger the body's cells to produce antigens. The new version of developing a vaccine uses genetic sequencing.

On January 10, Chinese scientists uploaded the genetic sequence of the COVID-19 virus to a public website for the scientific community. It took [Moderna](#), a biotech drug company, less than two months to use that genetic sequence to develop a vaccine for COVID-19. Moderna has shipped the vaccine out for human testing, putting it in the lead in the race to develop a vaccine. If all goes well, it will take 12 to 18 months to get regulatory approval in the US, even as development is fast-tracked at home and abroad.

Messenger RNA (mRNA) instructs our cells to make proteins. Moderna has used COVID-19's genetic code to create an mRNA that will instruct our cells to make a small amount of COVID-19 proteins. These proteins trigger the production of COVID-19-specific antibodies that provide immunity to the virus. Since the mRNA never goes into the nucleus of cells, there's no concern about it changing the cell's genome.

Moderna is far from alone in the race to find a vaccine. Inovio Pharmaceuticals announced on Tuesday that it plans to begin human trials next month on a COVID-19 vaccine it has developed by using DNA. The company used the same method to develop a vaccine for Middle East Respiratory Syndrome (MERS), which is in Phase 2 testing. The company [announced](#) it plans to deliver 1 million doses of COVID-19 vaccine by year-end, but will need more resources to produce the additional vaccines that will be needed.

Like Moderna, CureVac is using an mRNA to develop a vaccine. It expects to conduct human trials in a few months. And GlaxoSmithKline is helping Clover Biopharmaceuticals, a Chinese firm, to develop a vaccine. Clover is "injecting proteins that spur an immune response," the March 2 STAT news [article](#) said.

Regeneron Pharmaceuticals is injecting mice with a copy of the coronavirus in hopes that they will generate antibodies for the virus. It hopes to begin human testing by late summer. "The last time Regeneron embarked on this process, during the Ebola outbreak of 2015, it came up with an antibody cocktail that roughly doubled survival rates for treated patients," the STAT news article stated.

From the same article, we've learned that Sanofi is "taking some of the coronavirus's DNA and mixing it with genetic material from a harmless virus, creating a chimera that can prime the immune system without making patients sick. Sanofi expects to have a vaccine candidate to test in the lab within six months and could be ready to test a vaccine in people within a year to 18 months." Additionally, Vir Biotechnology is determining whether antibodies taken from people who survived SARS can be used to fight COVID-19, while Johnson & Johnson is developing a traditional vaccine (with a deactivated virus).

(2) *Better diagnosis.* The Centers for Disease Control and Prevention (CDC) is coming under serious criticism for not having COVID-19 test kits readily available across the US. Until the last few days, doctors had to call the CDC to request a test kit and were supposed to use it only on recent travelers to China or people in contact with them.

The CDC and Vice President Mike Pence lifted those restrictions on Tuesday, so now anyone who fears they have the virus can request a test. In addition, on Saturday, the FDA expanded the number of labs that can apply to conduct the test. Prior to that only two labs run by the CDC and a few state labs were allowed to test for the disease, a March 3 *Time* [article](#) reported. There should be more than 1 million tests available by the end of this week.

The other problem is that the current test kits have a sensitivity of only 70%, so it's possible to test negative and still be infected with COVID-19. In addition, the test takes too long to produce results, in some cases three or four days.

Chinese doctors have discovered that using a chest CT scan in conjunction with a blood test produces better results. They found that among 1,000 coronavirus patients in China, 81% with a negative blood test but a positive CT scan ended up getting sick. Also, CT results are available quicker than the blood tests.

(3) *Better treatment.* Scientists are also hoping to use the power of genetics to find a cure for COVID-19, which has been particularly lethal for older people. "The normal procedure of treating pneumonia, such as using ventilators, putting the patients on antiviral and antibacterial treatment and using steroids, has been proven relatively ineffective in treating patients reaching the last stage of the disease," a doctor said in a March 3 Al Jazeera [article](#).

Gilead is conducting a clinical trial at the University of Nebraska Medical Center using its antiviral drug remdesivir to treat COVID-19 patients who were on the Diamond Princess cruise

ship. It's also conducting trials in Beijing's China-Japan Friendship Hospital. Remdesivir blocks an enzyme that's needed for viral replication.

Johnson & Johnson is working with the federal Biomedical Advanced Research and Development Authority on potential treatments for patients who are already infected. The process will involve looking at whether any existing Johnson & Johnson drugs will fight the virus, according to a March 2 [article](#) in STAT News. In China, there are 293 clinical trials attempting to find a cure for the virus.

Health Care: The Biden Cure. Super Tuesday further confirmed what ailed health care stocks: Senator Bernie Sanders. After a surprisingly strong showing in Super Tuesday's primaries, former Vice President Joe Biden finds himself with the most delegates, 566 versus Sanders' 501. Biden also received the endorsement of former Democratic presidential candidates Michael Bloomberg, Senator Amy Klobuchar (MN), and Pete Buttigieg, consolidating the vote of "mainstream" Democrats. Meanwhile, the left arm of the party remains split between Sanders and Senator Elizabeth Warren (MA), both of whom are calling for socialized medicine.

After his victory, Biden declared, "We are very much alive." Many stocks investors were happy to hear that after last week's selloff on fears that anyone who doesn't die from COVID-19 will suffer from the ills of the BS virus, i.e., the virus of socialism carried and spread by Bernie Sanders.

Biden's strength helped the S&P 500 Health Care sector—and perhaps the entire S&P 500—rally Wednesday despite increasingly dark headlines about numerous new cases of COVID-19 popping up in the US. Here's how the S&P 500 sectors performed Wednesday: Health Care (5.8%), Utilities (5.7), Consumer Staples (4.9), Information Technology (4.3), S&P 500 (4.2), Industrials (4.2), Materials (4.0), Real Estate (4.0), Communication Services (3.6), Consumer Discretionary (3.4), Financials (3.3), and Energy (2.2). The health care stocks in the Dow Jones Industrial Average had an even better day: UnitedHealth Group (10.7), Pfizer (6.1), Johnson & Johnson (5.8), Walgreens Boots Alliance (5.6), and Merck (4.9).

The S&P 500 Health Care sector's strong showing is quite a reversal. The sector has underperformed the S&P 500 by 10 percentage points when measuring performance from the start of 2018 through Tuesday's close. Here's the performance derby for the S&P 500 sectors over that time period through Tuesday's close: Information Technology (44.8%), Real Estate

(24.2), Communication Services (23.6), Utilities (22.3), S&P 500 (19.8), Consumer Staples (18.7), Consumer Discretionary (18.5), Industrials (14.4), Financials (12.4), Health Care (9.8), Materials (7.9), and Energy (-19.2) ([Table](#)).

The underperformance of the Health Care sector is even more dramatic when you consider that the sector has had healthy earnings growth. As a result, the percentage of earnings that it contributes to the S&P 500 (16.3%) is almost three percentage points above the sector's market-capitalization share of the S&P 500 (13.9%) ([Fig. 1](#)). The last time that happened was during 2008 to 2010. In almost all prior periods going back to 1985, the sector traded at a premium to its earnings contribution. Let's take a deeper look at what's driving health care shares:

(1) *Getting no respect.* Despite the poor showing of health care stocks over the last few years, the sector's revenue and earnings growth are expected to be respectable this and next year ([Fig. 2](#) and [Fig. 3](#)).

Here's the performance derby for the S&P 500 sectors' 2020 revenues and earnings growth forecasts: Health Care (8.3%, 7.8%), Communications Services (8.1, 8.6), Information Technology (6.9, 9.9), Consumer Discretionary (5.6, 9.2), Real Estate (5.2, -19.3), S&P 500 (4.8, 7.3), Energy (3.5, 16.1), Utilities (3.4, 4.2), Consumer Staples (3.4, 5.7), Industrials (2.7, 7.0), Materials (2.1, 5.8), and Financials (0.4, 4.6).

(2) *Bargain P/E?* The S&P 500 Health Care sector's forward P/E, at 16.2, is about half a percentage point higher than it was last year, but it's far behind most other sectors' P/E multiples. Here's how the S&P 500 sectors' forward P/Es stack up as of February 20: Real Estate (46.4), Consumer Discretionary (23.6), Information Technology (23.0), Utilities (21.0), Consumer Staples (20.5), Communications Services (19.5), S&P 500 (19.1), Materials (18.9), Industrials (18.5), Energy (16.8), Health Care (16.2), and Financials (13.3) ([Fig. 4](#), [Fig. 5](#), [Fig. 6](#), and [Fig. 7](#)).

Some industries within Health Care have elevated P/E multiples, including Life Sciences & Tools (25.7), Equipment (24.8), and Technology (23.8). But most Health Care industries' P/Es are in the low to mid-teens. For example, consider Managed Health Care (16.5), Pharmaceuticals (14.5), and Biotechnology (12.3).

(3) *M&A to heal all wounds?* A number of health care M&A deals have been announced in recent weeks. Perhaps that's a sign that the industry's CEOs have taken note of the depressed valuations. Among the largest deals is Thermo Fisher's \$10.1 billion acquisition of Qiagen, a molecular diagnostics company that specializes in infectious disease testing. It's working on developing a test for COVID-19.

Gilead Sciences announced earlier this week plans to pay \$4.9 billion to buy Forty Seven, a biotech company that's developing a blood-cancer medicine. Also this week, Symphony AI Group acquired TeraRecon, an imaging company that applies artificial intelligence to the analysis and visualization of medical data. While M&A activity is down so far ytd, the S&P 500 Health Care sector is the fourth most active, with \$39.2 billion of deals announced globally. While that's great relative to other sectors, it's down from Health Care's 2019 ytd haul of \$163.5 billion, according to *WSJ* [data](#) from Dealogic.

CALENDARS

US: Thurs: Productivity & Unit Labor Costs 1.3/1.4, Jobless Claims 217k, Factory Orders - 0.1%, Challenger Job Cuts, EIA Natural Gas Storage, Williams, Kaplan, Kashkari. **Fri:** Payroll Employment Change Total, Private, and Manufacturing 175k/155k/-3k, Average Hourly Earnings 0.3%/m/m/3.0%/y/y, Unemployment Rate 3.6%, Average Weekly Hours 34.3, Consumer Credit \$17.0b, Trade Balance -\$47.7b, Baker-Hughes Rig Count, Williams, Mester, Evans. (DailyFX estimates)

Global: Thurs: Japan Real Earnings & Household Spending -0.5%/-3.9% y/y, Carney, Poloz, Haldane. **Fri:** Germany Factory Orders 1.5%/m/m/-5.4%/y/y, Japan Leading & Coincident Indicators 91.3/94.5, Canada Employment Report, China Trade Balance \$12.75b, China Customs to Publish January & February Figures. (DailyFX estimates)

STRATEGY INDICATORS

Stock Market Sentiment Indicators ([link](#)): The Bull/Bear Ratio (BBR) fell for the second week this week after rising the prior two weeks, as the seesaw movement between the bullish and correction camps continued. The BBR slipped to 2.04 this week—the lowest since mid-January 2019—from 2.89 two weeks ago. Bullish sentiment sank 13.0ppts to 41.7% the past two weeks after rising 7.1ppts (to 54.7% from 47.6%) over the prior two-week period—which followed a two-week drop of 11.8ppts and a two-week advance of 4.3ppts. Meanwhile, the correction count climbed 11.5ppts the past two weeks to 37.9%, after a two-week slide of 6.9ppts (26.4

from 33.3)—following a two-week surge of 10.6ppts surge and a two-week loss of 4.4ppts. Bearish sentiment increased for the second week from 18.9% to 20.4%—its highest percentage since 3/26/19. The AAll Ratio fell for the second week last week to 43.7%, after climbing the prior two weeks from 46.5% to 61.0%. Bullish sentiment fell to 30.4% over the two-week period after climbing from 32.0% to 41.3% the previous two weeks, while bearish sentiment increased to 39.1% over the two-week span after falling from 36.9% to 26.4% the prior two weeks.

S&P 500 Earnings, Revenues, Valuation & Margins ([link](#)): Consensus S&P 500 forward revenues fell 0.3% w/w from a record high, and forward earnings dropped to 0.4% below its record on 2/6. Analysts expect forward revenues growth of 4.7% and forward earnings growth of 8.2%. The revenues measure was down 0.2ppt w/w and earnings dropped 0.1ppt. Forward revenues growth is 0.3ppt above its 41-month low at the end of January and 1.6ppt below its seven-year high of 6.3% in February 2018. Forward earnings growth is down 8.7ppts from a six-year high of 16.9% in February 2018 but is still comfortably above its 34-month low of 5.9% in February 2019. Prior to the passage of the Tax Cuts and Jobs Act (TCJA), forward revenues growth was 5.5% and forward earnings growth was 11.1%. Turning to the annual growth expectations, analysts expect revenues growth to improve to 4.6% in 2020 from 4.3% in 2019, but that's down from 8.5% in 2018. They're calling for earnings growth to improve to 7.1% in 2020 from 1.6% in 2019, but that's down sharply from the TCJA-fueled 24.0% rise in 2018. The forward profit margin remained steady w/w at 12.0%, which is up 0.1ppt from a 22-month low of 11.9% in late December and is down only 0.4ppt from a record high of 12.4% in September 2018. That compares to 11.1% prior to the passage of the TCJA in December 2017 and a 24-month low of 10.4% in March 2016. Analysts are expecting the profit margin to improve 0.3ppt y/y to 11.8% in 2020 from 11.5% in 2019, which would match the 11.8% recorded for 2018. After the market's selloff, the S&P 500's forward P/E fell w/w to 17.7 from 19.1, which was the highest since May 2002. That's up from 14.3 during December 2018, which was the lowest reading since October 2013, and down 23% then from the 16-year high of 18.6 at the market's valuation peak in January 2018. The S&P 500 price-to-sales ratio was down to 2.11 from a record high of 2.29. That's up from 1.75 during December 2018, when it was the lowest since November 2016, and down 19% from its then-record high of 2.16 in January 2018.

S&P 500 Sectors Earnings, Revenues, Valuation & Margins ([link](#)): Consensus forward revenues rose w/w for five of the 11 S&P 500 sectors last week, and forward earnings was higher for 3/11 sectors. Financials, Health Care, and Industrials had both measures rise w/w.

Communication Services, Tech, and Utilities posted notable declines in both measures w/w. Forward revenues and earnings remain closest to record highs for 3/11 sectors: Consumer Discretionary, Health Care, and Tech. Forward P/S and P/E ratios fell sharply w/w, and were down from record or cyclical highs for Communication Services, Consumer Discretionary, Information Technology, Real Estate, and Utilities. Due to the TCJA, the profit margin for 2018 was higher y/y for all sectors but Real Estate. Eight sectors (all but except Health Care, Real Estate, and Utilities) are expected to record higher margins y/y in 2020, up from just two sectors improving y/y in 2019: Financials and Utilities. The forward profit margin rose to record highs during 2018 for 8/11 sectors, all but Energy, Health Care, and Real Estate. Since then, it has moved lower for nearly all the sectors. Utilities is the only sector with its forward profit margin at a record high. Here's how the sectors rank based on their current forward profit margin forecasts versus their highs during 2018: Information Technology (22.2%, down from 23.0%), Financials (18.1, down from 19.2), Real Estate (15.7, down from 17.0), Communication Services (14.8, down from 15.4), Utilities (13.5, record high), S&P 500 (12.0, down from 12.4), Health Care (10.5, down from 11.2), Industrials (10.0, down from its record high of 10.5% in mid-December), Materials (9.9, down from 11.6), Consumer Staples (7.4, down from 7.7), Consumer Discretionary (7.3, down from 8.3), and Energy (5.9, down from 8.0).

US ECONOMIC INDICATORS

ADP Employment ([link](#)): “COVID-19 will need to break through the job market firewall if it is to do significant damage to the economy. The firewall has some cracks, but judging by the February employment gain it should be strong enough to weather most scenarios,” according to Mark Zandi, chief economist of Moody's Analytics. Private industries added a larger-than-expected 183,000 last month—after an 82,000 downward revision to January's gain from 291,000 to 209,000. Even with January's downward revision, the 392,000 gain the first two months of this year is the largest two-month increase in nearly two years—boosted in part by unseasonably warm weather. Service-providing industries added 172,000 to payrolls last month, following a 187,000 gain in January—considerably better than 2019's average monthly increase of 149,700. Within services, leisure & hospitality (44,000), health care & social assistance (43,000), professional & business services (38,000), and trade, transportation & utilities (31,000) all posted solid gains. Goods-producing industries added 11,000 jobs, half of January's 22,000: An 18,000 increase in construction jobs last month more than offset declines in manufacturing (-4,000) and mining (-3,000) payrolls. February's job increase was heavily

concentrated in large companies (133,000)—which moved from the bottom of the leader board to the top—while medium-sized (26,000) and small (24,000) companies hired at a similar pace last month.

Auto Sales ([link](#)): Motor vehicle sales in February remained in a volatile flat trend around 17.0mu, moving back above at the start of 2020. Total sales were little changed at 17.0mu (saar) last month, after climbing from 16.9mu to 17.1mu in January. During all of 2019, sales fluctuated from a low of 16.5mu to a high of 17.5mu. Domestic light-truck sales in February dipped slightly to 9.9mu (saar) from its cyclical high of 10.0mu (saar) posted in January—and also in November, September, and May of last year. Meanwhile, domestic car sales fell for the second month to 3.2mu (saar) from 3.6mu at the end of last year. It's back near October's 3.1mu—which was the weakest since April 2009. This sales measure peaked at 6.0mu (saar) in August 2014, and has been in a freefall since, struggling to find a bottom in recent months. Sales of imports has been fluctuating between 3.7mu and 3.9mu for over a year and was at the top of that range in February.

GLOBAL ECONOMIC INDICATORS

Global Composite PMIs ([link](#)): Global economic activity contracted in February at its fastest pace since 2009, as the COVID-19 outbreak disrupted demand, supply chains, and international trade. The JP Morgan Global Composite Output Index (C-PMI) tumbled from 52.2 in January to a 129-month low of 46.1 in February. PMIs show activity in both the manufacturing (to 47.2 from 50.4) and services (47.1 from 52.7) sectors contracting at the sharpest rates since mid-2009—with manufacturing's recent recovery halted and the services sector ending a 126-month sequence of expansion. The C-PMI for the emerging economies (to 40.0 from 52.3) tumbled and was much harder hit than the developed economies' (49.9 from 52.1), which showed growth just below the breakeven point of 50.0. C-PMIs for February show China (27.5 from 51.9) took the brunt of the fall last month, with its composite index plummeting 24.4 points and record declines in activity for both manufacturers and services providers. Excluding China, the rest of the world fell a little more than two points to near-stagnation—though further weakness is anticipated as long as the disruptions continue. C-PMIs by country were a mixed bag, showing activity contracted in the US (49.6 from 53.3), Japan (47.0 from 50.1), and Australia (49.0 from 50.2), while growth in the Eurozone (51.6 from 51.3) expanded at a six-month high. Within the Eurozone, growth accelerated in Ireland (56.7, 17-month high), France (52.0, two-month high), Spain (51.8 (two-month high), and Italy (50.7, four-month high), while Germany's (50.7) slowed to a two-month low, though remained

in expansionary territory. Also expanding at a slower pace were the UK (53.0 from 53.3), Brazil (50.9 from 52.2), and Russia (50.9 from 52.6).

Global Non-Manufacturing PMIs ([link](#)): February saw the rate of growth in the global service economy swing from expansion to contraction, posting its steepest decline in nearly 11 years. JP Morgan's Global NM-PMI sank to 47.1 after climbing from 51.0 in October to a nine-month high of 52.7 in January. The NM-PMI (to 39.8 from 52.6) for emerging economies tumbled, led by a record contraction in China (26.5 from 51.8). Meanwhile, the NM-PMI (49.7 from 52.7) showed growth in the developing nations at a relative standstill, only fractionally below 50.0. Along with China, service activity contracted in Japan (46.8 from 51.0), Australia (49.0 from 50.6), and the US (49.4 from 53.4)—though pales in comparison. (Meanwhile, according to the US' official NM-PMI series, service activity accelerated at a 12-month high of 57.3.) The Eurozone's service sector (52.6) continued to expand, with Ireland (59.9) Germany (52.5), France (52.5), Italy (52.1), and Spain (52.1) all showing growth. Also showing positive growth were India (57.5), the UK (53.2), Russia (52.0), and Brazil (50.4).

US Non-Manufacturing PMIs ([link](#)): Service activity in the US expanded in February at a 12-month high, according to the ISM survey, while it contracted for the first time in three years, according to IHS Markit—though barely. ISM's NM-PMI remained on an upswing last month, climbing for the fourth time in five months, to 57.3 in February from 53.5 (the lowest reading since August 2016) in September. (February's reading is consistent with a 3.0% increase in real GDP growth on an annualized basis.) Three of the four components contributed positively in February, with the new orders measure (to 63.2 from 56.2) jumping back above 60.0, while employment's (55.6 from 53.1) measure climbed to a seven-month high; the supplier deliveries' (52.4 from 51.7) gauge continued to fluctuate in a flat trend around 52.0. The business activity index (57.8 from 60) did show a slowing in growth—though at a very high level. IHS Markit's NM-PMI sank to 49.4 after accelerating the prior three months, from 50.6 in October to 53.4 in January. February's report noted that “business activity decreased in three of the seven broad categories monitored by the US Sector PMI, with consumer services recording the fastest rate of decline. This category experienced its sharpest drop in business activity since the index began in October 2009.”

Eurozone Retail Sales ([link](#)): Retail sales recovered 0.6% in January after plunging 1.1% in December from November's record high. All of the three major sales categories were back in the plus column in January, following December declines: automotive fuel (to 1.9% from -0.1%), food, drinks & tobacco (0.7 from -1.1), and nonfood products ex fuel (0.4 from -1.1). Of

the major Eurozone economies, January data were only available for Germany and France. German sales rebounded 0.9% in January after sliding 2.0% in December, back to within 1.1% of last November's record high. Sales in France ticked up 0.2% after a 1.0% loss and a 1.1% gain the prior two months—and is within 1.4% of its record high posted last August.

Contact us by [email](#) or call 480-664-1333.

Ed Yardeni, President & Chief Investment Strategist, 516-972-7683
Debbie Johnson, Chief Economist, 480-664-1333
Joe Abbott, Chief Quantitative Strategist, 732-497-5306
Melissa Tagg, Director of Research Projects & Operations, 516-782-9967
Mali Quintana, Senior Economist, 480-664-1333
Jackie Doherty, Contributing Editor, 917-328-6848
Valerie de la Rue, Director of Institutional Sales, 516-277-2432
Mary Fanslau, Manager of Client Services, 480-664-1333
Sandy Cohan, Senior Editor, 570-775-6823

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