MORNING BRIEFING
March 30, 2020

P/E x E in a Bear Market

Check out the accompanying chart collection.

(1) Fed Chair Buzz Lightyear: "QE4ever, to infinity and beyond!" (2) Pandemic of fear triggered by virus pandemic triggered a mad dash for cash. (3) Massive flows out of bond funds caused credit spreads to spike. (4) Fed had lots of practice playing Whac-a-Mole in the credit markets. (5) The buyer of last resort is now buying investment-grade corporate bonds and ETFs. (6) New record high of over $5 trillion for Fed's balance sheet, with more record highs ahead. (7) Fed set to lend $4 trillion above and beyond QE4ever. (8) More like B-52 money than helicopter money. (9) The deficits of last resort. (10) Last week's "bull market" is facing a major earnings abyss in coming weeks. (11) Using 2007-09 to benchmark 2019-21. (12) There is a path forward to ending the GVC.

Strategy I: QE4ever, to Infinity & Beyond! In back-to-back conference calls with our institutional accounts in recent weeks, many told me that, while they were very concerned about the Great Virus Crisis (GVC), they viewed the resulting bear market since the February 19 record high in the S&P 500 as a buying opportunity but couldn't fully capitalize on it. The problem for many long-only equity accounts is that they hadn't raised cash at the market's top, so they didn't have much to invest in stocks as they got much cheaper. The problem faced by balanced funds is that they couldn't take advantage of the great opportunity they saw to rebalance away from bonds and into stocks because the bond markets froze up, making it impossible to raise cash to buy stocks by selling bonds.

That all changed when Fed Chair Buzz Lightyear (a.k.a. Jerome Powell) implemented what I call "QE4ever, to infinity and beyond." Let's review the chronology of the relevant recent events, focusing on the previous three Mondays, March 9, 16, and 23:

(1) *Credit freeze (Monday, March 9).* The calamity in the credit markets seemed to be triggered by an unanticipated price war between Saudi Arabia and Russia. It caused the price of a barrel of Brent crude oil to plunge 24% from $45.35 on Friday, March 6 to $34.50 on Monday, March 9 (*Fig. 1*). A much bigger, 76%, plunge in the price of oil during the second half of 2014 through early 2016 caused high-yield credit-quality spreads to widen dramatically as yields on energy-related junk bonds soared. This time, they widened significantly in a matter of a few

days instead of months, as occurred during the 2015 episode (*Fig. 2*). This time, investment-grade corporate yield spreads widened rapidly as well. The pain spread even to the yield spread between AAA municipal bonds and the 10-year US Treasury yield (*Fig. 3*).

(2) *Bond fund outflows.* Based on my conversations with various market participants, I am convinced that the pandemic of fear triggered by the viral pandemic caused a mad dash for cash by individual investors (*Fig. 4*). They indiscriminately sold their bond mutual funds and exchange-traded funds (ETFs). That caused the freezing of the credit markets.

This is clearly visible in the huge outflows from bond funds during the week of March 18. Weekly cash flows data estimated by the Investment Company Institute (ICI) show that bond mutual funds and bond ETFs saw outflows of $114 billion during that week, with outflows of $94 from taxable bond funds and $20 from municipal bond funds (*Fig. 5*). By comparison, equity mutual funds and ETFs saw outflows of $12 billion during the March 18 week according to ICI.

(3) *QE4 (Monday, March 16).* Responding to the credit contagion, the Federal Open Market Committee (FOMC) met in an emergency session on Sunday, March 15. That evening, Fed Chair Jerome Powell announced that the Fed was cutting the federal funds rate by 100bps to zero and launching yet another QE program to purchase $500 billion in Treasuries and $200 billion in mortgage-backed securities (MBS). Unlike the previous three QE programs, the Fed didn't specify any monthly schedule for QE4 purchases. The Fed also lowered reserve requirement ratios to zero and encouraged "banks to use their capital and liquidity buffers as they lend to households and businesses who are affected by the coronavirus."

The S&P 500 dropped 12.0% the following Monday. The reaction was "aw, shucks" rather than shock and awe. The S&P 500 VIX soared to a new record high of 82.69 that day (*Fig. 6*). The high-yield corporate bond yield spread soared to a recent peak of 1,062bps a week later on March 23. The AAA muni yield spread jumped to a recent high of 188bps on March 23 as well.

(4) *QE4ever (Monday, March 23).* So last Monday morning, Buzz Lightyear announced that the Fed would open up the floodgates and pour as much liquidity into the economy as necessary without any limits. In other words, one week after QE4 was introduced, it morphed into QE4ever. The Fed will buy securities with no set purchasing schedule, no upper limit, and no end date. The program includes purchases of agency commercial MBS in addition to

Treasuries and MBS. In effect, Powell put the Fed on the same open-ended course of ultra-easy monetary policy that the Bank of Japan has been on for many years.

During the 2008 Great Financial Crisis, Fed officials had to scramble to set up liquidity facilities to deal with a cascading credit crunch. It was as though the Fed was playing Whac-a-Mole in the credit system. In the March 23 rescue package, the Fed revived some of its former facilities, such as the Term Asset-Backed Securities Loan Facility (TALF), the Money Market Mutual Fund Liquidity Facility (MMLF), and the Commercial Paper Funding Facility (CPFF). This time, these facilities were expanded to facilitate the flow of credit to municipalities, which are facing enormous declines in their tax revenues.

Sidestepping the need to get congressional authorization to purchase corporate bonds, the Fed established two facilities to support credit to large employers: the Primary Market Corporate Credit Facility (PMCCF) for new bond and loan issuance and the Secondary Market Corporate Credit Facility (SMCCF) to provide liquidity for outstanding corporate bonds. The former is open to investment-grade companies and will provide bridge financing of four years. The latter will purchase in the secondary market corporate bonds issued by investment-grade US companies as well as US-listed ETFs designed with an investment objective of providing broad exposure to the market for US investment-grade corporate bonds.

The March 27 *WSJ* reported: “Under its governing law, the Fed can’t directly buy corporate debt, and it is limited to purchasing municipal debt of six months or less. But it can work around these restrictions by creating lending facilities that lend or purchase debt, subject to approval of the Treasury secretary. … Over two weeks, the Fed has unveiled six lending facilities, five of them enjoying a total of $50 billion in support from the Treasury.”

(5) *Buyer of last resort*. These measures immediately flooded the credit markets with liquidity. The lender of last resort has become the buyer of last resort in the credit markets. Last week, institutional managers of balanced funds rushed to sell their bonds to the Fed and used the cash to rebalance into equities. So the S&P 500 plunged 33.9% from February 19 through March 23, and then soared 17.6% through Thursday, March 26. The S&P 500 rose 10.3% last week, but remains down 24.9% since its record high (*Fig. 7*).

So what’s up with the Fed’s balance sheet? Everything! After ballooning its balance sheet with QE1, QE2, and QE3 bond purchases, the Fed reduced its balance sheet from October 1, 2017 through July 31, 2019. That phase was widely called “quantitative tightening” (QT). The Fed resumed expanding its balance sheet on November 1, 2019 in a Reserve Management (RM) program to provide liquidity to the repo market. Since then, the Fed's balance sheet has increased $1.2 trillion through the March 25 week to a record $5.2 trillion (*Fig. 8* and *Fig. 9*). It is on its way to infinity and beyond, at least as long as the GVC lasts!

(6) *B-52 money and fiscal stimulus.* Monday's QE4ever action was the Fed's way of telling the fiscal authorities to stimulate the economy like crazy, no matter the cost, because the Fed will monetize the resulting debt. On Friday, President Donald Trump signed a huge $2 trillion stimulus package. We estimate it will triple the 12-month forward deficit from $1 trillion to $3 trillion. The deficit could be even larger as a result of plunging revenues.

The March 27 *NYT* reported: "In weeks, it will send direct payments of $1,200 to individuals earning up to $75,000, with smaller payments to those with incomes of up to $99,000 and an additional $500 per child. It will substantially expand jobless aid, providing an additional 13 weeks and a four-month enhancement of benefits—including an extra $600 per week—and extend it to freelancers and gig workers. The package also suspends all federal student loan payments for six months through September, and the loans will not accrue interest during that period.

"For companies struggling under the strain of the crisis, the measure will provide $377 billion in federally guaranteed loans to small businesses and establish a $500 billion government lending program for distressed companies, including allowing the administration the ability to take equity stakes in airlines that received aid to help compensate taxpayers. It also sends $100 billion to hospitals on the front lines of the pandemic."

The March 26 *NYT* reported: "The epicenter of the intervention will be the Treasury Department, where Secretary Steven Mnuchin will oversee nearly a third of the $2 trillion in economic relief funds that Congress is approving.

"The money will be held in two pots: $350 billion will be devoted to loans and loan guarantees for small businesses. And $500 billion will be divided among airlines and companies that are critical to national security … and will prop up the Federal Reserve's new emergency lending facilities, which are intended to inject nearly $4 trillion into the economy."

Got that? The Fed is providing helicopter money, and the Treasury is providing the capital to leverage the Fed's lending facility to lend $4 trillion! The choppers have been replaced with B-52 bombers, dropping trillions of dollars on the economy.

(7) *Greatest panic attack of all time?* Panic Attack #66 turned out to be one of the fastest bear markets of all times (*Fig. 10*). That's if it bottomed last Monday. The Fed's willingness to backstop almost all the credit markets certainly helped to turn sentiment around dramatically. During the March 24 week, the Bull/Bear Ratio (BBR) compiled by Investors Intelligence plunged to 0.72 from 3.10 during the first week of the year. Previously, I've noted that BBR readings below 1.00 have been very good buy signals for contrarians. It worked again last week with the strong rally from Tuesday through Thursday. The percentage of bears shot up to 41.7%, while the percentage of bulls fell to 30.1% (*Fig. 11* and *Fig. 12*).

Of course, while Joe and I believe that the Fed might have made the bear market bottom at the beginning of last week, the stock market will have to hold its own against a tsunami of terrible news on the ongoing health and economic crisis. In other words, chatter about a full-fledged new bull market may be premature, especially since industry analysts will be chopping their earnings estimates dramatically in coming weeks.

Strategy II: P/E x E in 2007-09. In my conference calls over the past couple of weeks, I was often asked to estimate the downside potential for corporate earnings (E) and to assess the associated outlook for the valuation multiple (P/E).

Joe and I think the 2007-09 bear market offers a useful base case for thinking about the downside potential of the current bear market, which might have ended last Monday. However, that depends on whether the market has fully discounted the upcoming wave of terrible news on the health, economic, and earnings fronts now that the Fed seems to have achieved a turning point in the war on the financial front. Let's examine the arithmetic behind the previous bear market:

(1) *Nominal GDP and S&P 500 revenues*. Nominal GDP fell 4.0% from its peak during Q4-2007 to its trough during Q2-2009. S&P 500 revenues per share fell 20.4% from its Q2-2008 peak to its Q1-2009 trough (*Fig. 13*, first panel). S&P 500 forward revenues dropped 20.0% from its peak during the September 4 week of 2008 to the September 24 week of 2009.

(2) *S&P 500 earnings*. S&P 500 operating earnings per share peaked at $97.60 at an annual rate during Q2-2007 and plunged 77.0% to a low of $22.48 during Q4-2008 (*Fig. 13*, second panel). By the last quarter of 2009, it had rebounded 199% back to $67.20, which was only 31.1% below the 2007 peak. It was a V-shaped earnings recession.

S&P 500 forward earnings peaked at $103.79 during the October 19 week of 2007 and dropped 39.4% to a low of $62.92 during the May 8 week of 2009. This series recovered back to its 2007 high during the week of May 6, 2011.

For the years as a whole, earnings per share totaled $84.56 during 2007, falling 24.7% to $63.69 during 2008, falling 2.7% to $61.99 during 2009, and recovering 37.9% to $85.49 during 2010.

(3) *S&P 500 profit margin.* The profit margin tanked from 9.5% during Q2-2007 to 2.4% during Q4-2008 (*Fig. 13*, third panel). The forward profit margin fell from a 2007 peak of 10.5% during the August 30 week to a 2009 low of 6.7% during the May 7 week.

(4) *S&P 500 valuation*. The forward P/E of the S&P 500 dropped from a 2007 high of 15.5 on June 4 to a 2008 low of 8.9 on November 20 (*Fig. 14*). It recovered to a 2009 high of 15.1 on October 14.

Strategy III: P/E x E in 2019-21. Let's now consider a possible scenario for P/E x E during 2019-21 with the experience of 2007-09 in mind:

(1) *Annual data forecasts*. S&P 500 actual quarterly revenues, which peaked at a record high during Q4-2019, undoubtedly will fall sharply during the first three quarters of this year, assuming the severe recession ends during the final quarter of this year.

S&P 500 revenues totaled $1,416 per share during 2019 (*Fig. 15*). Joe and I expect that it will drop 15% this year to $1,200 and rebound 13% next year to $1,350. Earnings per share totaled $163 during 2019. Our best guess is that it could be down 26% this year to $120, and back up 25% to $150 in 2021 (*Fig. 16*).

(2) *Quarterly data forecasts.* Actual S&P 500 operating earnings could be down 80% during Q3 compared to the end of 2019. Over this same period, the S&P 500 actual quarterly revenues could fall 30%, with the profit margin cut in half to 6% (*Fig. 13*, third panel again). But then from

Q4-2020 through mid-2021, earnings could regain much of what was lost during the GVC recession.

(3) *Weekly forward earnings projections.* So what do all these numbers mean for the S&P 500 stock price index? While Joe and I certainly track and analyze the actual quarterly earnings data, we believe that the S&P 500 index is driven by weekly forward earnings, which is the time-weighted average of analysts' consensus expectations for earnings this year and next year. The good news is that the worst of the current earnings recession is starting during Q2 of this year compared to Q4 during 2008. So the time-weighted average of analysts' consensus estimates for earnings should get more support from the relatively upbeat outlook for 2021 compared to the downbeat one back during 2009.

On Friday, the S&P 500 closed at 2541, with forward earnings at $173.70 per share during the March 19 week. So the forward P/E was 14.6. Forward earnings is just starting to drop and could fall by 20% through the end of this year to $140.00 per share, which would be identical to analysts' consensus earnings expectations for 2021. Since our 2021 forecast is $150.00, we reckon analysts will be too pessimistic, as they usually are coming out of recessions.

(4) *Valuation projections.* There's simply no way that forward earnings over the coming few months will be anything but bearish for the S&P 500. However, during the previous bear market, the forward P/E bottomed in late 2008 about six months before forward earnings bottomed. That could be happening again now if the virus news improves (see below), while the Fed continues to flood the system with liquidity. In this relatively optimistic scenario, it is conceivable that the S&P 500 holds its March 23 low of 2237.40, which implied a forward P/E of roughly 13.0 at the latest reading of forward earnings, which we know is heading lower for the foreseeable future.

(5) *Bottom line.* Stocks are relatively cheap at today's level of forward earnings, which can only go lower in coming weeks. If stock prices remain unchanged while earnings are dropping, stocks will get more expensive as P/Es go higher. That might be hard to imagine right now, but the market looks forward, so investors at some point will look past the downside outlook for analysts' consensus earnings expectations this year to a recovery in their expectations—and earnings—next year.

Epidemiology: The Way Forward. Our YRI team is looking for positive signs that the pandemic may end in weeks rather than in months. Consider the following:

(1) *Epidemiologists less doomy.* Leading epidemiologist Neil Ferguson of Imperial College in Britain a couple of weeks ago released a grim US COVID-19 death estimate of 2.2 million if no action is taken against the coronavirus. But since much action is being taken, when might the worst be behind us? A new model released Thursday by the University of Washington's School of Medicine forecasts the peak in daily US deaths will arrive in mid-April and the tail end of that curve, below 10 daily deaths, will arrive by early June.

(2) *New Rochelle is a good example.* The experience in New Rochelle, a small city just north of New York City, has converted early skeptics of social distancing. Two weeks ago, an unexpected cluster of coronavirus cases developed in New Rochelle. New York state took drastic measures, including creating a containment zone. The latest data indicate that the measures may be starting to work.

(3) *Testing.* A five-minute, point-of-care COVID-19 test that experts have called "game-changing" may hit urgent care clinics next week. The US Food and Drug Administration issued an Emergency Use Authorization to Illinois-based medical device maker Abbott Labs on Friday for a coronavirus test that delivers positive results in five minutes and negative results in 13 minutes. The company expects to ramp up manufacturing to deliver 50,000 tests per day.

United Biomedical is now working with San Miguel County, Colorado to test all 8,000 residents for COVID-19 antibodies—making it the first community in the country to do widespread antibody testing. With such extensive virus-exposure data, officials can make more informed decisions on the necessity and extent of community restrictions.

(4) *Experimental drug.* Gilead Sciences will expand access to its experimental anti-coronavirus drug remdesivir to accelerate its emergency use for multiple severely ill patients.

CALENDARS

US: Mon: Dallas Fed Manufacturing Index -10.0, Pending Home Sales -2.0%m/m/6.0%y/y. **Tues:** Consumer Confidence 112.0, Chicago Fed Purchasing Manager's Index 40.0, S&P Case-Shiller 20-City Composite 0.4%m/m/3.3%y/y. (DailyFX estimates)

Global: Mon: Eurozone Economic Confidence Index 91.6, Germany CPI 0.0%m/m/1.3%y/y, UK Gfk Consumer Confidence -15, Japan Industrial Production 0.0%m/m/-4.9%y/y, Japan Retail Trade -1.5% y/y, Japan Jobless Rate 2.4%, China IHS Markit M-PMI & NM-PMI 45.0/42.0. **Tues:** Eurozone CPI Headline & Core Flash Estimate 0.8%/1/1% y/y, Germany Unemployment Change & Unemployment Claims Rate 25k/5.1%, Canada GDP, Japan Tankan Survey, China Caixin Official M-PMI 45.0, RBA Minutes of March 18 Policy Meeting. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance (*link*): Last week saw the US MSCI index soar 10.5% for its best gain since March 2009 and its fifth best since on record dating back to 1970, but remained in a bear market at 25.2% below its 2/19 record high. The US MCSI ranked 10th of the 49 global stock markets we follow in a week when 43/49 countries rose in US dollar terms. That compares to a 15.0% decline a week earlier, which was its worst since October 2008 and its second worst drop on record. It also compares to a 9.2% gain in the latest week for the AC World ex-US index as all regions rose for the first time since mid-January. EAFE was the best performer with a gain of 11.2%, followed by EMU (10.2). EMEA (2.1) was the biggest underperformer, followed by EM Eastern Europe (3.5), BRIC (3.9), EM Asia (5.1), and EM Latin America (5.4). Colombia was the best-performing country last week, with a gain of 32.0%, followed by Japan (17.2), Portugal (15.6), Korea (12.8), and Germany (11.6). Of the 33 countries that underperformed the AC World ex-US MSCI last week, Pakistan fared the worst with a decline of 15.1%, followed by Peru (-3.0), Thailand (-1.6), India (-1.2), and Sri Lanka (-0.6). The US MSCI's ytd ranking rose three places last week to 12/49 as its ytd performance improved to -21.3% from -28.8%. It's still ahead of the 24.6% decline for the AC World ex-US. EM Asia is the best performer ytd, albeit with a decline of 18.8%, followed by BRIC (-21.8) and EAFE (-23.9). The worst-performing regions: EM Latin America (-46.0), EM Eastern Europe (-39.3), EMEA (-33.0), and EMU (-27.8). The best country performers ytd: Jordan (-9.9), China (-11.3), Denmark (-12.5), Switzerland (-14.1), and Japan (-14.6). The worst-performing countries so far in 2020: Brazil (-49.7), Colombia (-48.5), Greece (-45.6), Argentina (-42.5), and Peru (-42.0).

S&P 1500/500/400/600 Performance (*link*): All of these indexes surged higher last week in their best performances since March 2009. MidCap's 13.0% gain was easily ahead of the increase recorded by SmallCap (10.8%) and LargeCap (10.3). Despite the huge gains, they're all still in a bear market. LargeCap ended the week 24.9% below its 2/19 record high, MidCap finished 32.4% below its record high on 1/16, and SmallCap remained the worst performer at

39.0% below its 8/29/18 record. Thirty-one of the 33 sectors rose for the week, three out of a bear market and into correction territory: LargeCap Consumer Staples, LargeCap Health Care, and SmallCap Utilities. MidCap Real Estate was the best performer last week with a gain of 18.1%, ahead of LargeCap Utilities (17.7), MidCap Consumer Discretionary (17.6), MidCap Utilities (15.8), and SmallCap Real Estate (15.6). SmallCap Energy (-5.1) was the biggest underperformer last week, followed by MidCap Energy (-4.2), SmallCap Consumer Staples (0.8), SmallCap Utilities (1.4), and MidCap Consumer Staples (2.1). All three indexes are still down on a ytd basis, but LargeCap's 21.3% drop is much smaller than the declines recorded for MidCap (-31.0) and SmallCap (-34.4). All 33 sectors are down so far in 2020, with the best performers led by SmallCap Communication Services (-9.4), SmallCap Utilities (-12.2), LargeCap Utilities (-13.8), LargeCap Information Technology (-14.2), and LargeCap Consumer Staples (-15.0). The biggest laggards of 2020 to date: MidCap Energy (-71.5), SmallCap Energy (-70.8), LargeCap Energy (-52.3), SmallCap Consumer Discretionary (-42.8), and SmallCap Materials (-38.0).

S&P 500 Sectors and Industries Performance (*link*): All 11 of the S&P 500 sectors rose last week as seven outperformed the 10.3% rise for the index. That compares to a 15.0% decline for the S&P 500 a week earlier, when all 11 sectors fell and five outperformed the index. Utilities' 17.7% gain made it the best performer for the week, ahead of Industrials (15.4%), Real Estate (15.4), Energy (12.2), Financials (11.8), Consumer Discretionary (11.1), and Information Technology (10.5). Communication Services was the biggest underperformer, albeit with a gain of 5.5%, followed by Consumer Staples (6.5), Health Care (8.1), and Materials (9.5). The S&P 500 is now down 21.3% so far in 2020, but just four sectors are trailing the index. The leading sectors ytd: Utilities (-13.8), Information Technology (-14.2), Consumer Staples (-15.0), Health Care (-16.6), Real Estate (-19.3), Communication Services (-19.7), and Consumer Discretionary (-19.9). The laggards of 2020 so far: Energy (-52.3), Financials (-31.6), Materials (-27.9), and Industrials (-27.6).

Commodities Performance (*link*): Last week, the S&P GSCI index edged down less than 0.1%, but recorded its fifth straight weekly decline. It's now down 41.2% from its recent high on 1/6, and it ended the week in a bear market at 47.9% below its cyclical high on 10/3/18. Silver was the best performer last week, with a gain of 17.4%, followed by Gold (11.2%), Wheat (5.9), Heating Oil (5.4), and Kansas Wheat (3.8). With the oil price war continuing between Russia and Saudi Arabia, the Energy Commodities index remained at an 18-year low during the week. Lean Hogs was the biggest decliner for the week, with a drop of 5.4%, followed by Crude Oil (-4.9), Cotton (-4.4), Brent Crude (-3.6), and Coffee (-3.2). Just three of the 24 commodities that we follow are higher so far in 2020. The best ytd performers: Gold (8.6), Wheat (2.2), Kansas Wheat (0.2), Soybeans (-7.7), and Lean Hogs (-10.0). The worst performers ytd: Crude Oil (-64.8), Unleaded Gasoline (-63.7), Brent Crude (-57.7), GasOil (-50.8), and Heating Oil (-47.2).

S&P 500 Technical Indicators (*link*): The S&P 500 price rose 10.3% last week, but remained considerably weak relative to its short-term 50-day moving average (50-dma) and its long-term 200-day moving average (200-dma). It was below its 50-dma for a fifth week and for the first time since October, and also remained solidly below its 200-dma for a fifth week and for the first time since January 2019. Its 50-dma relative to its 200-dma dropped for a fifth straight week, falling into a Death Cross for the first time in 53 weeks. It was at a 53-week low of 0.2% below its 200-dma, down from 2.2% above a week earlier. During late February, it had been at 7.6%, which was the highest since May 2012. The S&P 500's 50-dma dropped for a fifth week after rising for 20 weeks. The price index improved on Friday to 16.2% below its falling 50-dma from 27.7% below on Monday—its lowest reading since it was 29.7% below on October 19, 1987. That compares to a 10-month high of 4.6% above its rising 50-dma in mid-January and 6.6% above during February 2019—its highest level since October 2011. The 200-dma fell for a third week after rising for 39 weeks. It had been rising for 16 weeks through May 2019 after falling from October 2018 to February 2019 in the first downtrend since May 2016 (when it had been slowly declining for nine months). The index traded below its 200-dma for a fifth week after being above for 38 weeks. It ended the week 16.4% below its falling 200-dma, up from 26.6% below on Monday—its lowest reading since March 2009 and down from a 24-month high of 11.2% in mid-February. That compares to a seven-year high of 13.5% above its rising 200-dma during January 2018 and 14.5% below on 12/24/18, which was then the lowest since April 2009. At its worst during the Great Financial Crisis, the S&P 500 price index was 25.5% below its 50-dma on 10/10/08 and 39.6% below its 200-dma on 11/20/08.

S&P 500 Sectors Technical Indicators (*link*): All 11 S&P 500 sectors traded below their 50-dmas and 200-dmas for a third straight week as the S&P 500 price index fell to a new bear market low on Monday. Just four sectors are still in the Golden Cross club (with 50-dmas higher than 200-dmas), down from six a week earlier, as Consumer Staples and Real Estate dropped out of the club. The four sectors still in a Golden Cross: Communication Services, Health Care, Information Technology, and Utilities. That compares to just two sectors in the club during February 2019 and all 11 in the club during January 2018. Energy has not been in a Golden Cross for 71 straight weeks. The 50-dma has been falling for five weeks now for all 11 sectors, a swift reversal from the week before that, when 10 sectors had rising 50-dmas. All

11 sectors had falling 200-dmas for a second week and for the first time since January 2016. Financials' 200-dma was down for a fifth week for the first time since late August. Energy's 200-dma has been mostly falling since October 2018.

US ECONOMIC INDICATORS

Consumer Sentiment Index (*link*): Consumer sentiment tumbled in March to its lowest level since October 2016, and Richard Curtin, the survey's chief economist, noted the numbers will probably go lower before they rebound. "If the consumer sentiment index were to stabilize at its most recent seven-day average, it would imply an additional decline of nearly 18.2 Index-points in April, which would amount to a record setting two-month decline of 30.1 points," according to Curtin. "Stabilizing confidence at its month's end level will be difficult given surging unemployment and falling household incomes." The Consumer Sentiment Index (CSI) plummeted 11.9 points to 89.1 this month from 101.0 in February (which was only a few of ticks below March 2018's cyclical high of 101.4). Both the present situation (to 103.7 from 114.8) and expectations (79.7 from 92.1) components dropped to their lowest levels since October 2016. "The extent of the declines in April will depend on the success in curtailing the spread of the virus and how quickly households receive funds to relieve their financial hardships," noted Curtin.

Regional M-PMIs (*link*): Four Fed districts now have reported on manufacturing activity for March—Philadelphia, New York, Richmond, and Kansas City—and show a sharp contraction in activity. The composite index (to -12.3 from 13.2) plunged 25.5 points to its lowest reading since May 2009—after expanding last month at its fastest pace since November 2018. The New York (to -21.5 from 12.9), Kansas City (-17.0 from 5.0), and Philadelphia (-12.7 from 36.7) measures swung from expansion to contraction—with the New York and Kansas City regions contracting at their fastest paces since March 2009 and Philly since July 2012. Meanwhile, Richmond (2.0 from -2.0) showed growth was basically flat in that region. The new orders (-15.7 from 13.4) measure declined at the fastest pace since April 2009, after expanding at a solid pace in May, as measures for the Philadelphia (-15.5 from 33.6), Kansas City (-38.0 from 8.0), and New York (-9.3 from 22.1) regions tumbled 49.1 points, 46.0 points, and 31.4 points, respectively; Richmond's (0.0 from -10.0) billings were flat—after contracting in February. March's employment measure dropped to -9.1 from 5.1 and 13.1 the prior two months, with factories starting to pare back payrolls in Richmond (-7.0 from 8.0) and New York (-1.5 from 6.6) and decelerate hiring in Philly (4.1 from 9.8) to the slowest pace in just over four years. Meanwhile, Kansas City (-32.0 from -4.0) factories recorded their steepest job cuts in over a decade.

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