



MORNING BRIEFING

April 6, 2020

Analyze This

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

(1) Neil Diamond's song may be a good antidote. (2) Industry analysts tend to be too optimistic during good times. (3) They don't see recession coming and turn too pessimistic as economy starts to recover. (4) Our Earnings Squiggles Framework shows it all. (5) Biggest downward earnings revisions occur during recessions. (6) Modeling earnings now using 2008-09 experience. (7) Lehman Moment: March 16 White House Guidelines set stage for shutting down the economy. (8) Focus on 2021. (9) Forward earnings just starting to take a dive. (10) Bad versus Ugly scenarios for S&P 500. Bad is the new Good. (11) B-52 money will pour into numerous industries. (12) A few industries are already booming as a result of GVC. (13) Joe's daughter's university has a vaccine for COVID-19.

Strategy I: A Happy Song. Industry analysts are just starting to slash their earnings estimates for this year and next year. They are likely to do so very aggressively during the upcoming Q1 earnings season as company managements provide some guidance on how badly the Great Virus Crisis (GVC) is hurting their business. For investors, the downward earnings revisions for 2020 will be shockingly bad, but they won't be surprisingly bad. So they might have been discounted by the plunge in stock prices from February 19 through March 23, maybe.

The question is whether the cuts in 2021 earnings estimates will still leave room for hope that earnings recover next year. If so, then the S&P 500 may continue to work on bottoming between 2200 and 2400. All these open questions hinge on the course of the virus pandemic.

We do see a way forward out of this mess, as we discuss below. Most encouraging is news that the University of Pittsburgh School of Medicine may have a vaccine. Joe observes that UPitt football fans sing Neil Diamond's "[Sweet Caroline](#)" after the third quarter of each game. He surmises that if PittCoVacc vaccine works, maybe it should be named "Caroline." Then the world will be singing the lyrics, which include:

Where it began

I can't begin to knowin'

But then I know it's growin' strong

*Was in the spring
And spring became the summer
Who'd have believed you'd come along
Hands, touchin' hands
Reachin' out, touchin' me ...
Sweet Caroline
Good times never seemed so good
I've been inclined
To believe they never would*

Strategy II: More on Consensus Earnings Forecasts. Industry analysts tend to be too optimistic during good times when the economy has been expanding for a while. As a result, they tend to lower their overly optimistic earnings forecasts as time brings sharper visibility into actual results, which are still quite good and better than the previous year. Furthermore, they don't see recessions coming. When recessions do happen, the analysts scramble to slash their estimates for the current year and the coming year. By the time the economy starts to recover, they've turned too pessimistic on the earnings outlook for the recovery year and have to raise their estimates.

This is easy to see using the Earnings Squiggles Framework (ESF) that Joe and I devised in the late 1990s ([Fig. 1](#) and [Fig. 2](#)). The squiggles show analysts' consensus expectations for S&P 500 earnings per share on a monthly basis for each year spanning 25 months from the previous year's February through the subsequent year's February. So, for example, the earnings squiggle for 2019 starts at February 2018 and ends at February 2020. We constructed this framework so that we can calculate S&P 500 forward earnings from the earnings squiggles. S&P 500 forward earnings is the time-weighted average of analysts' consensus earnings expectations for the current year and the coming year ([Fig. 3](#) and [Fig. 4](#)).

I discuss this framework in my book [Predicting the Markets](#). If you don't have a copy, you should, but here is a [link](#) to the relevant excerpt to tide you over. Let's have a closer look at the ESF for clues about the likely course of analysts' consensus earnings expectations during the current recession and subsequent recovery:

(1) *The data.* The earnings squiggles for the S&P 500 are available not only monthly from

September 1978 but also weekly from May 1994 ([Fig. 5](#)). We have 40 years of complete annual squiggles from 1980 through 2019, i.e., with 25 months of data for each one of them. We have 21 years of complete weekly squiggles, also with 25 months of data, from 1999 through 2019.

(2) *Uppers and downers*. From the beginning to the end of each of the 40 annual (monthly) squiggles, estimates fell for 31 of those years and rose for nine of them. The squiggles tend to decline over time, even during good times, because analysts tend to be overly optimistic about the outlook for the earnings of the companies they follow the further out in the future they are. The up-year exceptions, i.e., with upward revisions, were 1980, 1988, 1995, 2004, 2005, 2006, 2010, 2011, and 2018 ([Fig. 6](#)).

Of course, the steepest downward slopes occur during recessions, when analysts are scrambling to cut their estimates. The few years when they raised their estimates in the past tended to be during economic recoveries, especially following bad recessions that engendered too much pessimism among analysts. The average decline for all of the 25-month squiggles over the past 40 years was -11.9%, with the 31 down years averaging -17.5% and the nine up years averaging 7.0%.

(3) *Recession years*. In the eight recessionary years since 1980, the downward revisions were especially steep: 1982 (-38.9%), 1983 (-30.9), 1991 (-35.3), 1992 (-26.2), 2001 (-33.2), 2002 (-29.6), 2008 (-32.3), and 2009 (-45.6). Their average decline was -34.0%. During the other 23 more normal years with downward revisions, the average decline was 11.7%.

(4) *The previous worst case*. The worst downward revision on record occurred during 2009 (-45.6%). That may seem odd given that the economic recession ended in June 2009. However, we are focusing on analysts' consensus expectations for 2009 earnings, which were clobbered following the collapse of Lehman Brothers on September 15, 2008 ([Fig. 7](#)).

(5) *Shutting down the economy*. This time, let's say that the Lehman Moment occurred on Monday, March 16, when the White House acknowledged the severity of the health crisis by issuing "The President's Coronavirus Guidelines for America: 15 Days To Slow the Spread." The S&P 500 tumbled 12.0% that day even though the Fed announced the day before that the federal funds rate would be cut by 100bps to zero. The Fed also announced QE4 bond

purchases totaling \$700 billion.

The first guideline was: “Listen to and follow the directions of your state and local authorities.” On Thursday, March 19, the governor of California issued his [stay-in-place](#) executive order. The next day, the governor of New York issued a 10-point executive order titled “[New York State on PAUSE](#).” The US has effectively been shutting down since then. On Sunday, March 29, the night before Day 15, Trump told the country to stick with the [plan](#) for another 30 days, until April 30. The S&P 500 rose 3.4% the next day, but fell 5.3% over the rest of the week ([Fig. 8](#)). As of Saturday, April 4, just eight US Republican governors have decided against issuing statewide directives urging their residents to stay at home.

(6) *The current earnings crisis.* Now let’s say that the earnings squiggle for 2020 plunges 45%, matching the 2009 freefall. It began at \$188.96 per share during February 2019. So how low will earnings expectations drop by the squiggle’s end in February 2021? Drum roll, please: \$104.50 per share.

As noted above, each annual squiggle has 25 months of data. The squiggle for 2020 has 14 months of data so far—from its February 2019 start through March—and is down 10.1%. Since then, analysts have axed their estimates further, and Joe’s advance reading for the April 3 week has the 2020 estimate down 17.0% so far.

Let’s round it down to \$100 per share this year. That is a horribly bearish outlook. No matter what reasonable P/E we apply to it, say from 10-15, there’s much more downside to the bear market, with the S&P 500 closing at 2488.65 on Friday and with the potential downside in the 1000-1500 range. But before you pull the trigger, read on.

(7) *The year 2021 will matter more than 2020 after mid-year.* Remember, the Lehman Moment occurred late in 2008 and sent 2009 earnings estimates into a tailspin. This time, the Lehman Moment occurred early in 2020 and is about to send 2020 estimates into a tailspin. Since our estimate is \$120.00 per share for this year, we reckon industry analysts are likely to get too pessimistic if their consensus drops closer to \$100.00 and then have to raise their estimate closer to our number, assuming we aren’t being too optimistic.

In any event, as the year progresses, 2020 will matter less and less to the stock market while

2021 will matter more and more. By the end of the year, the key question for the market will be: What will analysts be projecting for 2021 (which will be the same as forward earnings at that point in time)? The 2021 earnings squiggle just started during February with a reading of \$195.65 per share. We reckon it could drop 23% by the end of this year to \$150.00, which just happens to be our forecast for 2021 ([Fig. 9](#)).

To be clear, 2020 will matter less and less only if the courses of the health, economic, and financial crises all improve as the year progresses, giving industry analysts and investors the confidence to believe that 2021 will be a recovery year for the economy and earnings rather than the second year of the Great Depression II.

(8) *Forward earnings one more time.* We certainly hope we aren't beating a dead horse, but allow us one more shot at reviewing the prospects for S&P 500 forward earnings over the rest of this year through 2021—the prospects, that is, if it roughly follows the course of the previous recession and recovery.

S&P 500 forward revenues per share fell 20% from the peak during the September 4 week of 2008 through the trough during the September 24 week of 2009 ([Fig. 10](#)). The peak-to-trough recession in this series lasted 56 weeks. A similar drop would reduce forward revenues from a peak of \$1,480 per share to \$1,184 by the week of March 11, 2021. While forward revenues could fall as much this time as last time, we expect that it will trough before the end of this year.

S&P 500 forward earnings peaked during 2008 at \$100.69 per share during the July 11 week ([Fig. 10](#), again). It plunged 37.5% to \$62.92 by the May 8 week of 2009, over a 44-week period. A similar drop this time would reduce forward earnings from a peak of \$179.01 during the January 31 week of 2020 to a low of \$112 by the week of November 27 this year. We think the trough this time could occur by late summer and be followed by a recovery back to \$150. Admittedly, this is the best imaginable outcome, as it assumes that the viral pandemic will peak this month and that the economy will be opening up this summer.

Strategy III: More Thoughts on Valuation. In our P/E x E analysis, we use forward earnings, which is determined by the consensus of analysts' expectations for earnings during the current year and the coming year. The forward P/E is determined by investors. Let's continue our

discussion in recent days on the valuation question:

(1) *Valuation arithmetic for the S&P 500.* We can use our Blue Angels framework to think about the outlook for the S&P 500 stock price index ([Fig. 11](#)). At Friday's close and using the March 26 reading of forward earnings, the forward P/E was 14.7, up from the recent low of 12.9 on Monday March 23 ([Fig. 12](#)).

If forward earnings drops to \$150 a share by the end of this year, here is where the index will be at various forward P/Es by then: 1500 (P/E = 10), 1800 (12), 2100 (14), 2400 (16), 2700 (18), and 3000 (20). Take your pick. We pick 2700-2900 by the end of this year and 3500 by the end of next year based on our current assessment that the health crisis will abate by the late summer and that the economy will be starting to recover during Q4. There are clearly much more pessimistic alternatives. We doubt that there is a more optimistic outlook than ours. (Hedge clause: We recognize that pessimism is in fashion more than ever and that optimism is widely believed to be delusional.)

(2) *S&P 500 sector valuations.* Put on your diving suit, and let's plunge into the forward P/Es of the S&P 500 sectors at their lows in late 2008 and their recent lows on March 23: S&P 500 (8.9, 12.9), Communication Services (8.4, 14.1), Consumer Discretionary (11.5, 17.0), Consumer Staples (11.8, 15.6), Energy (5.7, 10.9), Financials (7.0, 7.7), Health Care (9.2, 11.5), Industrials (8.1, 11.3), Information Technology (9.9, 16.0), Materials (8.1, 12.3), Real Estate (17.8, 29.8), and Utilities (9.4, 13.6) ([Fig. 13](#)).

Do some/most/all of the sectors' forward P/Es need to drop closer to their 2008 lows to make a bear market bottom? Since we think the market is working on making a market bottom around 2200-2400, we don't think so, for reasons discussed in the following section.

Strategy IV: Winners. Of course, every sector of both the economy and the S&P 500 is suffering to varying extents from the unfolding recession caused by the GVC. But unlike the Great Financial Crisis, the fiscal and monetary responses have been immediate and unprecedented this time. The scale of the stimulus is so huge that Melissa and I call it "B-52 money." Bazooka and helicopter analogies seem so yesterday and puny.

As Jackie and I discussed last Thursday, the biggest losers of the GVC are getting lots of

government support, particularly the airlines and small businesses. Cruise lines are mostly out of luck. So are auto manufacturers and dealers, as well as homebuilders. Now consider some of the potential winners within the S&P 500 sectors:

(1) The *Health Care* sector is full of overwhelmed companies. But that's good for their business, and the government is pouring tens of billions of dollars into the sector.

(2) In *Consumer Staples*, brick-and-mortar non-food retailers and restaurants are hurting for sure, but online retail sales are booming. Grocery and drug stores can barely restock their bare shelves fast enough to meet customers' demand.

(3) In *Communication Services*, theaters and amusement parks are closed, but video streaming services are streaming as never before.

(4) In the *Information Technology* sector, demand for home-office technologies is booming along with traffic on the cloud.

(5) Congress is working on another stimulus package, which may include infrastructure spending, benefiting the *Industrials*.

(6) *Energy* companies have been among the biggest losers as the GVC is depressing global demand for gasoline and jet fuel just as the Saudis and Russians are waging a price war aimed at putting the US frackers out of business. The Trump administration is likely to respond with policies that protect the domestic oil producers one way or another.

(7) *Winners and losers*. The S&P 500 fell to a bear market closing low of 2237.40 on Monday, March 23. That might have been THE LOW, or not. We think the S&P 500 is trying to find a bottom around 2200-2400. Since March 23, it is up 11.2%, but still down 26.5% from the February 19 record high. Here is the performance derby for the S&P 500 sectors since March 23: Energy (26.6%), Health Care (16.1), Utilities (15.5), Industrials (15.4), Real Estate (14.7), Consumer Staples (13.6), S&P 500 (11.2), Financials (11.0), Materials (10.8), Information Technology (9.4), Consumer Discretionary (5.5), and Communication Services (4.4). (See [table](#).)

Virology 101: Accentuating the Positives. There's plenty of doom and gloom to report, and the media is reporting all the grim news on a 24x7 basis. We will continue to cherry-pick the news that suggests a way out of this crisis sooner rather than later, such as:

(1) *Vaccine*. The April 2 *New York Post* [reported](#): "Scientists at the University of Pittsburgh School of Medicine believe that they've found a potential vaccine for the new coronavirus. The researchers announced their findings Thursday and believe the vaccine could be rolled out quickly enough to 'significantly impact the spread of disease,' according to their study published in [EBioMedicine](#)."

"The vaccine would be delivered on a fingertip-size patch. When tested on mice, the vaccine produced enough antibodies believed to successfully counteract the virus. The scientists say they were able to act fast because they had already done research on the similar coronaviruses SARS and MERS."

Joe's daughter is a pre-Pharmacy student at the University of Pittsburgh. Joe proudly reports that the university has a legacy of medical breakthroughs, including the polio vaccine developed by Jonas Salk. Joe observes that based on the university's [press release](#) and [video](#), their COVID-19 vaccine hits all the tick marks: easy to make, easy to store, and easy to administer.

Last Thursday, Bill Gates announced that his philanthropic organization, the Gates Foundation, could mobilize faster than governments to fight the coronavirus outbreak. Gates said he was picking the top seven vaccine candidates and building manufacturing capacity for them. "Even though we'll end up picking at most two of them, we're going to fund factories for all seven, just so that we don't waste time in serially saying, 'OK, which vaccine works?' and then building the factory," he said.

In a March 31 [op-ed](#) in *The Washington Post*, Gates promoted shutting down the economy for "10 weeks or more." That's easy for him to say while he builds his factories. The economic consequences of shutting down the economy beyond April would be disastrous, in our opinion.

(2) *Testing*. The April 2 *Chicago Sun-Times* [reported](#): "Gov. J.B. Pritzker announced Thursday that Illinois was set to receive 15 machines that process rapid COVID-19 tests developed by

North Chicago-based Abbott Labs. ... Abbott's groundbreaking coronavirus test can deliver positive results in just five minutes and negative results in 13 minutes. As he touted the advancement as 'a game changer,' Pritzker noted that existing tests take about four to six hours to process results."

(3) *Masks*. I've been promoting the idea that we should all wear face masks when going out, even homemade ones, to reduce the spread of the COVID19 virus. President Donald Trump said Friday his administration is now recommending Americans wear "non-medical cloth" face coverings.

CALENDARS

US: **Mon:** None. **Tues:** Consumer Credit \$14.0b, Job Openings 6.500m. (DailyFX estimates)

Global: **Mon:** Eurozone Sentix Investor Confidence -37.5, Germany Factory Orders -0.2%m/m/-2.5%y/y, Japan Household Spending -3.3%y/y, RBA Cash Rate Target 0.25%. **Tues:** Germany Industrial Production -0.9%m/m/-3.0%y/y, Japan Leading & Coincident Indexes 92.0/95.8, Japan Machine Orders -3.0% y/y, Japan Trade Balance ¥1213.6b, Mexico CPI 3.4% y/y. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index drop 2.3%, and remain in a bear market at 27.0% below its 2/19 record high. The US MSCI ranked 25th of the 49 global stock markets we follow in a week when 13/49 countries rose in US dollar terms. That compares to a 10.5% gain a week earlier, which was its best weekly performance since March 2009. It also compares to a 2.9% drop in the AC World ex-US index last week as just two regions rose. EM Eastern Europe was the best performer with a gain of 7.6%, followed by EMEA (5.2), BRIC (-1.3), and EM Asia (-1.4). EM Latin America (-5.9) was the biggest underperformer, followed by EMU (-4.6) and EAFE (-4.0). Russia was the best-performing country last week, with a gain of 11.1%, followed by Chile (10.1), Pakistan (8.9), Norway (6.6), and Denmark (3.1). Of the 18 countries that underperformed the AC World ex-US MSCI last week, Japan fared the worst with a decline of 8.9%, followed by Brazil (-8.1), Morocco (-7.7), Singapore (-7.0), and Mexico (-7.0). In March, the US MSCI fell 12.8% for its worst monthly decline since October 2008, and ranked 12/49 as the AC World ex-US index fell 14.9%. All 49 countries moved lower in March. Denmark was the best performer, albeit with a drop of 4.4%,

followed by Switzerland (-5.5), China (-6.6), Japan (-8.1), and Jordan (-9.9). The worst countries in March: Colombia (-41.5), Brazil (-38.3), Pakistan (-35.7), Argentina (-32.1), and Austria (31.7). The outperforming regions: EM Asia (-11.9), EAFE (-13.8), and BRIC (-14.4). EM Latin America was March's worst-performing region with a drop of 34.6%, followed by EM Eastern Europe (-23.1), EMEA (-20.0), and EMU (-17.4). The US MSCI's ytd ranking remained steady w/w at 12/49 as its ytd performance dropped to -23.1% from -21.3% the prior week. It's still ahead of the 26.7% decline for the AC World ex-US. EM Asia is the best regional performer ytd, albeit with a decline of 19.9%, followed by BRIC (-22.8). The worst-performing regions ytd: EM Latin America (-49.2), EM Eastern Europe (-34.7), EMU (-31.1), EMEA (-29.5), and EAFE (-27.0). The best country performers ytd: Denmark (-9.8), Jordan (-9.9), China (-11.6), and Switzerland (-13.5). The worst-performing countries so far in 2020: Brazil (-53.8), Colombia (-49.1), Greece (-48.0), Argentina (-44.3), and Austria (-43.9).

S&P 1500/500/400/600 Performance ([link](#)): All of these indexes moved lower last week following their strongest gains since March 2009 a week earlier. LargeCap's 2.1% drop was smaller than the declines recorded by MidCap (-6.0%) and SmallCap (-7.1). They're all still in a bear market. LargeCap ended the week 26.5% below its 2/19 record high, MidCap finished 36.5% below its record high on 1/16, and SmallCap remained the worst performer at 43.3% below its 8/29/18 record. Only five of the 33 sectors rose for the week, but three are out of a bear market and in correction territory: LargeCap Consumer Staples, LargeCap Health Care, and SmallCap Utilities. MidCap Energy was the best performer last week with a gain of 12.3%, ahead of LargeCap Energy (5.4), LargeCap Consumer Staples (3.5), LargeCap Health Care (2.0), and MidCap Consumer Staples (1.4). SmallCap Consumer Discretionary (-14.4) was the biggest underperformer last week, followed by SmallCap Real Estate (-14.3), MidCap Real Estate (-11.7), MidCap Consumer Discretionary (-11.5), and SmallCap Financials (-10.1). All 33 sectors fell in March, compared to 1 rising in February. March's best performers, albeit with declines: SmallCap Utilities (-2.0), LargeCap Health Care (-4.0), SmallCap Consumer Staples (-4.8), LargeCap Consumer Staples (-5.9), and MidCap Consumer Staples (-7.7). March's biggest laggards: SmallCap Energy (-53.1), MidCap Energy (-50.2), LargeCap Energy (-35.0), SmallCap Consumer Discretionary (-34.5), and MidCap Consumer Discretionary (-30.6). All three indexes are still down on a ytd basis, but LargeCap's 23.0% drop is much smaller than the declines recorded for MidCap (-35.1) and SmallCap (-39.1). All 33 sectors are down so far in 2020, with the best performers led by SmallCap Communication Services (-11.8), LargeCap Consumer Staples (-12.0), LargeCap Health Care (-14.9), SmallCap Utilities (-15.0), and LargeCap Information Technology (-15.9). The biggest laggards of 2020 to date: SmallCap

Energy (-70.9), MidCap Energy (-68.1), SmallCap Consumer Discretionary (-51.0), LargeCap Energy (-49.8), and MidCap Consumer Discretionary (-44.9).

S&P 500 Sectors and Industries Performance ([link](#)): All but three of the 11 S&P 500 sectors fell last week as five outperformed the index's 2.1% decline. That compares to a 10.3% rise for the S&P 500 a week earlier, when all 11 sectors rose and seven outperformed the index. Energy's 5.4% gain made it the best performer for the week, ahead of Consumer Staples (3.5%), Health Care (2.0), Communication Services (-1.4), and Information Technology (-2.0). Utilities was the biggest underperformer with a drop of 7.1%, followed by Financials (-6.8), Real Estate (-6.2), Consumer Discretionary (-4.7), Industrials (-4.5), and Materials (-3.8). The S&P 500 fell 12.5% in March for its worst monthly performance since March 2009 as all 11 sectors moved lower and five beat the index. That compares to all 11 falling and six beating the S&P 500's 8.4% decline in February. The leading sectors in March, albeit with declines: Health Care (-4.0), Consumer Staples (-5.9), Information Technology (-8.7), Utilities (-10.2), and Communication Services (-12.2). March's laggards: Energy (-35.0), Financials (-21.5), Industrials (-19.3), Real Estate (-15.4), Materials (-14.3), and Consumer Discretionary (-13.4). The S&P 500 is now down 23.0% so far in 2020 with five sectors leading the index. The leading sectors ytd: Consumer Staples (-12.0), Health Care (-14.9), Information Technology (-15.9), Utilities (-19.9), and Communication Services (-20.8). The laggards of 2020 so far: Energy (-49.8), Financials (-36.3), Industrials (-30.8), Materials (-30.6), Real Estate (-24.3), and Consumer Discretionary (-23.6).

Commodities Performance ([link](#)): Last week, the S&P GSCI index rose 5.3% for its best gain since April 2018 and its first in six weeks. It's now down 38.1% from its recent high on 1/6, and it ended the week in a bear market at 45.2% below its cyclical high on 10/3/18. Crude Oil was the best performer last week, with a gain of 31.8%, followed by Brent Crude (22.0%), Unleaded Gasoline (12.7), Copper (0.9), and GasOil (0.7). However, with the oil price war between Russia and Saudi Arabia not officially over, the Energy Commodities index remains near an 18-year low. Lean Hogs was the biggest decliner for the week, with a drop of 24.8%, followed by Feeder Cattle (-10.6), Live Cattle (-9.6), and Sugar (-7.1). March saw just four of the 24 commodities climb as the S&P GSCI Commodities index tumbled 28.7% for its worst monthly drop in more than 20 years. That compares to four rising in February when the S&P GSCI Commodities index fell 7.8%. March's best performers were Kansas Wheat (8.8%), Wheat (8.3), Coffee (7.4), and Gold (1.9). March's laggards: Unleaded Gasoline (-60.0), Crude Oil (-54.2), Brent Crude (-46.9), GasOil (-32.9), and Heating Oil (-32.2). Only one of the 24 commodities that we follow is higher so far in 2020. The best ytd performers: Gold (8.0), Wheat

(-1.7), Kansas Wheat (-2.9), Soybeans (-10.6), and Cocoa (-10.9). The worst performers ytd: Unleaded Gasoline (-59.1), Crude Oil (-53.6), GasOil (-50.5), Brent Crude (-48.3), and Heating Oil (-47.1).

S&P 500 Technical Indicators ([link](#)): The S&P 500 price fell 2.1% last week, and 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 sixth week and for the first time since October, and also remained solidly below its 200-dma for a sixth week and for the first time since January 2019. Its 50-dma relative to its 200-dma dropped for a sixth straight week, and was in a Death Cross for a second week for the first time since March 2019. Its 50-dma was at a 56-week low of 2.4% below its 200-dma, down from 0.2% below 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 sixth week after rising for 20 weeks. The price index improved on Friday to 15.8% below its falling 50-dma from 16.2% a week earlier. That's up from 27.7% below on 3/23—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 fourth 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 sixth week after being above for 38 weeks. It ended the week 17.8% below its falling 200-dma, up from 16.4% below a week earlier. That's up from 26.6% below on 3/23—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 fourth straight week as the S&P 500 price index remained above its bear market low of 3/23. Just two sectors are still in the Golden Cross club (with 50-dmas higher than 200-dmas), down from four a week earlier, as Communication Services and Utilities dropped out of the club. The two sectors still in a Golden Cross: Health Care and Information Technology. 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 72 straight weeks. The 50-dma has been falling for six weeks now for all 11 sectors, a swift

reversal from the week ending February 21, when 10 sectors had rising 50-dmas. All 11 sectors had falling 200-dmas for a third week and for the first time since January 2016. Financials' 200-dma was down for a sixth week for the first time since late August. Energy's 200-dma has been mostly falling since October 2018.

US ECONOMIC INDICATORS

Employment ([link](#)): COVID-19 ended a record-long string of employment gains in March, as payroll employment fell for the first time since September 2010—posting its biggest decline since May 2009's near-record decline. Leisure & hospitality accounted for the lion's share, roughly two-thirds, of the loss. Employment tumbled 701,000, the steepest loss since the 800,000 drop during the financial crisis—which was within 38,000 of the record drop of 838,000 recorded during October 1949! Revisions show a net loss of 57,000 during the two months through February, reflecting a big downward revision to January (to 214,000 from 273,000) payrolls and little change to February's (275,000 from 273,000). Private payrolls contracted 713,000—the most since April 2009. Revisions to private payrolls were smaller than for total payrolls, with February's (242,000 from 228,000) gain 14,000 higher, while January's (179,000 from 222,000) was 43,000 lower, for a net loss of 29,000. In March, leisure & hospitality establishments shed 459,000 jobs, with most of the decline in food services & drinking places (-417,000); employment in the accommodation industry dropped 29,000. Notable declines also occurred in health care & social assistance (-61,000), professional & business services (-52,000), retail trade (-46,000), construction (-29,000), and manufacturing (-18,000). Meanwhile, federal government employment climbed 18,000 last month, reflecting the hiring of workers for the 2020 Census.

Earned Income Proxy ([link](#)): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, posted its first decline since summer 2016 in March. It sank 0.7%—its biggest decline since February 2010—pushing the y/y rate down to 3.3% from 4.7% in February! The EIP's aggregate weekly hours component plunged 1.1% last month, its biggest loss since March 2009—pushing the yearly rate (0.2% y/y) dangerously close to negative territory; the rate was 1.6% y/y in February and 2.1% at the start of last year. The other component, average hourly earnings, continued to climb to new record highs, advancing 0.4% in March and 3.1% y/y—though the latter rate is down from a recent peak of 3.5% last summer.

Unemployment ([link](#)): The unemployment rate jumped to 4.4% in March after falling back to

its 50-year low of 3.5% in February, while the participation rate dropped to 62.7% after holding in February at January's 63.4%—which was the highest since June 2013! The number of unemployed jumped 1.4 million last month to nearly a three-year high of 7.1 million, while the civilian labor force dropped 1.6 million to 162.9 million; household employment plunged a record 3.0 million to 155.8 million. Here's a look at some key unemployment rates, all of which spiked higher in March: African American (to 6.7% from 5.8%), Hispanic (6.0 from 4.4), Asian (4.1 from 2.5), and White (4.0 from 3.1). Here's a snapshot of unemployment rates by education level: less than a high school degree (to 6.8 from 5.7), high school degree (4.4 from 3.6), some college (3.7 from 3.0), and a Bachelor's degree & higher (2.5 from 1.9).

Wages ([link](#)): Average hourly earnings climbed to a new record high again last month, though the yearly rate remained on a volatile downtrend, ticking up to 3.1% y/y in March from 3.0% the first two months of the year—below its recent peak of 3.5% last February. The 12-month wage rate for service-providing industries (3.1% y/y) is holding around its recent low of 3.0% posted in February and December—which was the weakest rate since July 2018; it was at a series high of 3.7% last February. Meanwhile, the goods-producing rate (3.1% y/y) was little changed from January's cyclical high of 3.3%. Within goods-producing, the wage rate for manufacturing (3.2) remained around January's more than three-year high of 3.4%, while the natural resources' rate (5.5) held just below its recent high of 6.5%. In the meantime, the rate for construction (3.7) companies eased to a seven-month low. Within service-providing industries, the rate for professional & business services (3.3% y/y) is stalled around recent highs, while those for utilities (1.5), transportation & warehousing (2.0), and financial activities (3.3) are bouncing around recent lows. Meanwhile, rates are trending lower for information services (2.6), wholesale trade (1.8), education & health services (1.4), and retail trade (4.2)—though the latter may be finding a bottom.

Auto Sales ([link](#)): Motor vehicle sales tumbled 33% in March—from 17.0mu to 11.4mu (saar)—the weakest sales pace since April 2010. Sales plunged for both domestic light-trucks (to 6.8mu from 9.9mu, saar) and cars (2.2 from 3.2)—with the former sinking to its lowest level since December 2013 and the latter since records began in January 1980! Sales of imports plummeted to 2.4mu (saar) after fluctuating between 3.7mu and 3.9mu for over a year, and was at the top of that range at 3.9mu (saar) in February. Sales for both cars and light trucks collapsed nearly 40% during the month to 0.8mu and 1.6mu (saar), respectively.

GLOBAL ECONOMIC INDICATORS

Global Composite PMIs ([link](#)): Global economic activity contracted at its fastest pace since 2009, as the COVID-19 outbreak triggered a substantial disruption across the global economy last month. The JP Morgan Global Composite Output Index (C-PMI) tumbled for the second month, from 52.2 in January to a 133-month low of 39.4 by March (its second steepest decline in the series history), as activity in the service sector (37.0 from 52.7 in January) plunged at a record pace. Meanwhile, the manufacturing sectors measure stabilized, edging up to 47.6, after dropping from 50.4 to 47.1 in February, as China's M-PMI (to 50.1 from 40.3) moved out of contractionary territory. The C-PMI for the emerging economies (44.9 from 38.9) showed overall activity contracted at a slower pace, getting a slight boost from China's improvement in manufacturing output, while the advanced economies' C-PMI plummeted to 36.4 from 49.5 and 50.2 the prior two months. Excluding China, C-PMIs by country were pretty dismal. The UK's C-PMI (to 36.0 from 53.0) tumbled to an all-time low, while Japan's (36.2 from 47.0) contracted at its fastest pace since 2009—with the exception of the tsunami and earthquake disasters in 2011. Meanwhile, the overall Eurozone's C-PMI (29.7 from 51.6) showed the biggest collapse in activity since the series began in 1998! Germany (35.0 from 50.7), France (28.9 from 52.0), Spain (26.7 from 51.8), and Italy (20.2 from 50.7) all plummeted to survey lows, while Ireland's (37.3 from 56.7) sank to a 131-month low. Meanwhile, the US (40.9 from 49.6) also contracted at a sharp rate—though saw the weakest downturn of the largest advanced economies.

Global Non-Manufacturing PMIs ([link](#)): March saw the rate of growth in the global service economy plunge deeper into contractionary territory due to the corona virus outbreak. JP Morgan's Global NM-PMI (to 37.0 from 47.1) plummeted as the global service sector saw business activity, new business, and new exports business all contract at the fastest rates in survey history. The NM-PMI (to 42.1 from 39.8) for emerging economies improved slightly, as China's (43.0 from 26.5) service sector declined at a much slower rate than February's record decline. The NM-PMI (34.8 from 49.7) for advanced economies continued to contract at a rapid rate. The Eurozone's (26.4 from 52.6) service sector went into a freefall last month, with Italy (17.4 from 52.1) and Spain (23.0 from 52.1) contracting at the fastest rates, followed by France (27.4 from 52.5), Germany (31.7 from 52.5), and Ireland (32.5 from 59.9). Japan (33.8 from 46.8), the UK (34.5 from 53.2), and US (39.8 from 49.4) also contracted at sharp rates, but not as severe as Europe. Looking at a couple of emerging economies, the story is the same, with the service sectors in Russia (37.1 from 52.0) and Brazil (34.5 from 50.4) also in a tailspin.

US Non-Manufacturing PMIs ([link](#)): The US service sector continued to expand last month, according to the ISM Survey, but the IHS Markit survey showed the steepest contraction in the

service sector in survey history. ISM's NM-PMI fell from 57.3 in February to 52.5 in March—the lowest since August 2016—though a spike in the supplier deliveries (to 62.1 from 52.4) component masked underlying weakness, just as in the ISM M-PMI. (Usually, slower deliveries are a sign of strengthening demand, though this time it reflects supply-chain problems due to the corona virus.) The business activity component has dropped precipitously since reaching 60.9 in January, plunging to 48.0 last month—the first reading below 50.0 since July 2009. The new orders component dropped 10.2 points last month—to 52.9 from 63.1—though remained, surprisingly, in expansionary territory. The employment (47.0 from 55.6) measure showed the first decline in service-sector jobs since February 2014. IHS Markit's NM-PMI sank from 53.4 at the start of this year to 39.8 last month—the weakest reading in the history of the survey going back to October 2009. According to the report, “The survey indicates that the economy contracted an annualized rate approaching 5% in March, but with more measures to fight the virus outbreak being taken this decline will likely be eclipsed by what we see in the second quarter. More non-essential businesses are being forced to close, some are going bust, and lockdowns are leading to vastly reduced consumer spending.”

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