



MORNING BRIEFING

May 26, 2020

Rebalancing Versus the Second Wave

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

(1) Throwing caution to the wind? (2) The second wave is the big risk ahead for the economy that could stall stock market rally. (3) Lots of money in cash and bonds available to rebalance into stocks. (4) On the same page: Savita's story doesn't conflict with our story. (5) After mad dash for cash, individuals are buying bond funds but still selling stock funds. (6) Institutional investors are natural-born rebalancers. (7) Record amount of liquid assets earning nothing. (8) Central bankers are natural-born buyers of bonds, enabling investors to rebalance into stocks. (9) Comparative epidemiology: 2020 vs 2009. (10) Waiting for a vaccine.

Strategy I: On Second Thought. First the good news: The flood of liquidity provided by the Fed has boosted the S&P 500 by 32.1% since March 23, pushing the index above our year-end target of 2900 well ahead of schedule. The bad news is that there is evidence that Americans risk a second wave of infection by turning too social after over two months of developing cabin fever during their lockdown-imposed isolation.

Joe and I think that the remarkable rally in the S&P 500 since March 23 could stall around 2900 over the rest of the year, with lots of volatility if there is a second wave of the pandemic. While there are parts of the world, such as Brazil and Mexico, where the first wave hasn't even crested, it apparently has done so in the US, resulting in the gradual lifting of lockdown restrictions.

The problem is that we had assumed that the vast majority of Americans would respond to the reopening with abundant caution—that is, by keeping their distance from others and especially by wearing masks in public. News reports over the long Memorial Day weekend suggest that too many people may be throwing caution to the wind, risking undoing the progress made in flattening the curve and raising the risk of a second wave of infection. We hope we are wrong and that the press is exaggerating the problem.

But investors may need to be cautious if the general public isn't cautious enough about the virus, which remains both asymptomatic and highly infectious. It will probably require a vaccine

for the stock market to move back into record territory on the way to our year-end 2021 target of 3500, notwithstanding the flood of liquidity we discuss below. We remain optimistic about the future but are turning more cautious about the present.

Strategy II: Liquidity Flood. In my many Zoom meetings with our accounts since late February, we've been discussing the consequences of the Great Virus Crisis (GVC). Several accounts have said that during the first half of March, they were unable to rebalance out of bonds and into stocks because the bond market had turned so illiquid, as I've discussed before. That changed on March 23 when the Fed adopted QE4Ever, flooding the bond market with liquidity and allowing rebalancers to sell their bonds and buy stocks.

Joe and I observed that this development explained why stock prices had rebounded so dramatically. It also led us to conclude that the S&P 500 March 23 low wouldn't be retested. That's because any selloff would be met by more rebalancing into stocks by investors who hadn't moved fast enough to do so or expected another opportunity to do so on a retest of the March 23 low.

According to a May 21 CNBC [story](#), Bank of America's (BoA) Savita Subramanian, its top-notch head of equity and quantitative strategy, agrees with us. She expects more rotation into stocks out of bonds. She observes that equity allocation among BofA clients has dropped by 3ppts to 57.1%, while cash allocations have risen to nearly 14%, which is above the historical average for cash dating back to 2005. According to the article, Savita observed: "The extreme attractiveness of stocks over bonds, particularly as rates have plummeted back to near zero, can be the catalyst for the rotation into stocks, driving the market higher."

One of our thought-provoking accounts sent me the following email message: "I thought this article was interesting in that the analyst indicates that folks haven't been reallocating from bonds to stocks yet. Is there a disconnect between this and what I believe is your view that a reallocation has been occurring due to the Fed's buying bonds and unlocking the bond market so folks have been able to sell and invest in stocks, which has been helping drive the rally?"

Joe and I don't see a contradiction. As we've observed, lots of cash was raised during the mad dash for cash during March. Much of that March Madness was attributable to individual investors who mostly bailed out of bond funds. Now, as the BoA analysis observes, they are sitting on an even bigger pile of cash earning nothing. High-frequency data aren't available to track rebalancing by institutional accounts, which is why we relied on our conversations with

institutional money managers to conclude that many would continue the opportunistic rebalancing they had been doing since March 23. At the same time, we have been monitoring the weekly data on liquid assets. (See our [Mad Dash for Cash in 2020](#).) Here is an update:

(1) *Bond fund flows*. According to estimates provided by the Investment Company Institute, the four-week sum of outflows from all bond funds peaked at \$277.9 billion during the April 1 week ([Fig. 1](#)). The same series shows net inflows of \$49.7 billion through the May 13 week. Interestingly, the comparable series for equity funds shows net outflows of \$62.2 billion through the May 13 week ([Fig. 2](#)).

(2) *Liquid assets*. The dash for cash may not be as mad as it was in March, yet liquid assets rose to yet another record high of \$16.2 trillion during the May 11 week, up a whopping \$2.4 trillion since the end of February ([Fig. 3](#)). Over this same period, savings deposits (including money market deposit accounts) jumped \$1.2 trillion, while retail and institutional money market mutual fund (MMMF) assets increased \$184 billion and \$1.1 trillion, respectively.

(3) *C&I loans*. Some of the funds going into institutional MMMFs might have come from the mad dash by businesses to raise cash by taking down their lines of credit. Commercial & industrial loans soared \$731 billion from the end of February through the May 13 week ([Fig. 4](#)).

(4) *Central banks*. The major central banks continue to pump liquidity into global financial markets by expanding their balance sheets. The Fed's assets have soared to a record \$7.0 trillion during the May 20 week from \$4.3 trillion on March 15 when QE4 was announced, and expanded to QE4Ever the following week ([Fig. 5](#)). The Fed's holdings of US Treasury securities have increased by \$2.3 trillion since the start of the current fiscal year (last October), which is more than half of the way to funding all of this year's projected \$3.7 trillion federal budget deficit. The balance sheets of the Fed, European Central Bank, and Bank of Japan collectively are up \$4.2 trillion since the end of February to \$18.7 trillion during the May 15 week ([Fig. 6](#)).

(5) *Trillions*. Keep in mind that the Fed is gearing up to leverage \$450 billion in capital provided by the US Treasury through the CARES Act into \$4 trillion of loans to households and business in the US. Furthermore, Washington is considering yet another round of fiscal stimulus. A trillion here, a trillion there adds up to serious liquidity.

Comparative Epidemiology I: 2020 vs 2009 Policy Responses. No prior pandemic response can write the script on how best to respond to the COVID-19 pandemic. The Spanish flu of 1918 occurred 10 years before penicillin was developed and decades before both antiviral medication availability and widespread global air travel. More recent pandemics—SARS (2003), MERS (2012), and Ebola (2013)—were more deadly than COVID-19 but markedly more containable since symptoms invariably appeared to signal contagiousness. In contrast, COVID-19 is spreading asymptotically.

Perhaps the most comparable pandemics were the ones caused by the 2009 H1N1 virus and the 1968 Hong Kong flu, both highly infectious and relatively recent. However, these were influenza viruses, not coronaviruses. Nevertheless, comparing the responses of officials now and during those two prior viral outbreaks can be informative.

One question leaps to mind: Why were there no societal and economic lockdowns in 1968 or 2009 as we have today? Pandemic responses require a mix of both pharmaceutical and non-pharmaceutical interventions. In those earlier outbreaks, pharmaceutical solutions were rapidly and widely available, obviating the need for policy interventions such as lockdowns. That's one major reason Melissa and I see for the discrepant responses. Additionally, in 2009 diagnostic testing was more rapidly available for H1N1 than it has been for COVID-19 in the US, where testing has hit roadblocks, so the scope of infection then was better known.

We base our review of 2009 H1N1 largely on the lengthy 2010 [retrospective](#) of that pandemic prepared by the Centers for Disease Control and Prevention (CDC). The first US case of H1N1 was identified on April 15, 2009. Two months later, on June 11, the virus was declared a global pandemic by the World Health Organization (WHO). Just six months after the virus was identified, during September 2009, four effective vaccines were approved by the Food and Drug Administration (FDA), followed by a fifth during November. By December, the vaccine was available in retail pharmacies.

By most accounts, COVID-19 began transmitting between humans in Wuhan, Hubei, China late last year. The first US case of the 2019 virus was [identified](#) on January 21, 2020, but the virus may have been [circulating](#) as early as November. On March 11, the WHO declared COVID-19 a global pandemic. President Donald Trump [declared](#) a national emergency on March 13, then issued the White House's social distancing [guidelines](#) for 15 days on March 16, which was extended to another 30 days on April 30. On April 16, the White House and the CDC issued [guidelines](#) for reopening states.

There's some [promise](#) in the ongoing development of antiviral treatments and vaccines, but these treatments are unlikely to become widely available as quickly as were treatments for 2009 H1N1.

By the CDC's final [estimates](#), 2009 H1N1 infected 60.8 million and killed 12,469 Americans over the pandemic period (April 2009-April 2010); while H1N1 continues to circulate seasonally, its spread is controlled with vaccinations. So far in the US, COVID-19 has infected far fewer people than H1N1 but killed way more: roughly 1.5 million confirmed cases and 92,000 deaths, according to the CDC.

Let's briefly compare the major non-pharmaceutical interventions, followed by the pharmaceutical ones, to the pandemics now and in 2009:

(1) *Lockdowns and school closures*. During the 2009 H1N1 outbreak, no state laws prohibited people from going about their business. During COVID-19, 42 states and some localities have issued stay-at-home orders, starting with California on March 19, [reported](#) Business Insider. Now states have started slowly to reopen. But a second wave of infections could bring another wave of lockdowns.

Local school closures did occur during 2009 H1N1's outbreak as the virus spread through communities. Despite the severity of H1N1 in children, however, the CDC backtracked on its initial guidance that schools with infections close for up to two weeks, [determining](#) in August 2009 that the associated social disruption would outweigh the risks posed by the virus. The CDC's revised guidance suggested that only sick persons should stay at home.

In contrast, children rarely demonstrate severe symptoms of COVID-19, but most state governors recommended school building [closures](#) starting in March for the ENTIRE school year, affecting approximately 50.8 million public school students. The basis for such an extreme measure is that children may be asymptomatic spreaders of the virus.

(2) *Social distancing and flattening the curve*. Social distancing, widely considered to be the best hope of containing COVID-19 in the absence of pharmaceutical solutions, wasn't enforced or even strongly recommended during the 2009 pandemic. Indeed, the CDC's lengthy 2010 report on H1N1 mentions the term only once, with this brief explanation: "Social distancing measures are meant to increase distance between people. Measures include staying home

when ill unless to seek medical care, avoiding large gatherings, telecommuting, and implementing school closures.”

(3) *Travel guidance*. On April 27, 2009, the WHO elevated the global pandemic warning. The CDC issued a travel health warning to limit non-essential travel from the US to Mexico due to reports of an outbreak of severe influenza illnesses and deaths there. On May 15, 2009, the travel guidance was downgraded to a precaution.

President Trump instituted a [travel ban](#) from China to the US on January 31, 2020, followed by bans from Iran on February 29, from Europe’s Schengen area on March 11, and from the UK and Ireland on March 14.

(4) *Testing*. On April 28, 2009—not even two weeks after the 2009 H1N1 virus was identified—the FDA issued an emergency-used authorization (EUA) allowing diagnostic laboratories to use a real-time test that the CDC had developed and began shipping to labs on May 1. By May 18, 40 states had been validated to conduct their own 2009 H1N1 testing without CDC confirmation of results. Each kit could diagnose 1,000 clinical specimens, and by September more than 1,000 kits had been shipped.

COVID-19 testing capacity ramped up slowly in the US. China shared the pathogen’s genetic sequence needed for testing the virus on January 10, 2020. However, the FDA did not approve a CDC diagnostic test for COVID-19 until February 4. The CDC’s initial test design was rushed and flawed. According to [The Washington Post](#), “[t]he [CDC] assays often produced results that suggested the virus was present in samples in which scientists knew it was not.”

Demand for tests quickly surpassed supply as the FDA limited the labs allowed to develop and use tests, as a [Modern Healthcare article](#) discussed. By February 12, just 2,009 tests had been conducted in the US, noted *The Washington Post*. The FDA didn’t [lift](#) restrictions until February 29.

Since then, test makers have rapidly scaled the available supply of tests, despite shortages of reagents, swabs, and various collection devices. Nevertheless, the CDC reports that over 10.8 million tests have been conducted in the US as of mid-May.

The challenges with testing early on meant lost time and incomplete data. What's more, comprehensiveness and accuracy of the testing data in the US remain in question, as a May 17 [article](#) in *The Atlantic* discussed.

(5) *Masks*. The CDC did not [recommend](#) that the general public wear masks, except in certain circumstances for high-risk individuals, during the 2009 pandemic. That was the case initially for COVID-19, but the CDC revised its guidance on April 3, 2020 to recommend, as I've often advocated, that face coverings be worn not only to protect the wearer but also others in close proximity.

By the way, the CDC did not rely on contact tracing for containment of 2009 H1N1 nor is it for COVID-19 given the impracticality of doing so on the large scale needed. Instead, broader surveillance methods leveraging data and technology are being used. (For more, see the CDC's "[FAQ: COVID-19 Data and Surveillance](#).”)

Comparative Epidemiology II: 2020 vs 2009 Medical Responses. Now let's turn to the healthcare system's responses to the 2009 and 2020 pandemics:

(1) *PPE supplies*. On April 26, 2009, after the US government declared a nationwide public health emergency, the CDC began releasing to states 25% of the supplies from the US strategic national stockpile. This included 11 million regimens of antiviral drugs, over 39 million respiratory protection devices (masks and respirators), and other personal protective equipment (PPE) such as gowns, gloves and face shields. In October 2009, an additional 59.5 million N95 respirators was authorized to be released.

During COVID-19, insufficient PPE for healthcare workers has been a real problem, but fears about not having enough ventilators didn't materialize: No COVID-19 patient in the US that we can [find](#) has died for lack of one. Notably, the US didn't go into the current pandemic with any antivirals in the stockpile that might fight COVID-19.

(2) *Antiviral medications*. In the early days of the 2009 pandemic, testing showed that 2009 H1N1 was susceptible to the antiviral drugs oseltamivir and zanamivir. Prior to the outbreak, as a part of pre-pandemic planning, the US government had purchased and stockpiled 50 million treatment courses of these drugs, and states had purchased 23 million regimens. The FDA granted EUAs for these drugs, and a national public health emergency was declared on April

26, 2009. On April 30, the federal government agreed to purchase an additional 13 million treatment courses of antiviral drugs for the strategic national stockpile. That's a lot of drugs!

One antiviral drug, Gilead's remdesivir, seems to be the frontrunner among potential "cures" for COVID-19, as we discussed in the May 18 [Morning Briefing](#). The FDA previously issued an EUA for the malaria drug hydroxychloroquine (HCQ) to treat COVID-19, even though some studies suggest it's not effective and might be dangerous for heart patients. It is being [studied](#) as a preventative for healthcare workers. While HCQ is relatively commonplace and available over the counter, remdesivir is not.

Remdesivir, first used to treat Ebola, is costly and must be administered intravenously over five or ten days. On May 1, Gilead received an EUA for the drug, but supplies are limited. Gilead has [donated](#) its existing supply of 140,000 treatment courses to treat patients *globally* (our emphasis). The company has goals of significantly scaling up production to 500,000 by October, 1 million by December, and into the millions beyond that if necessary. (It may well be: Remember, 50 million courses of H1N1 drugs had been stockpiled prior to the 2009 pandemic.)

(3) *Vaccines*. By April 21, 2009, less than a week after the 2009 H1N1 virus was identified, the CDC already had begun developing a virus that could be used for a vaccine. On July 22, 2009, the National Institutes of Health (NIH) announced clinical trials beginning for two manufacturers' versions of the vaccine, in healthy people and people with underlying conditions.

Prototype vaccines to prevent 2009 H1N1 were developed by the end of August 2009. Initial doses were administered on October 5 and prioritized for high-risk individuals. By December 22, reach and availability of the vaccine were expanded through distribution to retail drugstores.

[According](#) to the May 15, 2020 *Barron's*, the fastest COVID-19 vaccine programs are working on new techniques to teach human bodies immunity to the virus. As we first discussed in the March 5 [Morning Briefing](#), messenger RNA (mRNA) instructs our cells to make proteins. COVID-19's genetic code is being used 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 that it would change the cell's genome.

Such vaccines are faster to produce than more proven methods and could be ready for use as early as October or as late as early next year. However, the FDA has yet to approve a single vaccine based on these techniques. Other pharmaceutical companies are working on vaccines that use established and previously FDA-approved technologies to generate the immune response. But something like that wouldn't likely be ready until the middle of next year.

"A doctor involved in a U.S. coronavirus vaccine study said he is hopeful but not convinced that an injection will be available for circulation this year," according to a May 22 CNBC [article](#). The doctor, a professor of medicine at Emory University, was referring to the front-runner experimental COVID-19 vaccine candidate being developed by Moderna in partnership with the National Institute for Allergy and Infectious Diseases (NIAID) using the mRNA approach.

In March, Moderna and the NIAID initiated the first US clinical trial for a vaccine. Moderna recently released encouraging preliminary data from its Phase 1 study, as we discussed last week. Phase 2 and 3 trials are expected this summer. But NIAID did not put out a press release and declined to provide comment on Moderna's announcement.

Barron's noted that the vaccine could be ready for FDA approval in 2021. However, Moderna's CEO has said that if studies this summer yield good outcomes, the company could seek an EUA this fall. Moderna says it will have the ability to produce millions of doses a month later this year.

That's fast, but still not as fast as the vaccine timeline for 2009 H1N1.

In tomorrow's *Morning Briefing*, we will review the 1968 Hong Kong flu outbreak.

CALENDARS

US: **Tues:** Consumer Confidence 88.0, New Home Sales 495k, Dallas Fed Manufacturing Index, Chicago Fed National Activity Index, Kashkari. **Wed:** Richmond Fed Manufacturing Index, MBA Mortgage Applications, API Crude Oil Stocks, Beige Book. (DailyFX estimates)

Global: **Tues:** Germany Gfk Consumer Confidence -18.6, ECB Financial Stability Review, Lane, Poloz. **Wed:** France Consumer Confidence 96, Lagarde, Guindos. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index rise 3.3% for its fifth weekly gain of the nine-week-old bull market but only its second-biggest rise since the bull market started. The index ranked 25th of the 49 global stock markets we follow in a week when 41/49 countries rose in US dollar terms, and the AC World ex-US index gained 2.2% as most regions rose. The US MSCI index is out of a bear market and is now in a 12.5% correction from its 2/19 record high. Among the 49 countries, Denmark is best at just 2.6% below its record high on 2/6. EM Latin America was the best-performing region last week, with a gain of 8.4%, followed by EM Eastern Europe (7.4), EMEA (5.8), EMU (5.1), and EAFE (2.9). EM Asia was the biggest underperformer with a decline of 1.2%, followed by BRIC (-0.7). Sri Lanka was the best-performing country last week with a gain of 29.4%, followed by Argentina (11.5), Brazil (10.9), Portugal (8.8), and Finland (8.0). Of the 18 countries that underperformed the AC World ex-US MSCI last week, Hong Kong fared the worst with a decline of 5.5%, followed by Egypt (-3.0), China (-2.6), Austria (-1.2), and Taiwan (-1.1). The US MSCI's ytd ranking jumped three spots last week to 4/49 as its ytd performance improved to -7.9%. It's still way ahead of the 19.2% ytd decline for the AC World ex-US. EM Asia is the best regional performer ytd, albeit with a decline of 13.6%, followed by BRIC (-17.4). The worst-performing regions ytd: EM Latin America (-42.8), EM Eastern Europe (-27.2), EMEA (-23.7), EMU (-23.3), and EAFE (-19.4). The best country performers ytd: Denmark (3.2), Israel (-4.1), China (-7.4), the United States (-7.9), and Portugal (-8.3). The worst-performing countries so far in 2020: Colombia (-50.6), Brazil (-48.2), Greece (-43.6), Austria (-38.0), and Indonesia (-36.6).

S&P 1500/500/400/600 Performance ([link](#)): With the bull market now nine weeks old, all of these indexes rose together for the second time in three weeks and also posted their biggest gains in six weeks. SmallCap was 8.8% higher for the week, ahead of the gain for MidCap (7.4%) and LargeCap (3.2). LargeCap was out of a bear market for a sixth week and 12.7% below its 2/19 record high; MidCap finished 20.5% below its record high on 1/16; and SmallCap remained the worst performer, at 29.4% below its 8/29/18 record. Thirty-two of the 33 sectors rose for the week, up from just two rising a week earlier. Fourteen of the 33 sectors are out of a bear market now. Among them, MidCap Health Care ended the week at a record high and four are out of a correction: LargeCap Consumer Discretionary, LargeCap Health Care, LargeCap Information Technology, and MidCap Consumer Staples. SmallCap Energy was the best performer last week, with a gain of 12.8%, ahead of SmallCap Materials (11.1), SmallCap Industrials (10.9), SmallCap Consumer Discretionary (10.7), and MidCap Consumer

Discretionary (10.2). LargeCap Health Care (-0.8) was the sole decliner last week and followed by these underperforming sectors: LargeCap Consumer Staples (0.2), SmallCap Consumer Staples (2.2), LargeCap Utilities (3.0), and LargeCap Information Technology (3.3). All three indexes are still down on a ytd basis, but LargeCap's 8.5% drop is much smaller than those of MidCap (-17.8) and SmallCap (-24.1). Just two of the 33 sectors are now positive so far in 2020, with the best performers led by MidCap Health Care (8.1), LargeCap Information Technology (5.2), LargeCap Consumer Discretionary (-0.4), LargeCap Communication Services (-1.0), and SmallCap Communication Services (-1.4). The biggest laggards of 2020 to date: SmallCap Energy (-56.5), MidCap Energy (-49.6), LargeCap Energy (-36.7), SmallCap Financials (-35.6), and SmallCap Real Estate (-33.5).

S&P 500 Sectors and Industries Performance ([link](#)): Nine of the 11 S&P 500 sectors rose last week as eight outperformed the index's 3.2% gain. That compares to a 2.3% decline for the S&P 500 a week earlier, when one sector rose and five outperformed the index. Industrials' 7.2% gain made it the best performer for the week, ahead of Energy (6.1%), Real Estate (5.6), Communication Services (4.5), Financials (4.3), Consumer Discretionary (4.3), Materials (4.0), and Information Technology (3.3). Health Care was the biggest underperformer with a decline of 0.8%, followed by Consumer Staples (0.2), and Utilities (3.0). The S&P 500 is now down 8.5% so far in 2020, with four sectors leading the index and just one in positive territory. The leading sectors ytd: Information Technology (5.2), Consumer Discretionary (-0.4), Communication Services (-1.0), and Health Care (-2.5). The laggards of 2020 so far: Energy (-36.7), Financials (-28.9), Industrials (-21.8), Real Estate (-15.8), Materials (-13.7), Utilities (-13.0), and Consumer Staples (-9.1).

Commodities Performance ([link](#)): Last week, the S&P GSCI index rose 4.5% for its fourth straight weekly gain and its longest winning streak since it rose for five weeks around the start of the year. It's now down 33.0% from its recent high on 1/6, and still in a severe bear market at 40.7% below its cyclical high on 10/3/18. Crude Oil was the best performer last week, with a gain of 11.7%, followed by Brent Crude (8.7%), Unleaded Gasoline (6.9), Heating Oil (6.8), and GasOil (6.0). Lean Hogs was the biggest decliner for the week, with a drop of 3.2%, followed by Coffee (-3.0), Feeder Cattle (-1.7), Kansas Wheat (-1.7), and Cotton (-1.1). Just one of the 24 commodities that we follow is higher so far in 2020, Gold (15.1). The next-best performers ytd: Silver (-1.3), Cocoa (-5.7), Kansas Wheat (-8.5), and Wheat (-8.9). The worst performers ytd: GasOil (-51.2), Heating Oil (-49.6), Brent Crude (-46.0), Crude Oil (-44.9), and Unleaded Gasoline (-37.8).

S&P 500 Technical Indicators ([link](#)): The S&P 500 rose 3.2% last week and improved relative to both its short-term, 50-day moving average (50-dma) and its long-term, 200-day moving average (200-dma). It was above its 50-dma for a sixth week after seven weeks below but remained below its 200-dma for a 13th week, matching its prior streak that ended during February 2019. The index's 50-dma relative to its 200-dma rose for the first time in 13 weeks, but the index remained in a Death Cross (with 200-dmas higher than 50-dmas) for a ninth week. It had been in a Death Cross for 13 straight weeks ending in March 2019. The index's 50-dma improved last week to 9.2% below its 200-dma, up from 9.9% below in the prior week, which was the worst reading since May 2009. During late February, the 50-dma had been 7.6% above its 200-dma, which was the highest since May 2012. The S&P 500's 50-dma rose for the first time in 13 weeks after rising for 20 weeks. The price index improved to 8.1% above its now rising 50-dma from 5.7% above its falling 50-dma a week earlier. That's down from 9.3% above its 50-dma on Wednesday, which was its highest since May 2009. That compares to 27.7% below on 3/23—its lowest reading since it was 29.7% below on Black Monday, 10/19/87. The 200-dma rose for the first time in six weeks, but barely so. It had been rising for 39 weeks through early March. The index traded below its 200-dma for a 13th week after being above for 38 weeks. It ended the week 1.8% below its falling 200-dma, down slightly from 1.2% below on Wednesday and up from 4.8% 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 above their 50-dmas last week for the first time since January 20, but only four traded above their 200-dmas. That compares to just one sector above its 50-dma and 200-dma five weeks ago. These four sectors trade above their 50-dma and 200-dma: Communication Services, Consumer Discretionary, Health Care, and Information Technology. All 11 sectors were still out of the Golden Cross club (50-dmas higher than 200-dmas) for a fourth week, and for the first time since March 2019. At the prior low, just two sectors (Real Estate and Utilities) were in the club during February 2019. Energy has not been in a Golden Cross for 81 straight weeks. Eight sectors have a rising 50-dma now, all but Financials, Real Estate, and Utilities. That's a big improvement from the beginning of May when all 11 had falling 50-dmas for ten straight weeks. Just four sectors have rising 200-dmas, unchanged in the latest week. These sectors

have a rising 200-dma: Communication Services, Consumer Discretionary, Health Care, and Tech. Financials' 200-dma was down for a 12th week for the first time since late August. Energy's 200-dma has been mostly falling since October 2018.

US ECONOMIC INDICATORS

Leading Indicators ([link](#)): The Leading Economic Indicators (LEI) index contracted again in April after posting the biggest monthly decline in its 60-year history in March. The LEI dropped 4.4% last month, following a revised 7.4% decline in March—which was steeper than the initial estimate of -6.7% and double the previous record drop of 3.4% during October 2008. In April, six of the 10 components contributed negatively to the LEI, while four contributed positively. The biggest declines last month were centered in the labor indicators of the average workweek (-1.82ppt) and initial claims (-1.44), with the latter expected to be a big drag again in May's LEI—as jobless claims spiked another 8.3 million the first three weeks of this month. Also dragging the LEI lower in April were building permits (-0.68ppt), the ISM new orders diffusion index (-0.58), the leading credit index (-0.17), and consumer expectations (-0.12). Meanwhile, offsetting some of these declines were gains in stock prices (0.16ppt) and the interest rate spread (0.07)—which “partially reflect the rapid and large response of the Federal Reserve to offset the pandemic's impact and support financial conditions,” according to the report. In the meantime, real consumer goods orders and real core capital goods orders each contributed 0.04ppt to May's LEI.

Coincident Indicators ([link](#)): The Coincident Economic Index (CEI) dropped by a record 8.9% in April, and by 10.2% the past two months, after reaching a new record high in February. Two of the four components of the CEI contributed negatively last month, payroll employment and industrial production, and two positively, real personal income less transfer payments and real manufacturing & trade sales: 1) Payroll employment dropped a record 21.5 million jobs in April, nearly reversing—in one month—the entire job gains posted since the Great Recession. Service-providing (-17.2 million) industries suffered the bulk of job losses in April, while the drop in goods-producing (-2.4 million) jobs was much smaller—though still the steepest on record. 2) Industrial production in April posted its steepest monthly decline in the 101-year history of the series, led by manufacturing. Production plummeted 11.2% last month, building on March's 4.5% drop—with manufacturing output down 13.7% in April and 5.5% in March. 3) Real personal income less transfer payment ticked up 0.3% in April after plunging 2.5% in March; the yearly rate has dropped just below zero, down 0.7% y/y. 4) Real manufacturing & trade sales climbed for the fourth time this year, up 0.2% in April and 1.3% ytd to a new record

high. (Note: Latest data for both real personal income less transfer payments and real manufacturing & trade sales are estimated using statistical imputations given lags in available data.)

Regional M-PMIs ([link](#)): Two Fed districts now have reported on manufacturing activity for May (New York and Philadelphia) and show a sharp drop in activity again—though the pace was slower than April's record contraction. The composite index (to -45.8 from -67.4) rebounded 21.6 points this month after plunging 92.2 points the prior two months—with both the New York (to -48.5 from -78.2) and Philadelphia (-43.1 from -56.6) measures indicating the impact from the coronavirus remains severe, though less intense than a month ago. Meanwhile, May new orders (to -34.1 from -68.6) contracted at half the pace of April's level, after plunging steadily from February's recent peak of 27.9. As with the composite, orders in both the New York (-42.4 from -66.3) and Philadelphia (-25.7 from -70.9) areas still contracted at a fast pace, though the decline eased considerably from April's. Meanwhile, factories cut payrolls at a much slower pace this month than last month—with the employment (-10.7 from -51.0) measure soaring 40.3 points, as manufacturers in both the New York (-6.1 from -55.3) and Philadelphia (-15.3 from -46.7) regions tamed the freefall.

Existing Home Sales ([link](#)): “The economic lockdowns—occurring from mid-March through April in most states—have temporarily disrupted home sales,” said Lawrence Yun, NAR's chief economist. “But the listings that are on the market are still attracting buyers and boosting home prices.” Existing home sales—tabulated when a purchase closes—tumbled 17.8% in April, and 24.8% the past two months, to 4.33mu (saar), the lowest since September 2011. Sales fell in every region last month, both on a monthly and yearly basis: West (-25.0% m/m & -27.0% y/y), South (-17.9 & -16.8), Northeast (-16.9 & -18.2), and Midwest (-12.0 & -8.3). Meanwhile, median home prices were above year-ago levels in all four regions—by 6.1%, 6.4%, 8.7%, and 9.3% y/y, respectively. “Record-low mortgage rates are likely to remain in place for the rest of the year, and will be the key factor driving housing demand as state economies steadily reopen,” Yun said. “Still, more listings and increased home construction will be needed to tame price growth.”

GLOBAL ECONOMIC INDICATORS

US PMI Flash Estimates ([link](#)): Private-sector firms recorded a slightly slower pace of contraction this month, as the economy began to reopen. That said, declines were still substantial across both the manufacturing and service sectors. May's C-PMI (to 36.4 from

27.0) and NM-PMI (36.9 from 26.7) flash estimates both showed declines slightly softer than April's record contractions, while the rate of decrease in the M-PMI (39.8 from 36.1) was still among the steepest since the depths of the financial crisis. Will the declines continue to soften? According to May's report: "Encouragement comes from the survey indicating that the rate of economic collapse seems to have peaked in April. In the absence of a second wave of COVID-19 infections, the decline should moderate further in coming months as measures taken to contain the coronavirus are steadily lifted."

Eurozone PMI Flash Estimates ([link](#)): "Eurozone economic downturn shows signs of easing as lockdowns lift" was the headline of this month's IHS Markit's flash estimate report. Still, the report emphasized: "Looking by region, rates of output decline eased across France and Germany, as well as collectively across the rest of the region, from the unprecedented downturns seen in April, though in all cases remained fiercer than any time prior to the COVID-19 outbreak." The Eurozone C-PMI (to 30.5 from 13.6) rebounded from April's record low, with both the NM-PMI (28.7 from 12.0) and M-PMI (39.5 from 33.4) showing slower rates of contraction. Looking at the top two Eurozone economies, C-PMI flash estimates for both Germany (31.4 from 17.4) and France (30.5 from 11.1) improved from April's record lows, and their NM-PMIs followed suit: Germany's rose to 31.4 from 16.2 and France's to 29.4 from 10.2. M-PMIs for both Germany (36.8 from 34.5) and France (40.3 from 31.5) also showed slowing rates of decline.

Japan PMI Flash Estimates ([link](#)): The severe economic downturn continued, according to Jibun Bank, source of May's flash estimate. The C-PMI (to 27.4 from 25.8) showed May's decline in activity was not that far from April's record decline, as the NM-PMI (25.3 from 21.5) showed a slight easing in its rate of contraction. Meanwhile, the M-PMI (38.4 from 41.9) showed the manufacturing sector continued to deteriorate as the demand for goods plummeted and the decline in production accelerated. May's report notes that the dynamics in the economy are "clearly evolving." As Japan begins to ease its state of emergency measures, "the services economy can begin its gradual recovery." The path is expected to be bumpier for manufacturing, however, as its recovery will likely be delayed as "global trade conditions deteriorate and the global economic recovery is slow," according to the report.

Germany Ifo Business Climate Index ([link](#)): "Sentiment among German companies has recovered somewhat after a catastrophic few months," Ifo Chief Clemens Fuest said in a statement on Germany's latest business climate results. Still, "many companies are still pessimistic about their business. The gradual easing of the lockdown offers a glimmer of

hope.” Germany’s Ifo Business Climate Index climbed to 79.5 this month, after plunging a record 21.8 points during the two months through April to a record-low 74.2. May’s improvement was driven by a 10.7-point rebound in the expectations component to 80.1, following a two-month plunge of 23.8 points to a record-low 69.4. The present situation component fell for the fourth month, from 99.1 in January to 78.9 this month—the lowest since July 2009. According to the survey, sentiment improved this month in services, manufacturing, and export industries, as well as among exporters, though remained at depressed readings.

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