

Equity Market Summary

U.S. Equity Markets	Feb 19-Apr 17	YTD	Top/Bottom Sectors	Feb 19-Apr 17	YTD	Non-US Equity Markets (in USD)	Feb 19-Apr 17	YTD	Non-US Regions (in USD)	Feb 19-Apr 17	YTD
S&P 500	-14.8%	-10.5%	Health Care	-2.8%	-0.7%	MSCI AC World Ex U.S.	-19.6%	-20.1%	Developed Americas	-23.6%	-21.1%
Russell 1000 Growth	-11.5%	-3.3%	Technology	-12.7%	-2.1%	MSCI EAFE (Developed)	-19.6%	-20.4%	Developed Asia	-11.3%	-13.5%
Russell 1000 Value	-20.4%	-19.5%	Cons. Staples	-5.5%	-3.1%	MSCI Emerging Markets	-18.3%	-19.1%	Developed Europe	-21.9%	-21.7%
Russell 2000	-27.1%	-26.0%	Industrials	-24.7%	-22.2%	MSCI China	-7.7%	-5.6%	Emerging Americas	-40.2%	-42.9%
Russell 2000 Growth	-23.4%	-19.5%	Financials	-27.4%	-26.6%	MSCI Japan	-10.1%	-13.7%	Emerging Asia	-12.9%	-12.6%
Russell 2000 Value	-31.4%	-32.8%	Energy	-36.5%	-42.1%	MSCI Italy	-32.8%	-30.4%	Emerging EMEA	-27.1%	-29.9%

What's changed since our last report (on Apr. 9, 2020):

- Coronavirus (CV-19) continues to spread but the rate of infection is slowing, if only modestly. The number of cases doubled from 1 million to 2 million in 13 days, relative to 8 days to double from 500,000 to 1 million. International borders remain closed and most of the world remains in some form of quarantine but some of the hardest hit European countries are taking tentative steps to begin to reopen. The conversation is shifting toward, "What should the reopening process look like?" Financial markets are stabilizing, although volatility remains well over twice the pre-crisis levels. The CARES Act (H.R. 748) was signed into law on Mar. 27 and it took less than 3 weeks from signing (2 weeks from implementation) to distribute \$350 billion in funding for a key small-business relief program, the Paycheck Protection Program ("PPP").

Where are we now:

- CV-19: more than 2.5 million cases and 160,000 deaths worldwide. U.S. now accounts for 1/3rd of global cases and 1/4th of deaths. Daily new cases in the U.S. peaked on Apr. 4th at 34,000 and has averaged 30,000 per day since. China continues to report relatively low numbers of new cases but they also acknowledged they underreported deaths in Wuhan by at least 1/3rd.

Economy:

- U.S. economic data is starting to show severe weakness. In March, Retail Sales fell a record 8.7% M/M and Industrial Production fell 5.4% M/M, the largest drop since 1946. A litany of other timely indicators are hitting record low levels as well.
- China's Q1 real GDP fell 6.8% Y/Y. As stunning as the figures are, they represent a good preview of what the rest of the globe will be facing for Q2 reported figures. Some forward looking surveys are showing some moderate improvement.
- U.S. jobless claims have risen by 22 million over the past four weeks, implying a current jobless rate approaching 20%. The latest published Fed projections call for a 32% peak unemployment rate. Strategas Research Partners recently estimated a total of 10 million U.S. jobs could be permanently lost due to the crisis¹. For perspective that would be all jobs created since the Global Financial Crisis.

Earnings:

- Earnings reporting season began last week with 47 (9%) S&P 500 companies reporting earnings. 1/4th of all reports have been from Financial companies, of which less than half have beat earnings estimates. 30% of the total market-capitalization of the Financials in the S&P 500 have reported and Y/Y earnings are down 56% thus far. Banks are cyclical businesses and are feeling the brunt of the recession, although thus far the Y/Y earnings declines are more of a reflection of significant increases in reserves against future loan losses rather than actual current non-performing loans. However, banks seem to be better positioned to deal with this crisis as capital levels are 40% higher than in the global financial crisis.
- Q1 aggregate earnings for the S&P 500 are expected to decline 13.4%, excluding Energy the expected decline is 11.4%. In dollar terms a 13.4% Y/Y decline equates to more than \$40 billion in lost profits. Industrials, Consumer Discretionary, Financials and Energy are expected to see earnings declines of 33% or more. Communication Services is expected to see the largest Y/Y earnings increase at 5.8%.

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- Q2 aggregate earnings are expected to decline more than 27%, a Y/Y drop of almost \$100 billion in lost profits, before recovering to a Y/Y rate of down 5% in Q4.
- 91 S&P 500 companies are expected to report earnings this coming week with Financials once again accounting for 1/4th of reports, Industrials are next at 1/5th of reports.
- Over the past four weeks 87% of all earnings revisions have been downward.

Financial Markets:

- U.S. equity markets have rallied significantly off the lows of Mar. 23rd with the S&P 500 now up 31% from the lows and 15% below the intra-day highs of Feb. 19. The cap-weighted indices continue to dramatically outperform the average stock in the index as the average stock in the S&P 500 is down 19.4% year-to-date relative to an 11.0% decline for the capitalization-weighted index.
- Health Care stocks, excluding hospitals, lead the market year-to-date, a trend that is likely to continue as Federal spending on health care is expected to jump more than 25% this year.
- Oil continues to be an Achilles heel for the market, both for the energy sector and a plethora of related businesses. The OPEC plus agreement was just not enough to get much upward movement in prices in such a weak demand environment.

Summary:

As we've stated previously, there is no debate about whether or not we have entered a global recession, just the depth and length are in question. In just the first two months of the crisis, U.S. fiscal relief packages already total 10.8% of GDP. Monetary stimulus continues to expand into markets that were previously thought to be off limits for the Fed including buying high-yield bond exchange-traded funds and "fallen angels²." Despite the extreme stock market volatility of the past six weeks, there's been no meaningful shift in leadership as mega-cap growth stocks continue to lead the market year-to-date. Daily market movements are reflective far more of sentiment on potential road maps to re-opening or the latest headlines about COVID-19 vaccines and treatments than fundamental improvement in the economic outlook. Airlines have been notable leaders of daily rallies, yet the group is still the worst performing industry in the S&P 500 from the lows of Mar. 23. States and municipalities are under fiscal strain from plummeting sales tax receipts and falling household incomes. The pressure on Governors to start re-opening their state economies sooner rather than later is mounting from constituencies that want to get back to work and from dire budgetary realities. The momentum to begin reopening is gaining pace amid much debate. With the market up significantly off the bottom one could say we are entering a period of heightened risk. The market seems to be priced for a successful reopening but there is still a plethora of things that might not cooperate with that optimism. On the other hand, some encouraging new testing and treatment developments seem to be paving the way for moving forward.

¹: Strategas Securities, LLC, April 5, 2020, All rights reserved; ²: U.S. corporate debt rated double-B and had an investment grade rating as of March 22, 2020

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