WEEKLY ECONOMIC UPDATES

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TECH–STOCKS PUSH NASDAQ INTO POSITIVE TERRITORY YEAR–TO–DATE DESPITE MORE NEGATIVE ECONOMIC NEWS

Weekly Market Update — May 9, 2020

- The major U.S. stock markets were positive most of the week, driven by the larger tech–stocks but also by the Energy sector
- NASDAQ skyrocketed to a gain of 6%, pushing its YTD return into positive territory and widening

the YTD gap between it and the S&P 500 and the DJIA

- The smaller–cap Russell 2000 performed very well, jumping 5.5% on the week, followed by the 3.5% gain of the large–cap S&P 500 and the 2.6% gain in the mega–cap DJIA
- The markets received a lot of news this week and most of it leaned toward the negative side, but the markets kept looking past the negative headlines as states began to selectively open back up for business
- Of the S&P 500 sectors, the Energy sector rallied a whopping 8.3%, mostly on the heels of oil prices rebounding sharply again this week
- Other sectors performing well included Information Technology (6.6%), Consumer Discretionary (4.4%) and Communication Services (3.7%)
- Vehicle sales collapsed for the month of April, as most experts expected
- New jobless claims hit 3.2 million for the week ending May 2nd and the DOL reported that the unemployment rate stood at 15.5%
- The 2–year yield declined to 0.14% while the 10–year yield came to rest at 0.67%
- The U.S. Dollar Index increased 0.7% to 99.78

Weekly Market Performance

	Close	**Week**	YTD
DJIA	24,331	**2.6%**	-14.7%
S&P 500	2,930	**3.5%**	-9.3%
NASDAQ	9,121	**6.0%**	1.7%
Russell 2000	1,330	**5.5%**	-20.3%
MSCI EAFE	1,648	**0.1%**	-19.0%
*Bond Index	2,332.19	**-0.04%**	4.82%
10-Year Treasury Yield	0.67%	**0.0%**	-1.3%

*Source: Bonds represented by the Bloomberg Barclays US Aggregate Bond TR USD. This chart is for illustrative purposes only and does not represent the performance of any specific security. Past performance cannot guarantee future results.

Markets Jump Significantly to Start May

The U.S. stock markets finished significantly higher on the first week of May, with Energy and Technology stocks pushing NASDAQ into positive territory YTD and within about 7% of its high from February. Remarkably, oil recorded its first two–week gain since early February as oil companies are slashing production and there is hope that demand will rebound once states start to open back up.

There was more bad news for the workforce, as the number of those unemployed hit historical Depression–era levels. The good news is that fully 80% of those job losses are thought to be temporary.

Vehicle Sales Collapse

Consensus expectations called for vehicle sales to collapse in April, but the drop was less than expected. The Bureau of Economic Analysis reported that April's annual rate fell to 8.6 million units from 11.4 million in March whereas consensus expectations called for April's annual rate to fall to 7.1 million.

Here are some numbers that paint just how dire auto sales truly were in April:

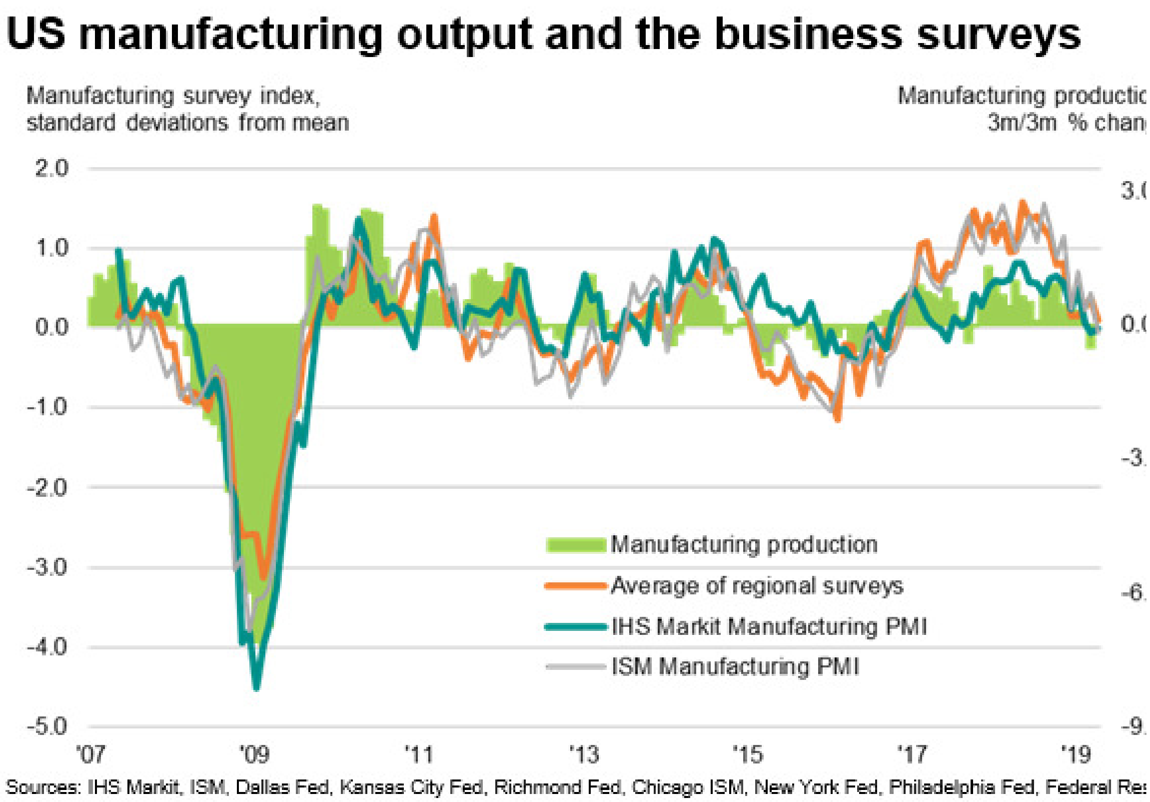
- Toyota's sales fell 55.7%
- Honda's sales fell 54.1%
- Hyundai's sales fell 38.7%
- Mazda's sales fell 44.5%
- Subaru's sales fell 46.6%

U.S. Services PMI Sees Record Decline

On Tuesday, IHS Markit released the Purchasing Managers' Index (PMI) for more than 40 worldwide economies, including the U.S. Based on monthly questionnaire surveys collected from over 400 U.S. companies and covering topics like new business, employment and expectations going forward, the U.S. Services PMI is closely watched as the services sector accounts for more than 75% of U.S. GDP.

The release acknowledged that COVID–19 was responsible for a record decline in business activity and stated the following:

“The rate of contraction accelerated to the fastest on record as client demand slumped and many businesses closed temporarily. New order inflows fell significantly as customers postponed or cancelled orders amid ongoing global lockdowns. Subsequently, expectations for the year ahead sank to their most pessimistic in the series history. Uncertainty and a further reduction in confidence led to the steepest decrease in workforce numbers on record.”



The Present Situation Index – based on consumers' assessment of current business and labor market conditions also declined considerably, from 166.7 to 76.4 – the largest drop on record.

Positive Housing Data?

The housing market received some positive data, as purchase applications are up 6% for the week ending May 1st, which is on top of a 12% gain from the previous week.

Yes, purchase applications are down almost 20% when compared to this time last year, but to the extent that two weeks can demonstrate a trend, then the two–week trend is positive.

Jobless Claims

The Department of Labor released new jobless claims of 3.2 million for the week ending May 2nd, a decrease of 677,000 from the previous week's level. Further, the DOL reported that the unemployment rate stood at 15.5%, an increase of 3.1% from the previous week.

The DOL also stated that:

- The highest insured unemployment rates were in Vermont (25.2), West Virginia (21.9), Michigan (21.7), Rhode Island (20.4), Nevada (19.9), Connecticut (18.7), Puerto Rico (17.9), Georgia (17.3), New York (17.2), and Washington (17.1)
- The largest increases in initial claims were in Washington (+56,030), Georgia (+19,562), New York (+14,229), Oregon (+12,091), and Alabama (+8,534), while the largest decreases were in California (-203,017), Florida (-73,567), Connecticut (-69,767), New Jersey (-68,173), and Pennsylvania (-66,698)

Earnings Season Continues

With 86% of companies in the S&P 500 reporting Q12020 results by Friday, research firm FactSet reported that:

- Looking at future quarters, analysts predict a (year–over–year) decline in earnings in the second quarter (–36.7%), third quarter (–20.1%), and fourth quarter (–9.4%) of 2020.
- 66% of S&P 500 companies have reported a positive EPS surprise
- 58% of S&P 500 companies have reported a positive revenue surprise
- For Q2 2020, 16 S&P 500 companies have issued negative EPS guidance and 16 S&P 500 companies have issued positive EPS guidance
- The forward 12-month P/E ratio for the S&P 500 is 20.4. This P/E ratio is above the 5 –year average (16.7) and above the 10–year average (15.1). The last time the forward 12–month P/E ratio was above 20.0 was April of 2002.

Sources

dol.gov; **bea.gov**; **markiteconomics.com**; **mba.org**; **factset.com**; **standardandpoors.com**; **nyse.com**; **msci.com**; **nasdaq.com**; **dowjones.com**; **morningstar.com**; **fidelity.com**; **bloomberg.com**

“An investment in knowledge pays the best interest”