



MORNING BRIEFING

May 4, 2020

Liquidity & Distress

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

(1) Many fire sales extinguished by central bankers' fire hoses. (2) As stores closed, personal saving rate soared. It will likely remain high after a short dip when lockdowns end. (3) GVC aftershocks reduce likelihood of V-shaped recovery. (4) Did you get out on February 19 and back in on March 23? Should you go away in May? (5) Shock absorbers: Distressed asset funds are like kids in a candy store again. (6) Jump in S&P 500 P/E led by most distressed industries. (7) Game changers on health front of the war against the virus. (8) Chinese government's bullying approach raising resistance. (9) Meet China's bat woman. (10) Planet of the Viruses: Imperiled animals are taking their revenge on pushy humans.

Strategy I: No Shortage of Liquidity. March's mad dash for cash in the financial markets created lots of fire sales in assets that had been highly prized by reach-for-yield investors. These assets became distressed ones as investors scrambled to reduce risk and raise cash in their portfolios as a result of the Great Virus Crisis (GVC). But during late March and April, the Fed and the other major central banks opened up their firehoses. They poured so much liquidity into the financial markets that many of the fire sales were rapidly extinguished.

Now many investors who cashed out are sitting on a mountain of cash with asset prices no longer as cheap as they were before the firehoses were turned on. That suggests that any significant selloff in the bond and stock markets might be limited, as those who had dashed for cash now seek opportunities to rebalance back into bonds and stocks.

We've been monitoring this situation on a weekly basis in our [Mad Dash for Cash](#) chart publication. Let's have a look at the latest available data; but first, consider what just happened to the personal saving rate during March:

(1) *Personal saving rate soars.* In the National Income and Product Accounts (NIPA), personal savings is a residual. It is the difference between disposable personal income and personal consumption expenditures. During March, households boosted their cash not only by selling assets but also by cutting back their spending relative to their income. Some of that behavior

undoubtedly was involuntary as consumers were ordered to stay in place while most stores other than those selling groceries and medicine were closed.

At a seasonally adjusted annual rate, personal savings jumped from \$1.3 trillion during February to \$2.2 trillion during March (*Fig. 1*). The personal saving rate, which is personal savings divided by disposable personal income, jumped from 8.0% to 13.1% at the same time (*Fig. 2*).

In NIPA, the quarterly personal saving rate has been on an uptrend since the Great Financial Crisis (GFC), when it was around 3.0% just before Lehman hit the fan; it reached 9.6% during Q1 (*Fig. 3*). The GVC and its aftershocks could very well drive the personal saving rate closer to its mid-1970s record high of 15.3%.

That would augur for a U-shaped rather than a V-shaped economic recovery because the rebound in disposable personal income won't stimulate as much consumer spending if more of that income goes into savings. Of course, for a short while, there is likely to be a drop in the saving rate once everyone suffering from cabin fever is allowed to go shopping freely again. Any V-shaped recovery in consumer spending is likely to be short since it will take a long time to recover from the GVC aftershocks, including lots of unemployment.

(2) *Sitting on a pile of cash.* Liquid assets soared \$1.7 trillion from the end of February through the April 20 week, to a record \$15.5 trillion (*Fig. 4*). Many businesses drew down their lines of credit, fearing an impending cash crunch—which caused a cash crunch. Commercial and industrial loans jumped \$657 billion from the end of February through the April 22 week (*Fig. 5*). That's never happened before in the history of this series beginning at the start of 1973! Apparently, businesses parked much of the borrowed cash in money market funds held by institutions, which rose \$830 billion over the same period (*Fig. 6*).

(3) *Missing the bottom.* It's great to raise cash just before asset prices take a dive and then to take advantage of the panic selling by snapping up cheap assets at the market bottom. Of course, that's not what happened during March. Lots of cash was raised as a result of panic selling after the stock market peaked on February 19. Few investors had the opportunity to buy at the bottom, because the Fed's monster stimulus program on March 23 suddenly made distressed assets much less distressed as the S&P 500 soared—by 31.3% from March 23 through the recent high on April 29.

Over this period, the S&P 500 forward P/E rocketed from 12.9 to 20.1 ([Fig. 7](#)). Over this same period, the LQD and JNK exchange-traded funds for investment-grade and junk bonds rebounded 13.5% and 16.8% ([Fig. 8](#)). Investors who've been on this rollercoaster since the start of the year are starting to ask their annual question this time of the year: "Sell in May and go away?" It might seem to make more sense to do so this year, but the usual conundrum with this trading rule-of-thumb will remain: When to return?

(4) *Central banks to the rescue*. Of course, the rebound in stock and bond prices coincided with the Fed's adoption of QE4ever on March 23 and subsequent expansion of its monetary rescue program. From the end of February through the last week of April, the Fed's balance sheet ballooned by \$2.5 trillion to a record \$6.6 trillion ([Fig. 9](#)). The total assets (in dollars) of the Fed, the European Central Bank, and the Bank of Japan jumped by \$3.2 trillion from the end of February through the April 17 week to \$17.8 trillion ([Fig. 10](#)).

(5) *Distressed asset funds as shock absorbers*. In my recently released book, [Fed Watching for Fun & Profit](#), I wrote: "Furthermore, rising defaults by NFCs [nonfinancial corporations] may not cause a credit crunch if distressed asset funds act as a shock absorber in the capital markets, as during the 2015 crunch." There is mounting anecdotal evidence that this is starting to happen now. In my Zoom virtual meetings recently, accounts told me that they are getting swamped with calls from sales reps pitching their distressed asset funds.

The April 29 *Barron's* included an [article](#) titled "Troubled Companies Bring Distressed Investing Off the Sidelines." According to the article, Bruce Richards, chairman and CEO of Marathon Asset Management, said that a sharp drop in corporate revenue and the sheer size of more-levered portions of the corporate credit market are creating a \$1 trillion opportunity in distressed credit. The pandemic has created "a massive and broad-based opportunity to deploy capital at a critical time for the U.S. economy," he said. The distressed asset funds are finding that it's much easier to raise funds now.

Strategy II: Forward P/Es by Sectors & Selected Industries. I asked Joe to have a closer look at the remarkable rebound in the S&P 500 forward earnings noted above. He compared the forward P/Es of the 11 sectors and 100+ industries of the S&P 500 during the week of March 19 to the ones during the week of April 23 ([Table](#)). Consider the following:

(1) *Sectors*. Here is the forward P/E derby of the sectors, both now and then: Energy (157.2, 10.9), Real Estate (41.9, 33.8), Consumer Discretionary (28.8, 16.8), Information Technology

(20.8, 16.7), S&P 500 (19.4, 14.0), Consumer Staples (19.4, 17.7), Industrials (19.2, 12.4), Communication Services (18.7, 14.6), Utilities (18.0, 16.6), Materials (17.7, 13.1), Health Care (15.9, 12.9), and Financials (13.1, 8.3).

(2) *Bottom-up perspective.* The market doesn't appear as crazily overvalued from a bottom-up perspective as it does from the top-down view. The most overvalued industries tend to be the ones where forward earnings have dropped faster than prices. Many of them tend to be in the most cyclical sectors, which tend to have high P/Es when their earnings are the most depressed, reflecting investors' anticipation of an eventual rebound in their businesses and stock prices.

(3) *Industries.* Here is a short selection of some of the most "expensive" industries in the S&P 500, both now and then: Casinos & Gaming (439.5, 11.1), Oil & Gas Equipment & Services (245.0, 7.8), Hotels (35.0, 7.3), Movies & Entertainment (37.3, 24.0), Restaurants (30.1, 16.3), Trucking (23.6 17.4), Apparel Retail (23.5 12.7), and Specialty Stores (23.5 15.0).

(4) *The first services recession in history.* Many of the S&P 500 industries with the highest forward P/Es tend to provide services. This is the first services recession in modern American economic history. Our economy has become increasingly services oriented, and services-providing industries have a higher weight in the S&P 500 than do goods-producing ones.

Strategy III: Game Changers. So there is plenty of liquidity being provided by the major central banks to stabilize the global financial system and stimulate a U-shaped economic recovery. That's why the S&P 500 forward P/E has rebounded so remarkably since March 23. It has also moved higher on expectations that the opening of economies around the world in coming weeks won't cause a significant second wave of infections. A major setback on the health front of the world war against the virus undoubtedly would reverse the advances made on the economic and financial fronts. In this scenario, both the S&P 500 and its forward P/E could retest their March 23 lows.

That's not the scenario we expect. But in all wars, there are setbacks and lots of uncertainty. That's why we are sticking with our 2900 S&P 500 target for the end of this year even though it was achieved ahead of schedule, on April 29. Once the war is won, the stock market should be heading to higher ground, with our year-end 2021 target at 3500.

Of course, the virus may never be completely defeated. We may or may not find vaccines and cures. However, there are several promising developments:

(1) *Testing*. *The Guardian* [reported](#) on May 1 that “[s]cientists working for the US military have designed a new Covid-19 test that could potentially identify carriers before they become infectious and spread the disease ... In what could be a significant breakthrough, project coordinators hope the blood-based test will be able to detect the virus’s presence as early as 24 hours after infection—before people show symptoms and several days before a carrier is considered capable of spreading it to other people. That is also around four days before current tests can detect the virus.”

The US military’s Defense Advanced Research Projects Agency (DARPA) has been working on tests to diagnose germ and chemical warfare poisoning. The head of DARPA’s biological technologies office said that if given FDA approval, the new test “absolutely” has the potential to be “a gamechanger.”

(2) *Vaccine*. On April 30, AstraZeneca and the University of Oxford [announced](#) an agreement for the global development and distribution of the university’s potential recombinant adenovirus vaccine aimed at preventing COVID-19 infection from SARS-CoV-2. FiercePharma reported early last week that Johnson & Johnson signed a second major manufacturing deal to boost capacity for its vaccine candidate, which it hopes to move into human trials in September, with the goal of reaching 24/7 manufacturing schedules by January.

(3) *Cure*. The day before, we learned that hospitalized patients with advanced COVID-19 and lung involvement who received Gilead’s remdesivir recovered faster than similarly afflicted patients who received a placebo, according to a preliminary data analysis from a randomized controlled trial involving 1,063 patients, which began on February 21.

(4) *Face masks*. While we are waiting for tests, vaccines, and cures, we will have to learn to live with the virus without causing significant second waves of the infection as our economies open up. I’ve promoted the mandatory wearing of face masks in public. Initially, health officials advised us all to wash our hands often and weren’t so keen on wearing masks. They’ve since changed their minds.

On April 20, CNN [reported](#) that seven states require face masks in public. In recent days, seven airlines (American, United, Delta, Southwest, Alaska, Frontier, and JetBlue) announced

passenger mask requirements and several governments passed new mask-wearing requirements, including Massachusetts, San Diego county, and Spain (on public transportation).

Strategy IV: China's Distressing Behavior. Speaking of distressed assets, the Chinese are snapping up distressed assets around the world, raising national security concerns in many countries. One would have hoped that after exporting the COVID-19 virus to the world, the Chinese government would have apologized for their incompetent handling of the outbreak in the city of Wuhan and played nice. Then again, totalitarian regimes have a history of incompetence and of killing people. Instead, the Chinese are going on a shopping spree for distressed assets around the world, while ramping up tensions in the South China Sea. News that the Trump administration is considering retaliatory measures, including tariffs, contributed to Friday's 2.8% drop in the S&P 500.

Consider the following:

(1) *Bargain hunting.* The April 15 issue of *FP* includes an [article](#) titled "China Is Bargain Hunting—and Western Security Is at Risk." It says that the innovative smaller businesses of Northern Europe are top investment targets for China. Margrethe Vestager, the European commissioner for competition, has suggested that governments buy stakes in such companies to prevent Chinese takeovers. The US government is likewise wary of losing sensitive capabilities to China; the Committee on Foreign Investment screens potential takeovers on national security grounds.

(2) *Trump's threats.* President Donald Trump escalated his attack on Beijing on Friday by claiming that he had seen evidence showing that the virus originated in a Chinese laboratory. Trump increasingly is making China's handling of the pandemic a major issue ahead of the November election. Reports suggested that the White House is formulating new Chinese import tariffs in retaliation, in a major escalation of the trade standoff. The US and China had signed the first phase of a trade deal earlier this year to de-escalate trade tensions that had weighed on global growth last year. Progress in the trade talks has been halted by the GVC.

(3) *Mounting calls for China virus probe.* More US allies and other countries are joining the Trump administration's call for an independent investigation into China, the World Health Organization, and the origins of the deadly coronavirus pandemic. Australian Prime Minister Scott Morrison has called for an investigation. Chinese Ambassador to Australia Cheng Jingye

said Beijing could encourage Chinese citizens to boycott Australian exports and products if Australia were to initiate the problem. The Australian government reportedly now is trying to back off from its harsh stance toward China without sacrificing too much face.

In a CNBC [interview](#) on Friday, European Commission President Ursula von der Leyen backed calls for an investigation into the origin of the new coronavirus and said China should be involved in the process. A coalition of Nigerian lawyers has filed a class-action suit against China over the effects of the coronavirus pandemic on Nigerians. They are demanding \$200 billion in damages for the “loss of lives, economic strangulation, trauma, hardship, social disorientation, mental torture and disruption of normal daily existence of people in Nigeria.”

(4) *Arms against a sea of trouble.* China has claimed sovereignty over much of the South China Sea, an assertion disputed by other nations with competing claims, such as Vietnam, the Philippines, Malaysia, and Brunei. On May Day, the Chinese People’s Liberation Army claimed that a US Navy destroyer had been expelled from the South China Sea after entering Chinese waters and called on the US to mind its own business and to focus on its “national epidemic situation.” The day before, the US military continued its week-long show of force in the South China Sea with a sortie over the contested waters by two Air Force bombers.

Virology 101: Bat Woman. Unless it’s fake news, a leaked report from the intelligence-sharing alliance of the five leading English-speaking countries—the US, UK, Australia, New Zealand and Canada—[suggests](#) that the COVID-19 virus may have been leaked accidentally from the Wuhan Institute of Virology. On the other hand, an April 30 [statement](#) from the Office of the Director of National Intelligence, the clearinghouse for US spy agencies, concluded that the new coronavirus was “not manmade or genetically modified” but say they are still examining whether the origins of the pandemic trace to contact with infected animals or an accident at a Chinese lab.

The April 27 issue of *Scientific American* has a very interesting [article](#) about Wuhan-based virologist Shi Zhengli. She is known as China’s “bat woman,” having identified dozens of deadly SARS-like viruses in bat caves, and she warns there are more out there. The magazine reported: “Back in Wuhan, where the lockdown was finally lifted on April 8, China’s bat woman is not in a celebratory mood. She is distressed because stories from the Internet and major media have repeated a tenuous suggestion that SARS-CoV-2 accidentally leaked from her lab—despite the fact that its genetic sequence does not match any her lab had previously studied. Other scientists are quick to dismiss the allegation.”

Whether the virus was leaked from Shi's lab or originated in a nearby "wet market," there is evidence that the Chinese Communist Party's initial reaction to the outbreak was to scramble to cover it up, which led to the worldwide spread of the virus.

There is plenty of blame to go round. Christine Kreuder Johnson, a professor of medicine and epidemiology at US Davis Veterinary Medicine, [observed](#): "Spillover of viruses from animals is a direct result of our actions involving wildlife and their habitat. The consequence is they're sharing their viruses with us. These actions simultaneously threaten species survival and increase the risk of spillover. In an unfortunate convergence of many factors, this brings about the kind of mess we're in now." Welcome to Planet of the Viruses.

CALENDARS

US: Mon: Factory Orders -9.8%. **Tues:** IHS Markit C-PMI & NM-PMI 27.4/27.0, Balance of Trade -\$44.2b. (DailyFX estimates)

Global: Mon: Eurozone, Germany, France, Italy, and Spain M-PMIs 33.6/34.4/31.5/30.0/34.0, RBA Interest Rate Decision 0.25%. **Tues:** IHS Markit UK C-PMI & NM-PMI, Guindos, Weidmann, Wuermeling, Mersch. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index fall 0.2% for its second straight decline and its third in the past five weeks. The index ranked last of the 49 global stock markets we follow in a week when 47/49 countries rose in US dollar terms, and the AC World ex-US index gained 3.2% as all regions rose. The US MSCI index is out of a bear market and is now in a 16.4% correction from its 2/19 record high. EM Latin America was the best-performing region, with a gain of 9.1%, followed by EMU (6.1%), EMEA (4.1), EM Asia (3.9), and BRIC (3.2). EM Eastern Europe was the biggest underperformer, albeit with a gain of 2.5%, followed by EAFE (3.0). Indonesia and Hungary were the best-performing countries last week, with gains of 11.3%, followed by Chile (11.0), Brazil (10.3), and India (9.5). Of the 17 countries that underperformed the AC World ex-US MSCI last week, the United States fared the worst, with a decline of 0.2%, followed by Jordan (0.0), Israel (0.2), Switzerland (0.7), and Australia (0.7). In April, the US MSCI soared 13.0% for its best gain on record dating back to January 1980, and ranked 8/49 as the AC World ex-US index rose 7.4%.

Forty-seven of the 49 countries moved higher in April. Pakistan was the best performer with a gain of 17.3%, followed by India (16.1), Chile (15.6), Australia (15.3), and Austria (15.1). The worst countries in April: Sri Lanka (-0.7), Jordan (-0.1), Morocco (0.7), Spain (1.0), and Portugal (1.4). The outperforming regions: EM Eastern Europe (10.8), EMEA (9.6), EM Asia (9.1), and BRIC (7.9). EM Latin America and EMU were April's worst-performing regions, albeit with gains of 6.0%, followed by EAFE (6.3). The US MSCI's ytd ranking dropped four spots last week to 10/49 as its ytd performance weakened to -12.2%. It's still way ahead of the 19.3% ytd decline for the AC World ex-US. EM Asia is the best regional performer ytd, albeit with a decline of 11.5%, followed by BRIC (-15.9). The worst-performing regions ytd: EM Latin America (-43.8), EM Eastern Europe (-31.1), EMEA (-25.8), EMU (-22.2), and EAFE (-19.7). The best country performers ytd: Denmark (-1.6), China (-5.9), Taiwan (-7.9), Switzerland (-8.4), and Jordan (-9.9). The worst-performing countries so far in 2020: Brazil (-48.7), Colombia (-48.0), Greece (-40.0), Sri Lanka (-36.0), and Argentina (-35.4).

S&P 1500/500/400/600 Performance ([link](#)): LargeCap was the only one of these indexes to fall last week as investors rotated back into the SMidCaps. SmallCap was 3.5% higher for the week, easily ahead of MidCap (2.6%) and LargeCap (-0.2). LargeCap was out of a bear market for a third week and 16.4% below its 2/19 record high; MidCap finished 24.5% below its record high on 1/16; and SmallCap remained the worst performer, at 32.6% below its 8/29/18 record. Twenty-two of the 33 sectors rose for the week, up from 10 a week earlier. Seven of the 33 sectors are out of a bear market now, and four of them are LargeCap sectors. Among them, LargeCap Health Care and MidCap Health Care are the only sectors out of a correction. SmallCap Consumer Discretionary was the best performer last week, with a gain of 9.5%, ahead of MidCap Energy (7.5), SmallCap Real Estate (7.3), SmallCap Energy (6.4), and SmallCap Materials (5.2). SmallCap Communication Services (-4.6) was the biggest underperformer last week, followed by LargeCap Utilities (-4.3), MidCap Utilities (-3.8), SmallCap Utilities (-3.7), and LargeCap Health Care (-2.6). All 33 sectors rose in April, compared to all 33 falling in March. April's best performers: MidCap Energy (71.6), SmallCap Energy (53.8), LargeCap Energy (29.7), SmallCap Consumer Discretionary (28.0), and MidCap Consumer Discretionary (23.3). April's biggest laggards, albeit with gains: SmallCap Utilities (0.8), MidCap Utilities (2.0), LargeCap Utilities (3.2), SmallCap Financials (5.6), and LargeCap Consumer Staples (6.6). All three indexes are still down on a ytd basis, but LargeCap's 12.4% drop is much smaller than those of MidCap (-22.9) and SmallCap (-27.5). All 33 sectors are still down so far in 2020, with the best performers led by MidCap Health Care (-2.0), LargeCap Information Technology (-3.1), LargeCap Health Care (-4.2), SmallCap

Communication Services (-5.9), and LargeCap Communication Services (-7.5). The biggest laggards of 2020 to date: SmallCap Energy (-59.1), MidCap Energy (-51.9), LargeCap Energy (-40.3), SmallCap Financials (-34.4), and SmallCap Real Estate (-33.0).

S&P 500 Sectors and Industries Performance ([link](#)): Six of the 11 S&P 500 sectors rose last week as six outperformed the index's 0.2% decline. That compares to a 1.3% decline for the S&P 500 a week earlier, when one sector rose and six outperformed the index. Energy's 2.9% gain made it the best performer for the week, ahead of Communication Services (2.0), Materials (1.9), Financials (1.3), Industrials (1.2), and Information Technology (0.2). Utilities was the biggest underperformer with a drop of 4.3%, followed by Health Care (-2.6), Consumer Staples (-2.0), Consumer Discretionary (-1.1), and Real Estate (-0.6). The S&P 500 rose 12.7% in April for its best monthly performance since January 1987 as all 11 sectors moved higher and five beat the index. That compares to all 11 falling and five beating the S&P 500's 12.5% decline in March. The leading sectors in April: Energy (29.7), Consumer Discretionary (20.5), Materials (15.3), Information Technology (13.7), and Communication Services (13.5). April's laggards, albeit with gains: Utilities (3.2), Consumer Staples (6.6), Industrials (8.7), Real Estate (9.3), Financials (9.3), and Health Care (12.5). The S&P 500 is now down 12.4% so far in 2020 with five sectors leading the index. The leading sectors ytd: Information Technology (-3.1), Health Care (-4.2), Communication Services (-7.5), Consumer Discretionary (-7.6), and Consumer Staples (-8.7). The laggards of 2020 so far: Energy (-40.3), Financials (-28.5), Industrials (-23.5), Materials (-17.2), Real Estate (-15.2), and Utilities (-13.6).

Commodities Performance ([link](#)): Last week, the S&P GSCI index rose 6.2% for its first gain in three weeks. It's now down 42.3% from its recent high on 1/6, and still in a severe bear market at 49.0% below its cyclical high on 10/3/18. Crude Oil was the best performer last week, with a gain of 31.6%, followed by Lean Hogs (21.7%), Sugar (11.8), Unleaded Gasoline (9.5), and Heating Oil (8.6). Silver was the biggest decliner for the week with a drop of 3.3%, followed by Wheat (-2.6), Nickel (-2.4), Aluminum (-2.2), and Gold (-2.0). April saw 12 of the 24 commodities climb as the S&P GSCI Commodities index rose 0.6% for its first gain in four months. That compares to four rising in March when the S&P GSCI Commodities index tumbled 28.7% in its worst monthly drop in more than 20 years. April's best performers were Unleaded Gasoline (32.2%), Natural Gas (18.8), Cotton (12.1), Cocoa (7.3), and Crude Oil (6.7). April's laggards: Heating Oil (-16.8), GasOil (-13.6), Coffee (-11.1), Wheat (-7.8), and Live Cattle (-6.7). Just one of the 24 commodities that we follow is higher so far in 2020, Gold (11.7). The next-best performers ytd: Kansas Wheat (-0.6), Cocoa (-5.4), Wheat (-7.6), and Soybeans (-11.1). The worst performers ytd: Crude Oil (-63.5), GasOil (-60.9), Heating Oil (-

60.6), Brent Crude (-59.9), and Unleaded Gasoline (-54.7).

S&P 500 Technical Indicators ([link](#)): The S&P 500 fell 0.2% last week and was mixed relative to its moving averages—improving relative to its short-term, 50-day moving average (50-dma) and weakening relative to its long-term, 200-day moving average (200-dma). It was above its 50-dma for a third week after seven weeks below but remained below its 200-dma for a tenth week, the first time it's been below for so long since January 2019. The index's 50-dma relative to its 200-dma dropped for a tenth straight week, putting the index in a Death Cross (with 200-dmas higher than 50-dmas) for a sixth week—for the first time since March 2019. The index's 50-dma dropped last week to 8.7% below its 200-dma, 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 dropped for a tenth week after rising for 20 weeks. The price index improved to 3.0% above its falling 50-dma from 1.5% above its falling 50-dma a week earlier. That's up from 27.7% below on 3/23—its lowest reading since it was 29.7% below on Black Monday, 10/19/87. That compares to a 10-month high of 4.6% above its rising 50-dma in mid-January and 6.6% above during February 2019—its highest level since October 2011. The 200-dma fell for a third week after rising a week earlier for the first time in five weeks. It had been rising for 39 weeks through early March. The index traded below its 200-dma for a tenth week after being above for 38 weeks. It ended the week 6.0% below its falling 200-dma, down from 5.9% 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](#)): Seven of the 11 S&P 500 sectors traded above their 50-dmas last week, and two traded above their 200-dmas. That compares to just one sector above its 50-dma and 200-dma three weeks ago. All 11 sectors were out of the Golden Cross club (50-dmas higher than 200-dmas) for a second 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 79 straight weeks. The 50-dma has been falling for ten weeks now for all 11 sectors, a swift reversal from the situation during the week ending 2/21 when 10 sectors had rising 50-dmas. Just two sectors, Health Care and Tech, have rising 200-dmas now. Financials' 200-dma was down for a tenth week for the first time since late August. Energy's 200-dma has been mostly falling since October 2018.

US ECONOMIC INDICATORS

Personal Income & Consumption ([link](#)): The coronavirus triggered the biggest decline in consumer spending on record in March, going back to 1959. Personal consumption expenditures plummeted 7.5% in March—more than triple the rate of the previous record decline of 2.1% recorded in January 1987. Spending on services tumbled 9.5%, while a 15.1% slide in durable goods consumption pushed goods spending down 3.1%; spending on nondurable goods climbed 3.1% during the month. Real spending sank a record 7.3%, with services and goods consumption down 9.5% and 2.2%, respectively. Within real goods consumption, a 14.8% plunge in durable goods expenditures was partially offset by a 4.3% rise in nondurable goods spending. Disposable personal income sank 2.0% in March, the biggest decline since January 2013. Still, consumers are saving more because they are spending a lot less. Personal saving soared \$823.6 billion in March—pushing the personal saving rate up to 13.1%—the highest since November 1981. As for inflation, March data show the headline inflation rate rose 1.3% y/y, while core inflation—the Fed’s preferred measure—increased 1.7% y/y, holding below its target rate of 2.0% for the 18th consecutive month.

Auto Sales ([link](#)): Motor vehicle sales plummeted 24.1% in April, and 49.6% during the two months ending April, to a record low of 8.6mu (saar)—half the 17.1mu posted at the start of this year. Domestic light truck sales sank to 5.2mu (saar)—the weakest since June 2011—from 10.0mu at the start of the year, while domestic car sales plunged to a record low of 1.5mu (saar) from 3.6mu at the end of 2019. Sales of imports tumbled from a recent peak of 3.9mu in November to 1.9mu (saar) last month, its weakest performance since January 1998.

GLOBAL ECONOMIC INDICATORS

Eurozone CPI Flash Estimate ([link](#)): April’s CPI headline rate is expected to slow for the third month to 0.4% (the lowest rate since September 2016), after accelerating the prior three months from 0.7% in October to 1.4% in January. It would be the 17th consecutive month the headline rate was below 2.0%. Meanwhile, the core rate is expected to edge down for the second month to an eight-month low of 0.9% y/y in April from 1.2% in February. Looking at the main components, food, alcohol & tobacco (to 3.6% from 2.4% y/y) is expected to record its highest rate since November 2008, while rates for both services (1.2 from 1.3) and non-energy industrial goods (0.3 from 0.5) are expected to ease—the former from a recent high of 1.9% in November. Meanwhile, energy prices are expected to fall again in April, by 9.6% y/y—the steepest decline since September 2009—down from January’s 1.9%.

Contact us by [email](#) or call 480-664-1333.

Ed Yardeni, President & Chief Investment Strategist, 516-972-7683
Debbie Johnson, Chief Economist, 480-664-1333
Joe Abbott, Chief Quantitative Strategist, 732-497-5306
Melissa Tagg, Director of Research Projects & Operations, 516-782-9967
Mali Quintana, Senior Economist, 480-664-1333
Jackie Doherty, Contributing Editor, 917-328-6848
Valerie de la Rue, Director of Institutional Sales, 516-277-2432
Mary Fanslau, Manager of Client Services, 480-664-1333
Sandy Cohan, Senior Editor, 570-775-6823

Copyright (c) Yardeni Research, Inc. Please read complete [copyright and hedge clause](#).