Virology 101: The Flu. Have a look at the Centers for Disease Control and Prevention's (CDC) website on Influenza (Flu). Here are the main points that have some relevance to the COVID-19 outbreak:

(1) Flu symptoms. The flu can cause mild to severe illness and sometimes leads to death. Unlike a cold, the flu comes on suddenly. Symptoms can include fever or feeling feverish/chills, cough, sore throat, runny or stuffy nose, muscle or body aches, headaches, fatigue, and sometimes vomiting and diarrhea.

The World Health Organization (WHO) reports similar symptoms for COVID-19: “Common signs of infection include respiratory symptoms, fever, cough, shortness of breath and breathing difficulties. In more severe cases, infection can cause pneumonia, severe acute respiratory syndrome, kidney failure and even death.”

WHO notes that COVID-19 is a “novel coronavirus,” i.e., a strain that has not been previously identified in humans. Coronaviruses (CoV) are a large family of viruses that cause illness ranging from the common cold to more severe diseases such as Middle East Respiratory Syndrome (MERS-CoV) and Severe Acute Respiratory Syndrome (SARS-CoV).

(2) How it spreads. Most experts believe that flu viruses spread mainly by tiny droplets that are propelled when people with the flu cough, sneeze, or talk and that land on others nearby or on surfaces that others touch before touching their own mouth, nose, or eyes. WHO reports that
COVID-19 is transmitted similarly: “People can catch COVID-19 from others who have the virus. The disease can spread from person to person through small droplets from the nose or mouth which are spread when a person with COVID-19 coughs or exhales. These droplets land on objects and surfaces around the person. Other people then catch COVID-19 by touching these objects or surfaces, then touching their eyes, nose or mouth. People can also catch COVID-19 if they breathe in droplets from a person with COVID-19 who coughs out or exhales droplets. This is why it is important to stay more than 1 meter (3 feet) away from a person who is sick.”

(3) How many people get the flu every year? About 8% of the US population (in a range of 3%-11%) comes down with the flu each season. (The commonly cited 5%-20% estimate is based on a study that examined both symptomatic and asymptomatic influenza illness. The 3%-11% range is an estimate of the proportion of people who have symptomatic flu illness.)

(4) Who is most likely to be infected? Children are most likely to get sick from the flu, people 65 and older least likely. Median incidence values (or attack rate) by age group are 9.3% for children 0-17 years, 8.8% for adults 18-64 years, and 3.9% for adults 65 years and older. So kids are more than twice as likely to develop a symptomatic flu infection than adults 65 and older.

WHO reports: “Most people (about 80%) recover from the COVID-19 without needing special treatment. Around 1 out of every 6 people who gets COVID-19 becomes seriously ill and develops difficulty breathing. Older people, and those with underlying medical problems like high blood pressure, heart problems or diabetes, are more likely to develop serious illness. About 2% of people with the disease have died.”

(5) Period of contagiousness. People with the flu are most contagious in the first three to four days after their illness begins. Some otherwise healthy adults may be able to infect others beginning one day before symptoms develop and up to five to seven days after becoming sick. Some people, especially young children and people with weakened immune systems, might be able to infect others for an even longer time.

The time from when a person is exposed and infected with flu virus to when symptoms begin is about two days, in a range of one to four days.
WHO reports: “The ‘incubation period’ means the time between catching the virus and beginning to have symptoms of the disease. Most estimates of the incubation period for COVID-19 range from 1-14 days, most commonly around five days. These estimates will be updated as more data become available.”

(6) Bottom line. We don’t have any virologists on staff at Yardeni Research, but it seems to us that COVID-19 is very similar to the flu but perhaps less threatening. COVID-19 has killed far fewer people up until now than the flu does every year. Through Wednesday, there were 2,768 deaths from COVID-19 around the world, far fewer than the 25,000 to 69,000 Americans who die from the flu each year. Moreover, its demographic profile differs: COVID-19’s fatalities have been mostly older people with preexisting medical conditions, who tend not to be as vulnerable to the flu as children, and COVID-19 has spared children 10 years and younger, a population that is more vulnerable to flu.

Virology 101: Stocks Get Infected. The COVID-19 virus continues to travel the world, with new cases in Brazil, Greece, and Pakistan bringing the number of nations with infected citizens to 40. The continuous drumbeat of negative health news—accentuated by the CDC’s stringent warnings that the US should prepare for the virus’s spread at home—sent interest rates to new lows and led the S&P 500 to drop for a fifth straight day Wednesday. That marked its longest losing streak since its six-day tumble last August.

I asked Joe to look at the damage that has been inflicted upon the index, its valuation, and consensus revenue and earnings forecasts. Here’s his report.

(1) No correction yet. While the market’s fall has been sharp and fast, it doesn’t yet qualify as a correction. The S&P 500 is 8.0% below its 2/19 record high through Wednesday’s close. That’s the biggest five-day decline since it fell 8.5% through 2/8/18.

Among the 130+ industries that we follow, 30 have fallen 10% or more since the S&P 500’s record high on 2/19 through 2/25 (Table). In fact, only three industries have risen since the market’s peak: Gold (6.4%), Agricultural & Farm Machinery (1.0), and Food Retail (0.4).

Not surprisingly, the biggest underperformers have been in the oil and the travel and leisure areas, as well as in industries dependent on Chinese supply chains. Here are a few of the laggards: Hotels, Resorts, & Cruise Lines (-16.5%), Leisure Products (-15.0), Casinos &
Gaming (-13.8), Oil & Gas Equipment & Services (-13.6), Airlines (-13.0), Semiconductor Equipment (-13.0), and Semiconductors (-12.3).

All 11 of the S&P 500 sectors have fallen from the S&P 500’s 2/19 peak through Tuesday’s close: Real Estate (-2.4%), Utilities (-3.2), Consumer Staples (-3.8), Health Care (-6.7), Materials (-7.3), Industrials (-7.5), Communication Services (-7.5), Consumer Discretionary (-7.6), Financials (-7.6), S&P 500 (-7.6), Energy (-10.2), and Information Technology (-10.2).

The good news is that nine of the sectors remain close to their 52-week highs. The two laggards are Energy, which is down 27.1% and officially in a bear market, and Information Technology, which is in a 10.2% correction.

(2) **Valuations returning to Earth.** Fear of the unknown has caused valuations to take a hit. The S&P 500’s daily forward P/E was 19.0 on 2/19, the highest since May 2002. Since then, it has dropped 7.9% to 17.5 on Tuesday, its lowest since 12/3/19. However, the forward P/E is still up 30% from its 12/24/18 low of 13.5.

Valuations for five of the S&P 500’s 11 sectors remain near recent record highs achieved during 2020. Here are the sectors’ forward valuations on 2/19 and as of Tuesday’s close along with the last time the valuations were this low: Communication Services (19.7 on 2/19, 18.0 on 2/25, the lowest since 10/31/19), Consumer Discretionary (23.5, 21.8, 1/10) Consumer Staples (20.5, 19.7, 11/22/19), Energy (16.5, 15.1, 10/16/19), Financials (13.2, 12.3, 10/18/19), Health Care (16.1, 15.1, 11/14/19), Industrials (18.3, 17.2, 1/10), Information Technology (23.2, 20.6, 12/5/19), Materials (18.8, 17.6, 1/31), Real Estate (46.3, 45.3, 2/7), and Utilities (21.3, 20.4, 1/16) (**Fig. 1**).

(3) **COVID-19 earnings cuts on the way.** Analysts are a bullish lot, and usually miss the major inflection points in the economy. They don’t do a good job forecasting slowdowns or recessions and are left scrambling to cut their earnings estimates when one comes along. So stock prices typically anticipate revisions to analysts’ earnings forecasts before they’re actually revised.

Judging by the latest selloff, investors once again aren’t waiting for analysts to cut estimates. I asked Joe to create a publication tracking the revenue and earnings impact of COVID-19 (see *Revenue & Earnings Change Since COVID-19 Hit News*). Here’s what he found:
So far, analysts’ estimates haven’t moved much despite the worldwide virus scare. Over the four weeks since the virus hit the news, the 2020 revenue forecast for the S&P 500 is unchanged, and earnings forecasts have dropped 0.6%. Revenue and earnings forecasts for the broader MSCI United States index, which includes midcap-sized companies, are down just 0.2% and 0.8%. Even in the MSCI China index, revenue and earnings forecasts have only dropped 2.0% and 2.1%, respectively.

US industries directly affected by the pandemic have seen sharper estimate cuts, and many have come out and warned investors to temper their expectations. For example, the S&P 500 Airlines industry’s revenue estimate is down 3.0% since the virus hit the headlines, and earnings have dropped 2.8%. Here are some of the industries that have had the largest earnings cuts since COVID-19 hit the world: Casinos & Gaming (-28.7%), Copper (-28.3), Aerospace & Defense (-15.7), Commodity Chemicals (-15.5), Alternative Carriers (-13.1), Motorcycle Manufacturers (-11.9), Multi-line Insurance (-11.7), Automobile Manufacturers (-11.5), Paper & Packaging (-11.0) and Oil & Gas Refining & Marketing (-10.7).

Just yesterday, Microsoft warned that revenue in its Windows segment won’t meet guidance because its supply chain is returning to normal operations slower than anticipated due to the COVID-19 virus impact on China. Macy’s CEO noted that the retailer hadn’t factored the virus impacts into its earnings estimates, but the company was seeing a slight slowdown in sales because Asian tourists are making fewer visits to the US, a 2/25 WSJ article reported. Mastercard warned that a drop in cross-border travel is hurting results, so Q1 revenue will rise 9%-10%, two to three percentage points lower than originally forecast on 1/29. And United Airlines withdrew its 2020 earnings forecast, noting that it has seen a 100% decline in near-term demand to China and a 75% decline to the rest of its trans-Pacific routes, a 2/24 Barron’s article reported.

Apple is the 800-pound gorilla in the Technology Hardware, Storage & Peripherals industry, and has already warned investors of an impending miss. However, that industry has seen its revenue forecast actually rise 0.2% and its earnings jump 2.7%! Apparently, the good news of the strong Q4 earnings season is still being incorporated into some companies’ forecasts.

Here are some other S&P 500 industries that have seen their earnings estimates improve since the virus made headlines: Consumer Electronics (11.6%), Oil & Gas Drilling (10.8), Semiconductor Equipment (9.4), Industrial REITs (6.6), Internet & Direct Marketing Retail (6.2),
Systems Software (6.1), Semiconductors (6.0), Health Care REITs (4.6), Homebuilding (4.1), and Gold (3.6).

Clearly, the analysts have some catching up to do. We’ll continue to update and review their progress.

Virology 101: Too Much Pessimism in Bond Market & Oil Patch? If you’re looking for something to worry about, take your eyes off the stock ticker tape and look instead at the bond and oil markets. They continue to flash warning signals about the economy’s strength. And stock investors might be well served by watching them to confirm that any rally has legs. Let’s take a look:

1. **Treasury yields at lows.** Fears of an economic slowdown and hopes that central bankers will jump into action have pushed yields down across the curve. The 10-year Treasury yield fell to a record low of 1.33% on Tuesday, and remained there on Wednesday (Fig. 2). Meanwhile, the two-year Treasury yield fell to 1.16% yesterday, the lowest since 2/24/17. With the long end falling more than the front end of the curve, the spread between 10-year and 2-year Treasuries has narrowed to 17 bps from 34 bps at the end of last year, not great news for bank stocks (Fig. 3). However, the housing market seems to be benefitting: New home sales jumped 7.9% in January, the highest level since July 2007, with mortgage rates near all-time lows (Fig. 4).

2. **High-yield spreads widening.** At a recent 5.4%, high-yield bond yields are still near all-time lows, thanks to the drop in Treasury yields (Fig. 5). What bears watching is the spread between high-yield bond yields and Treasury yields, which has inched wider of late. The spread was 407 bps as of Tuesday, up slightly from 322 bps earlier this year (Fig. 6).

3. **Beware the oil slick.** Another indicator of investor fear about a global economic slowdown is the sharp drop in oil prices. The Brent crude oil futures price has declined by 20% since it peaked on 1/6 this year (Fig. 7). To be fair, the industry was having problems before COVID-19 hit the headlines. The oversupply of oil and gas in the industry has continued to build and pressure prices (Fig. 8). The virus and its potential impact on the industry exacerbated the situation.
CALENDARS

US: **Thurs:** GDP & PCE 2.1%/1.7%, GDP & PCE Price Deflators 1.4%/1.3%, Durable Goods Orders Total & Ex Transportation -1.5%/0.2%, Core Capital Goods Orders & Shipments 0.1%/0.1%, Jobless Claims 212k, Kansas City Fed Manufacturing Index -2, Pending Home Sales 2.0%, EIA Natural Gas Storage, Evans. **Fri:** Personal Income 0.4%, Nominal & Real PCE 0.3%/0.2%, Headline & Core PCED 1.8%/1.7% y/y, Consumer Sentiment 100.7, Advance Merchandise Trade Balance -$68.1b, Wholesale Inventories 0.0%, Chicago Purchasing Managers Index 46.0, Baker-Hughes Rig Count. (DailyFX estimates)

Global: **Thurs:** Eurozone Economic Confidence 102.6, Japan Industrial Production 0.2%m/m/-3.1%y/y, Japan Jobless Rate 2.2%, Japan Retail Trade -1.0% y/y, Guindos, Lane, Cunliffe, Schnabel. **Fri:** Germany Unemployment Change & Unemployment Claims Rate 5k/5.0, Germany CPI 0.3%m/m/1.7%y/y, France GDP -0.1%q/q/0.8%y/y, Canada GDP 0.3%q/q/1.6%y/y, Japan Housing Starts 843k, China M-PMI & NM-PMI 47.4/50.0, Haldane, Cunliffe. (DailyFX estimates)

STRATEGY INDICATORS

Stock Market Sentiment Indicators ([link](#)): The Bull/Bear Ratio (BBR) fell this week after rising the prior two weeks, as the seesaw movement between the bullish and correction camps continued. The BBR slipped to 2.56, after rising from 2.49 to 2.89 the previous two weeks, posting its fifth reading below 3.00. Bullish sentiment fell 5.6ppts to 49.1% after rising 7.1ppts (to 54.7% from 47.6%) over the prior two-week period—which followed a two-week drop of 11.8ppts and a two-week advance of 4.3ppts. Meanwhile, the correction count climbed 5.3ppts to 31.7% this week after a two-week slide of 6.9ppts (26.4 from 33.3)—following a two-week surge of 10.6ppts and a two-week loss of 4.4ppts. Bearish sentiment reversed last week’s decline, climbing from 18.9% to 19.2% this week, which matched its highest percentage since 4/16/19. The AAII Ratio fell to 58.6% last week, after climbing the prior two weeks from 46.5% to 61.0%. Bullish sentiment decreased to 40.6% after climbing from 32.0% to 41.3% the previous two weeks, while bearish sentiment increased to 28.7% after falling from 36.9% to 26.4% the prior two weeks.

US ECONOMIC INDICATORS

New Home Sales ([link](#)): New single-family home sales in January soared to its highest reading
since July 2007, and the underlying data are encouraging. New home sales jumped 7.9% to 764,000 units (saar) last month, following an upwardly revised 2.3% gain (vs a 0.4% loss) in December—with sales being revised up to 708,000 units from 694,000 units. Regionally, sales in the Midwest (30.3% m/m & 47.8% y/y) and West (23.5 & 49.1) soared to their best levels since October 2007 and July 2006, respectively, while sales in the Northeast (4.8 & 46.7) continued their ascent. Meanwhile, in the South (-4.4 & -2.4)—which is the largest housing market—sales have declined five of the seven months since reaching a new cyclical high last June. In the meantime, the supply of new homes on the market edged up for the second month in January, to 324,000 units—the first back-to-back gain in a year; supply was at 347,000 units a year ago. The months’ supply sank to more than a two-year low of 5.1 months. A shortage of affordable homes has been a problem for builders, though recent data has been welcoming. January single-family permits advanced, for the ninth straight month, by 6.4% m/m and 25.6% over the period, to 987,000 units (saar)—its best showing since June 2007. The inventory of single-family homes under construction in January was just shy of its highest level since April 2008.