Strategy I: Troubled Waters. With businesses closed to prevent the spread of the COVID-19 virus, adults who can are working remotely from their homes. Many schools are closed too, so adults have to share their bandwidth with kids who either are learning online or pretending to do so as they scroll through Instagram or FaceTime their friends. Industry analysts are working hard from their home offices to decipher COVID-19’s impact on company earnings. They’ve started cutting earnings estimates for the S&P 500 in what Joe expects is just the first of a few waves of reductions in the coming months. Here’s what he’s seeing:

(1) Forward revenues and earnings estimates. Last week saw S&P 500 forward revenues estimates tumble 1.1% w/w in the biggest decline since September 2009 (Fig. 1). Forward earnings estimates followed suit, tanking 2.3% w/w for its biggest drop since January 2009 (Fig. 2).

During the Great Financial Crisis (GFC), forward revenues estimates dropped 20% (from September 2008 to September 2009); it is down just 1.6% so far during the Great Virus Crisis (GVC). Forward earnings estimates dropped a whopping 40% from its record high in October 2007 to its bottom in May 2009. It’s down just 3.0% so far during the GVC.

(2) Forward profit margin. Making matters worse, the benefit from the Trump administration’s tax cut at the beginning of 2018 has been reduced. The forward profit margin for companies in
the S&P 500 dropped last week to a low of 11.8% from a high of 12.4% in September 2018 (Fig. 3).

(3) Revisions. Our weekly net revenues revisions index (NRRI) and net earnings revisions index (NERI) suggest steep estimate declines are still to come for both revenues and earnings. The indexes measure the number of forward estimates revised up less the number of forward estimates cut, expressed as a percentage of the total number of forward estimates.

During the March 19 week, NRRI fell sharply to a four-year low of -10.0%, while the NERI tumbled to an 11-year low of -10.4% (Fig. 4 and Fig. 5). Looking at the activity over the last four weeks, Joe calculates that just one-quarter of the analysts’ estimates have been revised so far to reflect the new “stay-in-place” reality. With the US and global economies falling into a severe recession, analysts will need to lower nearly all of their revenues and earnings estimates in the coming weeks and months.

(4) A lack of confidence. During normal times, analysts make their forecasts and companies nudge them lower or higher through guidance or pre-announcements. This time around, companies are completely withdrawing guidance. The uncertainty created by the GVC has resulted in a huge gap between the low and high ends of analysts’ consensus forecasts. Analysts will certainly be working overtime this earnings season.

The uncertainty about future earnings is apparent in the earnings confidence index (ECI) chart that Joe resurrected from the days when we were still publishing our charts in black and white (Fig. 6). The ECI measures the percentage of analysts’ forecasts that are within one standard deviation of the average consensus estimate. Consider two companies with an average earnings-per-share estimate of $1.00. A company with analysts’ estimates in a range of $0.50 to $1.50 would have a lower ECI score than one with estimates ranging $0.95 to $1.05.

In February, while the market was at a record high and before COVID-19 began to grip America’s attention, confidence about earnings estimates was the highest in over 20 years and matched the record high of November 1999. Valuations were at multi-year highs too in February. During the week ending March 19, analysts’ confidence crumbled to the lowest level since April 2010.

If what’s past is prologue, the confidence score will continue to plunge. It did so during the Crash of 1987, falling first to 90.7 before recovering to 92.2 during 1988. Likewise, confidence
initially dropped from a peak of around 95 in August 2007 prior to the GFC to 93 six months later. Confidence in earnings estimates continued to tumble until hitting a record low of 84.6 in December 2009.

(5) **Quarterly losses.** At present, analysts’ y/y quarterly earnings growth expectations for the S&P 500 are falling sharply: Q1 -2.9%, Q2 -1.8%, Q3 4.7%, and Q4 8.4% (Fig. 7). We expect that Q2 and Q3 estimates will soon be showing double-digit declines. We’ll give you some specific numbers on Monday because we don’t wish to upset your weekend.

Focusing on the S&P 500 sectors, currently earnings are expected to grow for seven of the 11 S&P 500 sectors in Q1-2020. Here’s the performance derby for the S&P 500 sectors’ consensus earnings growth in Q1: Communication Services (11.6%), Information Technology (5.5), Health Care (3.8), Utilities (2.1), Real Estate (2.1), Financials (0.4), Consumer Staples (0.1), Materials (-9.9), Consumer Discretionary (-14.0), Industrials (-18.6), and Energy (-20.9).

(6) **The fog of war.** The upcoming Q1 earnings season will be challenging. Many companies will need to compile their results from subsidiaries that are closed or filled with employees who are working from home or ill. On the bright side, Q1 earnings will still be positive for many companies, as the shutdown didn’t occur until the final weeks of the quarter.

However, Q1’s results won’t provide much of a yardstick for Q2-Q4 expectations. The story for Q2-Q4 depends entirely on whether companies are able to ride out quarantining and business closures and how fast they’re able to get back to business.

**Strategy II: Plummeting Valuations.** Much more attractive valuations are one of the benefits of a bear market. The other benefit is they give us a chance to think about the meaning of life.

Since the S&P 500 peaked at a record high on February 19, the index’s shares have fallen 27.8% through Tuesday’s close. Its valuation has also fallen hard and fast. Will the forward P/E soon get a lift from the falling forward earnings we mention above? That doesn’t make much sense, since the forward P/E isn’t likely to bottom until investors start to anticipate a bottom in forward earnings.

The good news is that forward earnings won’t fall as hard as actual earnings because the former will be giving more weight to 2021 consensus earnings forecasts, which are bound to reflect widespread expectations of a recovery next year. In any event, consider the following:
(1) S&P 500/400/600 forward P/Es. The forward P/E of the S&P 500 fell to 12.9 on Monday before recovering to 14.1 as of Tuesday’s close, down from 19.0 at its peak on February 19. The S&P 500’s forward P/E hasn’t been this low since January 2013.

Likewise, the forward P/E of the S&P 400 had tumbled to 10.3 before rising to 11.5, the lowest since March 2009 and down from 17.4 on December 20, 2019. The S&P 600’s forward P/E dropped to 11.0 before rising to 11.9, the lowest since November 2008 and down from 18.1 on December 24, 2019 (Fig. 8).

(2) S&P 500/400/600 sectors forward P/Es. Valuations for the S&P 500 sectors have returned to levels last seen in the wake of the GFC. Two exceptions are Information Technology and Communication Services, which have forward P/Es that have fallen to levels last seen around the market’s sharp selloff in December of 2018. Here’s the forward P/E derby for the S&P 500 sectors as of Tuesday: Real Estate (32.3), Consumer Discretionary (18.4), Information Technology (17.7), Consumer Staples (16.3), Utilities (15.1), Communication Services (14.9), S&P 500 (14.1), Materials (13.7), Industrials (12.7), Health Care (12.4), Energy (12.7), and Financials (8.7) (Fig. 9).

Among the S&P 400 sectors, the forward P/E of the Consumer Discretionary sector stands out because it is lower now, at 10.2, than it was even during the GFC, when the low was 10.8. Conversely, the S&P 400’s Health Care sector’s forward P/E of 20.1 is down sharply from 27.4 on February 19, but it’s well above the low multiple of 11.2 it hit in 2008 (Fig. 10).

The same is true among the S&P 600 sectors. The forward P/E of the Consumer Discretionary sector at 8.1 is lower than it was in 2008, when it stood at 9.5, while the S&P 600 Health Care sector’s forward P/E, at 26.9, still looks relatively high compared to its 11.5 low during the GFC (Fig. 11).

(3) Growth vs Value forward P/Es. The forward valuations of both the S&P 500 Growth and Value indexes tumbled sharply in recent weeks. The Growth index’s forward P/E is 18.4, down from 24.2 earlier this year, and the Value index’s forward P/E is 11.0, down from 15.3 (Fig. 12). The Value index’s P/E, which is being dragged down by the valuations of bank, energy, leisure, retail, and travel stocks, has returned to levels not seen since November 2011.
Strategy III: Insider Watching. Insider buying and selling are far from perfect signals that a company's stock will rise or fall. But sometimes, large purchases by corporate leaders at key times have profited investors who followed suit. Jamie Dimon's $11 million purchase of JP Morgan's stock in January 2009, the height of the GFC, comes to mind.

Senior executives were actively selling shares—totaling roughly $9.2 billion—between the start of February through last Friday, a March 24 WSJ article reported. However, we're happy to note that a handful of CEOs have also stepped up their large purchases of their companies' stock in the wake of the stock market downdraft. We ran a screen on gurufocus.com of insider purchases of 10,000 shares or more of S&P 500 stocks. Only two CEOs made purchases of 10,000 shares or more in January. Seven large stock purchases by CEOs were made in February, followed by 18 so far in March—with a week still left to go. Here are some of the more notable ones:

(1) Bargains in the energy aisle? With the price of Brent crude oil down 53% ytd, the energy patch is an obvious place to find CEOs buying stock (Fig. 13). Global exploration & production (E&P) company Marathon Oil's CEO, Lee Tillman, made the largest acquisition in two parts: 47,500 shares at an average price of $4.01 on March 13, followed by 27,500 shares at $4.00 on March 16. Marathon shares started the year at $13.68.

Executives at another E&P company, Noble Energy, were also big buyers in March. CEO David Stover purchased 36,000 shares, President Brent Smolik bought 38,000 shares, and General Council Rachael Clingman bought 17,793 shares—all made between the prices of $2.81 a share and $4.16. Noble shares are down 76.5% ytd through Tuesday's close.

Shares of ONEOK, a natural gas pipeline provider, were snapped up by CEO Terry Spencer in two transactions involving 60,507 shares. In addition, Chairman John Gibson made two purchases totaling 45,680 shares, and CFO Walter Hulse bought 10,000 shares. Diamondback Energy CEO Travis Stice bought 17,146 shares, while at Williams Companies CEO Alan Armstrong acquired 33,000 shares and CFO John Chandler purchased 13,000 shares.

Executive chairman and 10% owner Richard Kinder of Kinder Morgan has been buying up shares of his oil and gas pipeline and storage company since November, most recently 500,000 shares on March 11, 300,000 on March 5, and a total of 600,000 in February.
COVID-19 opportunities. Executives have even been buying in the beleaguered retail and entertainment industries, beaten down by the self-isolation imposed by COVID-19. Concert producer Live Nation Entertainment’s CEO Michael Rapino bought 25,650 shares on March 12, even though concerts aren’t likely to be held anytime soon. He paid an average price of $38.98 for the shares, which closed at $42.94 on Tuesday.

Simon Property Group CEO David Simon acquired 150,000 shares on St. Patty’s Day, and his uncle, Chairman Emeritus Herbert Simon, bought 188,572 shares on March 18. Their purchases, which each cost roughly $9 million, occurred even as the mall and outlet REIT temporarily closed its doors because of the virus on March 18. It was David Simon’s first purchase of company shares in the open market since 2004 and Uncle Herbert’s first open market purchase since 2012, a March 22 Barron’s article reported. Another retail-related purchase: home retailer Lowe’s CEO Marvin Ellison acquired 10,000 shares this month.

The price of copper has been hit hard, down 21% ytd, because of the economic chaos that COVID-19 has wrought (Fig. 14). Despite the harsh environment, on March 5 Freeport-McMoRan CEO Richard Adkerson acquired 250,000 shares at an average price of $10.02 and CFO Kathleen Quirk bought 85,000 shares at an average price of $10.03. Shares closed Tuesday at $6.99.

Executives are nibbling on industrial shares damaged by the economy too. CEOs of packaging companies Sealed Air and Amcor both have made purchases this month. Sealed Air CEO Edward Doheny bought 10,000 shares, and Amcor’s Ronald Delia acquired 50,000 shares. In addition, Amcor’s President Eric Roegner purchased 31,600 shares, and EVP Ian Wilson acquired 72,000 shares. Dow CEO James Fitterling bought 20,000 of his company’s shares, and Mosaic’s CEO James O’Rourke purchased 15,000 shares.

Banking on the future. After the S&P 500 Energy sector, the S&P 500 Financials sector has fallen the most ytd (down by 53.9% and 35.3%, respectively). So far, only a handful of CEOs in the Financials sector have made purchases. The most notable in March was Wells Fargo CEO Charlie Scharf’s purchase of 173,000 shares, followed by Lincoln National CEO Dennis Glass’s 28,000-share acquisition and the purchase of 25,000 shares by Aflac CEO Frederick Crawford.

Speak softly and buy shares? The Icahn clan may be using share purchases to make a statement about Newell Brands, a company they first invested in during 2018. The shares
were under pressure last month due to the virus-induced economic slowdown, then a March 3
WSJ article reported that the SEC is investigating the company’s sales and accounting
practices from 2016 onward. Carl Icahn acquired 2.6 million shares on March 11, and his son
Brett Icahn purchased a total of 780,882 shares in four transactions this month. Also in March,
Newell CEO Ravi Saligram acquired 35,000 shares, and CFO Christopher Peterson bought
10,000.

CALENDARS

US: Thurs: Jobless Claims 1.5mil, Kansas City Fed Manufacturing Index -10, GDP & PCE
2.1%/1.7%, GDP & Core PCE Deflators 1.3%/1.2%, Wholesale Inventories -0.4%, EIA Natural
Gas Storage. Fri: Personal Income 0.4%, Nominal & Real PCE 0.2%/0.2%, Headline & Core
PCED 1.7%/1.7% y/y, Consumer Sentiment Index 90.0, Baker-Hughes Rig Count. (DailyFX
estimates)

Global: Thurs: Germany Gfk Consumer Confidence 7.7, UK Retail Sales Including &
Excluding Fuel 0.7%/1.1% y/y, UK Sovereign Debt to be Rated by Fitch, BOE Bank Rate &
Asset Purchase Target 0.10%/£635b, ECB Publishes Economic Bulletin. Fri: None. (DailyFX
estimates)

STRATEGY INDICATORS

Stock Market Sentiment Indicators (link): The Bull/Bear Ratio (BBR) fell for the fifth week
this week—dropping below 1.00—as bearish sentiment jumped to its highest percentage since
October 2011! The BBR sank to 0.72 this week—the lowest since mid-February 2016—from
2.89 five weeks ago. Bearish sentiment has soared 22.8ppts (to 41.7% from 18.9%) over the
five-week period, while bullish sentiment has plunged 24.6ppts (30.1% from 54.7%)—to its
lowest percentage since late December 2018. Meanwhile, the correction count has been very
volatile the past five weeks, edging up only 1.8ppts (28.2 from 26.4)—though with a spike to
40.9% in the middle of the period.

US ECONOMIC INDICATORS

Durable Goods Orders & Shipments (link): The corona crunch hasn’t hit core capital goods
orders and shipments data yet, with both continuing to fluctuate around their record highs in
February. Nondefense capital goods orders ex aircraft (a proxy for future business investment)
slipped 0.8% in February—after rebounding 1.0% in January to a six-month high—and was still
within 1.7% of July 2018’s record high. Core capital goods shipments (used in calculating GDP) dipped 0.7% in February, after a 1.1% jump in January, and was 1.4% shy of May 2019’s record high. Overall durable goods orders rose for the third month, by 1.2% in February and 4.0% over the period—with February’s data boosted by a 1.8% jump in autos. Excluding transportation, orders dipped 0.6% last month, and showed little growth over the three-month period. March’s report will likely be dramatically different than February’s given the plunge in IHS Markit’s M-PMI to a 127-month low of 49.2.

GLOBAL ECONOMIC INDICATORS

Germany Ifo Business Climate Index (link): “The German economy is in shock,” according to Ifo President Clemens Fuest. Business confidence in March posted its biggest monthly drop on record, plunging to its lowest reading since July 2009. Meanwhile, Ifo economist Klaus Wohlrabe warned that the German economy could contract from 5% to 20% this year depending on the length of the shutdown caused by the pandemic. Germany’s Ifo Business Climate Index plunged 9.9 points to 86.1; it was at a record high of 104.9 just over two years ago. The expectations component (to 79.7 from 93.1) experienced the biggest deterioration this month, plunging 13.4 points, and was only 0.5 point above its record low of 79.2 at the end of 2008. Meanwhile, the present situation component (93.0 from 99.0) fell 6.0 points to its lowest level since June 2010. Ifo reports that the business climate indicator for the service sector posted its steepest drop since the data were first collected in 2005, while the manufacturing index fell to its lowest reading index since August 2009 with the expectations sub-index posting its steepest drop in “70 years of industry surveys.”