Strategy I: New Committee To Save the World. Money is power. Therefore, the three most powerful men in America today are Treasury Secretary Steve Mnuchin, Fed Chair Jerome Powell, and BlackRock CEO Larry Fink. They are today’s “Three Marketeers.” The previous trio—which inspired the name—was the Clinton administration’s Treasury Secretary Robert Rubin, Fed Chair Alan Greenspan, and US Deputy Secretary of the Treasury Larry Summers. The three appeared on the cover of the February 15, 1999 issue of *Time* in a story titled “The Committee to Save the World.” We all know how that turned out.

Before we discuss the latest threesome of rescuers, let’s briefly recall the previous government actions to save the financial markets and the economy:

(1) *The Greenspan Put.* President Ronald Reagan once famously said, “The most terrifying words in the English language are: ‘I'm from the government and I'm here to help.’” Yet following the stock market crash of late 1987, he signed an executive order that created the President’s Working Group on Financial Markets, consisting of the Treasury secretary and the chairpersons of the Fed, the Securities and Exchange Commission, and the Commodity Futures Trading Commission. It came to be known colloquially as the “Plunge Protection Team.” That was after Fed Chair Alan Greenspan had already taken decisive actions to stop the stock market from plunging back then.
In my 2018 book, *Predicting the Markets*, I wrote:

“Yet during his long tenure at the Fed, Greenspan had great confidence in Wall Street, and Wall Street had great confidence in what came to be known as the ‘Greenspan Put,’ or actions Greenspan took to show investors he had their backs. That was quite different from Volcker’s relationship with Wall Street. Volcker obviously was unperturbed by the bearish consequences of his policies on the stock market as he focused determinedly on breaking inflation. Nobody in the stock market thought he had their backs.

“Two months after Greenspan’s confirmation, the stock market crashed on Black Monday. The Fed immediately issued a statement affirming its readiness to serve as a source of liquidity to support the economic and financial system. The federal funds rate was lowered from 7.61% on October 19 to 5.69% on November 4. Gerald Corrigan, the president of the New York Fed, pressured the major New York banks to double their normal lending to securities firms, enabling brokers to meet cash calls. Greenspan later told the Senate Banking Committee that the Fed’s strategy during Black Monday was ‘aimed at shrinking irrational reactions in the financial system to an irreducible minimum.’ That was the beginning of the Greenspan Put and affirmed my view that the financial crisis could mean buying opportunities in the stock market.”

(2) *The Bernanke Put.* Again from my 2018 book: “The Fed lowered the federal funds rate from 5.25% in mid-2006 to nearly zero near the end of 2008, the so-called ‘zero lower bound.’ Fed Chairman Ben Bernanke also responded to the crisis by flooding the financial system with liquidity. Under his leadership, the Fed was remarkably effective at creating numerous emergency credit facilities that helped to contain the crisis so that it wouldn’t turn into a full-blown contagion and collapse of the financial system. As the crisis popped up in various parts of the financial system, Bernanke masterfully played ‘whack-a-mole’ using three sets of tools…” They included liquidity facilities for financial institutions, liquidity facilities for borrowers and investors, and QE programs.

(3) *Yellen’s magic wand.* In my recently released 2020 book, *Fed Watching for Fun & Profit*, I wrote: “Early on when [Janet] Yellen became Fed chair (and even when she was vice chair), I noticed that the stock market often would rise after she gave a speech on the economy and monetary policy. She was among the most dovish members of the [Federal Open Market Committee (FOMC)], and she now ruled the aviary, which also included a few hawks. So I remained bullish on the outlook for stocks, anticipating that under her leadership, the FOMC
would normalize monetary policy at a gradual pace. Indeed, I often referred to Yellen as the ‘Fairy Godmother of the Bull Market.’”

(4) *The Powell Put: From bazookas to B52s.* When stock prices plunged nearly 20% in the three months prior to Christmas Day 2018, Powell famously pivoted from signaling that three to four hikes in the federal funds rate were likely during 2019 to signaling a pause in rate-hiking. Instead, the FOMC under his leadership actually lowered the rate three times during the summer and fall of last year. Stock prices proceeded to melt up by 44.0% from December 24, 2018 through February 19, 2020.

Responding to the meltdown since February 19, the FOMC under Powell lowered the federal funds rate to zero and started QE4 purchases of $700 billion in US Treasuries and mortgage-backed securities on March 15. When those actions didn’t stabilize the capital markets, he followed up with QE4ever on March 23, in effect going straight from bazookas to B52s and skipping helicopters altogether. Several of Bernanke’s “whack-a-mole” liquidity facilities were revived, and a couple of new ones added. Then on April 9, the Fed joined forces with the US Treasury to save the day in a program we call “NALB,” no asset left behind.

(5) *The Three Caballeros.* Today’s threesome teamed up to create what Melissa and I call “The Bank of the United States,” as we discussed in yesterday’s *Morning Briefing.* The CARES Act, signed by President Donald Trump on Friday, March 24, included $2.0 trillion of measures aimed at supporting the economy. Most of those funds will be allocated by the Treasury, which is required by the Act to provide $454 billion in capital that the Fed can leverage into $4.0 trillion of loans through the Fed’s lending facilities.

One such facility will be purchasing investment-grade corporate bonds as well as so-called “fallen angels,” i.e., BBB-rated corporate bonds that have been rerated as junk bonds as a result of the Great Virus Crisis (GVC). A second one will lend to large corporations or buy bonds directly from them, an unprecedented bypass of the banking system.

The Fed’s lending facilities have typically required a loss-absorbing cushion of around 10% from the Treasury to protect it from loans that aren’t paid back. On that basis, every dollar from the Treasury can stand behind $10 dollars lent by the Fed.

Yesterday, we observed that former Fed Chair Ben Bernanke had converted the Fed into “Feddie” by conducting sizable QE purchases of mortgage-backed securities in addition to
Treasuries, thus supplementing the support provided to the mortgage market by Fannie Mae and Freddie Mac. Both government-sponsored enterprises were casualties of the Great Financial Crisis (GFC) and were placed in conservatorships on September 7, 2008.

With the capital provided by the Treasury, Powell has turned Feddie into “T-FED,” our name for what's become a consolidation of the US Treasury and the Fed into a gigantic government-run bank with lots of money to lend and to buy assets that the Fed is prohibited from purchasing outright with its QE programs. That's why we also refer to this development as “NALB.”

Interestingly, BlackRock has been chosen to help T-FED to operate. On March 24, the Fed appointed the world’s largest asset manager to manage its massive corporate-debt-purchase program. That gives BlackRock enormous power to determine how rescue funds are allocated to corporations.

The March 27 NYT included an article titled “Fed Releases Details of BlackRock Deal for Virus Response.” The story applauded the fact that the terms of BlackRock’s contract with the Federal Reserve Bank of New York were made public, with seemingly very reasonable terms. It was noted that BlackRock had played a similar role in helping the Fed during the GFC to oversee assets left over after the collapses of Bear Stearns and American International Group.

Some critics back then saw a conflict of interest in BlackRock’s role. A few critics these days are making the same claim.

**Strategy II: Investment Themes for A-GVC.** There is already lots of chatter about how everything will change as a result of the GVC aftershocks. Here are a few themes we are focusing on regarding the post-crisis Brave New World (a.k.a. A-GVC):

(1) *Globalization at risk.* Globalization is expected to be the big loser as supply chains are brought home from overseas. Technology and health care companies are particularly likely to do so. That could squeeze profit margins by driving up supply-chain costs. It could also lead to higher prices as companies attempt to protect their profit margins. However, economic demand could be weak as a result of the GVC aftershocks.

On the other hand, companies that can help other companies bring their supply chains home—by implementing technological innovations such as 3D printing, robotics, artificial intelligence,
and fully automated production facilities—could benefit themselves and their customers greatly.

(2) *Home, Inc.* Not only are supply chains likely to move home, but also more businesses will either allow or require their employees to work from home. Again, that’s good for several technology companies that produce the hardware and software that enable workers to do so. Videoconferencing has become ubiquitous in recent weeks as a result of the stay-in-place orders promulgated by state governors in the US and other authorities overseas. This ongoing development is already a big boost to the business of cloud providers. The problem is that working from home creates huge cybersecurity issues for companies. That should be a good opportunity for cybersecurity companies.

(3) *Corporate cash is king.* On January 21, 2020, Bridgewater Associates founder Ray Dalio famously *proclaimed* on CNBC at the 2020 World Economic Forum in Davos, Switzerland: “Cash is trash. Get out of cash. There’s still a lot of money in cash.” On April 7, during a Reddit Ask Me Anything event, Dalio *doubled down*, reported Bloomberg: “So I still think that cash is trash relative to other alternatives, particularly those that will retain their value or increase their value during reflationary periods (e.g., some gold and some stocks).”

We were starting to worry about the meltup in the stock market late last year and the coronavirus early this year. See for example: “A 10% to 20% pullback could strike stocks early next year, long-time bull Ed Yardeni warns,” (CNBC, *Trading Nation*, December 29, 2019) and “Market bull Ed Yardeni sees the coronavirus as biggest threat to the rally,” (CNBC, *Trading Nation*, February 7, 2020). By March 10, we were writing that the pandemic of fear was spreading faster than the virus. On March 16, we wrote that a mad dash for cash was causing widespread illiquidity in the credit markets. Since then, we’ve been tracking this phenomenon in charts that are now compiled in our *Mad Dash for Cash in 2020 publication*.

That dash apparently slowed after the Fed announced QE4ever on March 23. While investors took advantage of that program to rebalance their portfolios away from cash and bonds to stocks, they are likely to invest in companies with solid balance sheets with plenty of cash. Investors should favor companies that don’t need government handouts to survive the GVC over those that do.

The cash-rich companies now have lots of opportunities to buy distressed assets and cheap companies that fit into their business models. They aren’t likely to face any anti-trust opposition
by the government under the circumstances. M&A activity should boom, which is good for the investment banking firms.

(4) Online shopping bigger than ever. Retailers who are focusing on growing their online businesses during the GVC should be able to survive and flourish A-GVC. If more people work from home, they will be buying supplies for their home offices. Consumers have been buying staples in bulk online and will probably continue to do so A-GVC, once they run down their current inventories. The larger retailers may have to convert their brick-and-mortar facilities into distribution centers. Warehousing, logistics, and trucking companies all should benefit.

US Economy: Long Expansion, Short Recession? The longest US economic expansion ended during February. It started during July 2009. Once again, we’ve learned that economic expansions and bull markets don’t die of old age. They are typically killed by credit crunches. In this case, they were killed by a global viral pandemic. A bunch of economic indicators will be released in coming days that will show how badly the GVC hit the economy in March.

On April 9, the Atlanta Fed’s GDPNow model showed a 1.0% (saar) increase in real GDP during Q1. That undoubtedly will be revised closer to zero. The question is whether Q2’s real GDP fell somewhere between 15% and 30%, which seems to be the range of forecasts currently. Debbie and I are expecting a 20% drop. We expect that the stimulative combination of fiscal and monetary policies will provide some cushion. Then we estimate a 10% drop during Q3, followed by a recovery of 15% during Q4.

Meanwhile, the latest batch of economic indicators is shockingly, but not surprisingly bad:

(1) Our Boom-Bust Barometer is the ratio of the CRB raw industrials spot price index to initial unemployment claims. It plummeted 79% from 221.8 during the week of February 15 to 46.4 during the week of April 4, just below the previous low during the week of March 28, 2009 (Fig. 1). The plunge was led by soaring initial unemployment claims.

(2) The Citibank Economic Surprise Index plunged from a high of 73.8 on March 13, 2020 to -81.9 on April 13, the lowest reading since August 19, 2011 (Fig. 2).

CALENDARS

US: Tues: Import Prices -3.1%m/m/-4.6%y/y, Import Prices ex Petroleum -0.2%, Evans,
Bostic. **Wed:** Retail Sales Total, Ex Autos, Ex Autos & Gas, Control Group -8.0%/-4.8%/-6.2%,-1.8%, Headline & Manufacturing Industrial Production -4.2%/-3.6%, Capacity Utilization 73.9%, Empire State Manufacturing Index -32.5, Business Inventories -0.4%, NAHB Housing Market Index 58, MBA Mortgage Applications, DOE Crude Oil Inventories, Beige Book, Bostic. (DailyFX estimates)

**Global: Tues:** None. **Wed:** Australia Employment Change & Unemployment Rate -30k/5.4%, BOC Rate Decision 0.25%. (DailyFX estimates)

**STRATEGY INDICATORS**

**S&P 500/400/600 Forward Earnings** ([link](#)): These three indexes had their forward earnings fall at an accelerated rate last week. In fact, their w/w declines are the worst on record, and have even surpassed the worst declines during the Great Financial Crisis. LargeCap’s forward earnings dropped 4.0% to its lowest level since February 2018; MidCap’s fell 6.0% to its lowest level since December 2017; and SmallCap’s tumbled 7.3% to the lowest point since September 2017. These indexes had begun a forward-earnings uptrend during March 2019 but stumbled from July to November before rising until mid-February. LargeCap’s is now 12.2% below its record high at the end of January; that’s the most since July 2010. MidCap’s and SmallCap’s are 17.8% and 26.6% below their October 2018 highs; that’s the most since March 2020 and December 2009, respectively. The yearly change in forward earnings soared to cyclical highs during 2018 due to the boost from the Tax Cuts and Jobs Act (TCJA) but began to tumble in October 2018 as y/y comparisons became more difficult. In the latest week, the rate of change in LargeCap’s forward earnings dropped to -9.0% y/y from -5.4% the week before. That’s the lowest since November 2009 and down from 23.2% in September 2018, which was the highest since January 2011. MidCap’s fell w/w to -15.1% y/y from -11.0%. That was also the lowest since November 2009 and compares to a TCJA-boosted 24.1% in September 2018 (the highest since April 2011). SmallCap’s dropped w/w to -20.5% y/y from -14.3%; that’s also the lowest since October 2009 and compares to the TCJA-boosted eight-year high of 35.3% in October 2018. Analysts’ y/y earnings growth forecasts for 2020 are down substantially in the past five weeks, and further declines are still ahead. Here are the latest consensus earnings growth rates for 2020 and 2021: LargeCap (-8.5%, 18.8%), MidCap (-10.5, 19.8), and SmallCap (-18.8, 25.5).

**S&P 500/400/600 Valuation** ([link](#)): Valuations surged higher last week, but the gains were primarily due to lower forward earnings. LargeCap’s forward P/E soared 2.6pts w/w to 17.8
from 15.2, and is up from 13.3 in mid-March, which was its lowest since March 2013. MidCap’s 15.5 and SmallCap’s 16.5 were up 3.2pts and 3.7pts w/w. That compares to MidCap’s 10.7 and SmallCap’s 11.1 in mid-March, which were their lowest readings since March 2009. LargeCap’s forward P/E had been at 18.9 during mid-February, which was the highest level since June 2002. Of course, that high was still well below the tech-bubble record high of 25.7 in July 1999. Last week’s level compares to the post-Lehman-meltdown P/E of 9.3 in October 2008. MidCap’s P/E is down from a 22-month high of 17.4 in mid-December and the record high of 20.6 in January 2002. However, MidCap’s P/E has been at or below LargeCap’s P/E for most of the time since August 2017—the first time that alignment has prevailed since 2009. SmallCap’s P/E is down from mid-December’s 16-month high of 18.1 and a 15-year high of 20.5 in December 2016, when Energy’s earnings were depressed. However, SmallCap’s P/E is still below LargeCap’s. It has been mostly below since last May—the first time that has happened since 2003. During mid-March, SmallCap’s P/E was briefly below MidCap’s for the first time since July 2008.

**S&P 500 Sectors Quarterly Earnings Outlook (link):** The March quarterly earnings books have been closed for two weeks now, but analysts continue to slash their estimates in what’s sure to be the worst season in many years. The Q1 EPS forecast tumbled 106 cents w/w to $35.22. That represents a decline of 10.0% y/y on a frozen actual basis and -9.0% y/y on a pro forma basis. That compares to a 3.1% gain in Q4-2019, a 0.3% decline in Q3-2019, and y/y gains of 3.2% in Q2-2019, 1.6% in Q1-2019, 16.9% in Q4-2018, and 28.4% in Q3-2018 (which marked the peak of the current earnings cycle). Besides the small y/y decline in Q3-2019, the last time earnings fell markedly y/y was during the four quarters through Q2-2016. Six of the 11 sectors are still expected to record positive y/y earnings growth in Q1, but none are forecasted to rise at a double-digit percentage rate. That compares to eight positive during Q4, when two rose at a double-digit percentage rate. Six sectors are expected to beat the S&P 500’s pro-forma 9.0% decline in Q1. That compares to six in Q4 and seven in Q3, and is still up sharply from just three beating the S&P 500 during Q2-2019. All sectors are expected to post worse growth on a q/q basis during Q1. On an ex-Energy basis, the consensus expects earnings to drop 7.5% y/y in Q1. That compares to ex-Energy gains of 6.1% in Q4, 2.2% in Q3, 3.9% in Q2, and 3.0% in Q1 but is well below ex-Energy’s 25.0% and 14.2% y/y gains in Q3-2018 and Q4-2018, respectively. Here are the latest Q1-2020 earnings growth rates versus their final Q4-2019 growth rates: Communication Services (7.4% in Q1-2020 versus 8.2% in Q4-2019), Information Technology (2.5, 9.2), Utilities (2.2, 17.8), Health Care (1.3, 10.1), Real Estate (1.0, 7.0), Consumer Staples (0.7, 2.6), Materials (-13.9, -12.4), Financials (-16.8, 10.2),
Consumer Discretionary (-29.3, 2.5), Industrials (-30.8, -9.3), and Energy (-49.6, -41.2).