Strategy I: Beyond the Negative Headlines. We’re in the midst of a worldwide pandemic. You’d have to pay people to take oil off your hands. And the 10-year Treasury yield has fallen to 0.63%, not far from its record low of 0.54% recorded on March 9. Yet despite the daily deluge of negativity, the S&P 500 is down just 15.3% ytd—well above its ytd low of -30.7% seen on March 23 and barely negative y/y, -5.8%.

The S&P 500’s improved performance this year owes much to the fact that sectors with the largest market capitalizations have outperformed ytd. The S&P 500 benefits far more from the Information Technology sector’s ytd -8.2% return than it is hurt by the Energy sector’s -45.8% ytd performance. That’s because the Tech sector kicks in 25.6% of the S&P 500’s market capitalization, while the Energy sector contributes only 2.7%. Altogether, the six sectors that are outperforming the S&P 500 make up almost 75% of the index’s market cap.

Here’s the performance derby of the S&P 500 sectors, listing their ytd returns through Tuesday’s close and their market-capitalization shares: Health Care (-5.0%, 15.6%), Consumer Staples (-8.0, 7.9) Information Technology (-8.2, 25.6), Consumer Discretionary (-10.0, 10.2), Utilities (-11.3, 3.5), Communication Services (-13.0, 10.7), S&P 500 (-15.3, 100), Real Estate (-15.5, 3.0), Materials (-22.1, 2.4), Industrials (-26.3, 7.9), Financials (-30.8, 10.5), and Energy (-45.8, 2.7) (Fig. 1 and Fig. 2).

So the next time you read the alarming headlines about oil-filled tankers bobbing off our coasts, remember the Energy sector’s market-cap share has fallen from a peak of 16% in 2008 to under 3%.
Strategy II: Earnings Anecdotes. With analysts expecting S&P 500 earnings to decline 14.7% in Q1-2020, it isn’t surprising that earnings are suboptimal. But the market responded positively to earnings in a number of hard-hit industries yesterday. Here’s a quick look:

(1) **Cooking fatigue helps restaurants.** After being in solitary confinement … sorry, isolation with her loving family … Jackie admits to cooking fatigue even though her husband does most of the cooking. Germs be damned, she picked up a pizza this week for the first time during New York’s stay-at-home period.

Looks like she’s not alone. Chipotle Mexican Grill reported on Tuesday that digital sales more than doubled in March and grew 81% in Q1. While the company still reported same-store sales fell 16% in March, adjusted earnings of $3.08 a share did beat analysts’ forecast of $2.90, CNBC reported on April 21. Chipotle shares are down roughly 4% from their February high and are up 5.4% ytd after Wednesday’s 14.0% rally.

The S&P 500 Restaurant industry stock price index has fallen 14.4% ytd (Fig. 3). Analysts are forecasting a 6.2% drop in this year’s revenues and a 21.7% decline in earnings (Fig. 4 and Fig. 5). But in 2021, revenues are expected to jump 14.1% and earnings are forecast to increase 39.8%.

(2) **Looking beyond Q1.** Baker Hughes was the latest oilfield services firm to report a dismal Q1. The company reported a $10 billion loss and slashed capital spending by 20% in anticipation of a 50% decline in North American oil field activity, a 4/22 WSJ article reported.

But despite the gloomy data point, Baker shares are up 39.2% from their March 23 low as of Wednesday’s close. Other major oil companies—including Exxon Mobil, Chevron, Schlumberger, and Pioneer Natural Resources—also are trading substantially above their March lows.

Oil producers have started to cut production sharply in the face of low prices and a lack of storage capacity. Cantium LLC, a shallow-water Gulf of Mexico oil producer, shut in all of its production this week. Cantium “fields producing 20,000 barrels a day will be shut for at least two months, possibly four. Gulf Coast refiners told him they would substitute gulf crudes with Saudi barrels from two tankers sitting offshore,” an April 22 WSJ article reported.
US crude production fell last week by 100,000 barrels per day to 12.2mbpd (Fig. 6). That’s not nearly enough to offset the current glut, but it’s likely the start of many reductions to come. The Baker Hughes US rig count has fallen to 529 from 796 at the start of the year (Fig. 7). The price of a barrel of Brent crude oil jumped 8% on Wednesday to $20.89 but remains down 68% ytd.

**Disruptive Technologies: Race for the Cure.** Georgia’s Governor Brian Kemp has decided isolation is over. Starting Friday, gyms, bowling alleys, barbers, and other non-essential businesses can open their doors. On Monday, movie theaters can operate, and restaurants can resume dine-in service. Other southern states are expected to follow suit in short order, an April 21 WSJ article reported.

These controversial moves would be more widely accepted if a cure for COVID-19 existed, or even a drug that tamed the disease’s most serious effects. A vaccine would also let everyone sleep a bit easier. None of that exists right now.

The good news is that the pandemic has sent the scientific community into overdrive to develop the fastest ways to search for and develop new tests, drugs, and vaccines. On Tuesday, the Food and Drug Administration authorized the first at-home test for COVID-19, developed by LabCorp. The test initially will be available to healthcare workers and first responders who might have been exposed to the virus, CNBC reported.

But testing the asymptomatic US population doesn’t seem realistic, especially since the potential for new infections would mean you’d have to repeat the tests frequently—hence, the importance of drug and vaccine development. Researchers have launched more than 180 clinical trials, and another 150 trials are preparing to recruit patients, an April 18 Lancet article reported. It argues that such volume of experimentation is necessary because up to 90% of new clinical trials don’t end with a drug approval.

I asked Jackie to take a look at some of the most interesting developments that might ease our minds and end our isolation. Here’s what she found:

(1) *Harnessing AI.* BenevolentAI is a startup company that originally planned to use artificial intelligence (AI) to create and develop drugs faster. In response to the COVID-19 pandemic, the company used its AI platform to find an existing drug that it hopes will help reduce the body’s inflammatory reaction to the disease.
When COVID-19 enters the lungs, in some patients it causes the body’s immune system to overreact and release too many small proteins, called “cytokines.” This “cytokine storm” causes hyperinflammation, which can cause serious harm or death.

BenevolentAI’s team entered into its system “everything they knew about COVID-19 and drugs that could inhibit the cellular processes that the virus uses,” an April 14 TechCrunch article explained. It then input information about drugs known to inhibit regulators. The result: baricitinib, a drug with anti-viral and anti-cytokine properties, which already was being sold as a prescription drug by Eli Lilly and Incyte for rheumatoid arthritis. Lilly and the US National Institute for Allergies and Infectious Diseases plan to conduct a randomized trial to test the use of baricitinib to treat COVID-19 patients. Results are expected in the next two months.

(2) Powerful placenta cells. Pluristem Therapeutics, an Israel-based biotech company, is also addressing the body’s immune response to COVID-19. It uses placentas to grow “smart cells” programmed to secrete therapeutic proteins that will help suppress or reverse the overactivation of the immune system caused by COVID-19.

Seven Israeli patients who were at high risk of death due to respiratory failure and organ failure survived after receiving Pluristem’s medication. Five showed improvement, one showed a deterioration in respiratory parameters, and one’s health update wasn’t reported, according to an April 16 article in The Times of Israel. The treatment is also being given to an American patient. The company hopes to begin a clinical trial soon.

(3) More AI. Scientists also hope we can fight COVID-19 by harnessing the antibodies created by people who have already had the disease.

AbCellera, a private company, took blood samples from a patient who recovered from COVID-19 and used its AI-based platform to screen more than 5 million immune cells to find those that produced the antibodies that helped the patient recover. “From this effort, AbCellera has identified over 500 unique fully human antibody sequences, the largest panel of anti-SARS-CoV-2 antibodies ever reported,” the company’s March 12 press release stated. And it did so in 11 days.

AbCellera now will determine which antibodies are the most effective, and it’s partnering with Eli Lilly to develop potential new therapies within the next four months.


(4) *New production methods.* SwiftScale Biologics is developing a technique to produce antibodies that’s far faster and less expensive than traditional methods. The company, founded by researchers from Cornell University and Northwestern University, uses “cell-free” biotechnology. Instead of using mouse cells to generate antibodies over nine months—the usual method of antibody development—the scientists are using E. coli bacteria cells to produce the antibodies over one month because they grow, divide, and produce proteins faster.

Historically, bacteria weren’t used because they don’t produce glycoproteins. SwiftScale changed the E. coli so that it could produce proteins. Now the company is working with Centivax, which is planning clinical trials this summer on several antibody candidates. If the trials work, Centivax then would use SwiftScale’s process to produce 100,000 doses a month for 10 months.

“[W]e are designing simplified antibody-based drugs that can be produced in bacteria rather than mammalian cells, which are far slower and more expensive to scale. In this way, we believe that we will be able to get a COVID-19 treatment into the clinic and ultimately to affected patients worldwide more quickly while increasing access,” said Michael Jewett, Northwestern’s professor of chemical and biological engineering and director of the school’s Center for Synthetic Biology, according to the school’s [website](https://www.northwestern.edu/).

(5) *Messenger RNA to the rescue.* Moderna, a biotechnology company, has used the genetic sequence of COVID-19 to develop a vaccine in two months. The vaccine is now in trials, and, if all goes well, the trials could lead to regulatory approval this year.

As we explained in our March 5 *Morning Briefing*: “Messenger RNA (mRNA) instructs our cells to make proteins. Moderna has used COVID-19’s genetic code to create an mRNA that will instruct our cells to make a small amount of COVID19 proteins. These proteins trigger the production of COVID-19-specific antibodies that provide immunity to the virus. Since the mRNA never goes into the nucleus of cells, there’s no concern about it changing the cell’s genome.”

This is different from the traditional method of vaccine development, where a small amount of a weakened virus is injected into the body, which reacts by generating antibodies. Using mRNA should dramatically lower the cost of vaccine development.
“We call mRNA the software of life,” Stephane Bancel, CEO of Moderna, said in a April 3 MIT Management article. “You can copy and paste the information into a lot of drugs by using the same technology.” That means “the way we make mRNA for one vaccine is exactly the same way we make mRNA for another vaccine.” It just carries a different genetic sequence depending on the disease. As a result, the company was able to quickly switch from its development of a vaccine for the MERS-CoV virus to working on a COVID-19 vaccine. The two viruses have similar genetic sequences.

Different vaccines using mRNA involve the same manufacturing processes and facilities, which should bring down vaccine development costs. Moderna also aims to speed the time to market and scale by using digitalization and robots. The firm’s human trials are underway, and it hopes to produce “millions of doses per month later this year, ramping up to ‘dozens of millions of doses per month toward the end of next year,’” Bancel said.

German company BioNTech announced yesterday that it too will begin clinical trials on a mRNA-based vaccine that it’s developing with Pfizer. If using mRNA is successful, it would mean far more than just defeating COVID-19—though that undoubtedly would be fantastic. The ability to use mRNA to produce vaccines would give humanity a new way quickly to combat dangerous pandemics that pose a threat in the future.

It’s often said that necessity is the mother of innovation. Let’s hope that holds true today.

**CALENDARS**

**US:** **Thurs:** Jobless Claims 4.5m, New Home Sales 643k, M-PMI & NM-PMI Flash Estimates 36.0/31.3, Kansas City Fed Manufacturing Index -34, EIA Natural Gas Storage. **Fri:** Durable Goods Orders Headline & Ex Transportation -12.0%/-5.8%, Nondefense capital goods orders & shipment excluding aircraft -6.0%/-7.0%, Consumer Sentiment Index 67.9, Baker-Hughes Rig Count. (DailyFX estimates)

**Global:** **Thurs:** Eurozone, Germany, and France C-PMI Flash Estimates 25.9/28.8/25.3, Eurozone, Germany, and France M-PMI Flash Estimates 38.0/39.0/37.5, Eurozone, Germany, and France NM-PMI Flash Estimates 23.5/28.1/25.0, UK C-PMI, M-PMI, and NM-PMI Flash Estimates 31.0/42.0/29.0, Germany Gfk Consumer Confidence -1.7, UK Gfk Consumer Confidence -40, Japan Headline, Core, and Core-Core CPI 0.4%/0.4%/0.6% y/y, Italy & UK
Sovereign Debt to be Rated by S&P. **Fri:** Germany Ifo Business Climate, Current Assessment, and Expectations Indexes 80.0/81.0/75.0, UK Retail Sales Excluding & Including Auto Fuel - 4.7%/-5.0% y/y, EU Commission Economic Forecasts. (DailyFX estimates)

**STRATEGY INDICATORS**

**Stock Market Sentiment Indicators** ([link](#)): The Bull/Bear Ratio (BBR) rose again this week, and was above 1.00 for the second week, after three weeks below. The BBR climbed for the fourth straight week, to 1.41, after falling from 2.89 to 0.72 (the lowest since February 2016) the prior five weeks. Bullish sentiment advanced for the fourth week, by 13.2ppts to 43.3%, following a five-week plunge of 24.6ppts (to 30.1% from 54.7%)—to its lowest percentage since late December 2018. Meanwhile, bearish sentiment sank 10.9ppts the past four weeks to 30.8%, after shooting up 22.8ppts (41.7 from 18.9) the previous five weeks. The correction count has dropped 6.4ppts the past three weeks to 25.9% following a 4.1ppts increase four weeks ago to 32.3%; it had plunged 12.7ppts (to 28.2% from 40.9%) the prior two weeks. The AAII Ratio dipped to 44.9% last week, after advancing from 38.7% to 45.0% the previous two weeks. Bullish sentiment fell from 36.6% to 34.9% last week, while bearish sentiment declined for the third week, from 52.1% to 42.8%.

**S&P 500 Earnings, Revenues, Valuation & Margins** ([link](#)): Analysts continue to read the COVID-19 memo and are shredding their estimates. Consensus S&P 500 forward revenues and earnings continue to fall at rates that parallel or even exceed the declines during the financial crisis of 2008-09. Forward revenues dropped 0.9% w/w to its lowest level since September 2018 and is now 5.4% below its record high in mid-February. Forward earnings tumbled 4.0% w/w to its lowest level since December 2017 and is now 15.7% below its record high in early March. Forward growth forecasts are tumbling too. Analysts expect forward revenues growth of 1.4% and a forward earnings decline of 2.3%. The revenues growth measure was down 0.4ppt w/w, and earnings growth dropped 2.3ppts. Forward revenues growth is now the lowest since May 2015 and 4.9ppts below its seven-year high of 6.3% in February 2018. Forward earnings growth is down 19.2ppts from a six-year high of 16.9% in February 2018 and at the lowest level since February 2009. Prior to the passage of the Tax Cuts and Jobs Act (TCJA), forward revenues growth was 5.5% and forward earnings growth was 11.1%. Annual growth expectations for 2020 continue to deteriorate rapidly. Analysts expect revenues to decline 1.9% y/y in 2020 compared to the 4.2% reported in 2019. That’s down 1.1ppts w/w and 6.8ppts since the start of the year. They’re calling for earnings to decline 14.1% y/y in 2020 compared to a 1.5% rise in 2019. The 2020 growth rate tumbled
4.8pppts w/w and is down 22.9pppts since the beginning of the year. The forward profit margin of 10.7% is down 0.3ppt w/w to the lowest level since October 2016 and is down 1.7ppt from a record high of 12.4% in September 2018. That compares to 11.1% prior to the passage of the TCJA in December 2017 and the prior cyclical low of 10.4% in March 2016. Analysts now expect the profit margin to fall 1.5ppt y/y in 2020 to 10.1%—from 11.6% in 2019—and to improve 1.5ppt y/y to 11.6% in 2021. Valuations have been extremely volatile on both a daily and weekly basis; they soared last week in part due to tumbling expectations for forward revenues and earnings. The weekly snapshot of the S&P 500’s forward P/E rose to an eight-week high of 18.6 from 17.7. That’s up from a 77-month low of 14.0 in mid-March, and is down from 19.1 in mid-February, which was the highest since May 2002. It’s back above the 14.3 bottom during the December 2018 selloff, which was the lowest reading since October 2013, and down 23% then from the 16-year high of 18.6 at the market’s valuation peak in January 2018. The S&P 500 price-to-sales ratio rose to a six-week high of 1.99 from 1.95. That’s up from the 49-month low of 1.65 in mid-March, which compares to mid-February’s record high of 2.29. It’s now back above the 1.75 trough during the December 2018 selloff, when it was the lowest since November 2016 and down 19% from its then-record high of 2.16 in January 2018.

**S&P 500 Sectors Earnings, Revenues, Valuation & Margins** (link): Consensus forward revenues and earnings fell w/w for all 11 sectors. Four sectors (Consumer Discretionary, Energy, Financials, and Industrials) had both measures, particularly earnings, get crushed w/w yet again. The forward P/S and P/E ratios are down sharply for all sectors, and from recent record or cyclical highs for Communication Services, Consumer Discretionary, Information Technology, Real Estate, and Utilities. Due to the TCJA, the profit margin for 2018 was higher y/y for all sectors but Real Estate. Just two sectors (Tech and Utilities) are expected to record higher margins y/y in 2020, down from eight expected to do so in early March. During 2019, just two sectors improved y/y: Financials and Utilities. The forward profit margin rose to record highs during 2018 for 8/11 sectors, all but Energy, Health Care, and Real Estate. Since then, it has moved lower for nearly all the sectors including eight in the latest week alone. Utilities is the only sector with its forward profit margin at a record high. Here’s how the sectors rank based on their current forward profit margin forecasts versus their highs during 2018: Information Technology (21.9%, down from 23.0%), Financials (13.7, down from 19.2), Real Estate (14.9, down from 17.0), Communication Services (14.0, down from 15.4), Utilities (13.8, record high), S&P 500 (10.7, down from 12.4), Health Care (10.2, down from 11.2), Materials (9.1, down from 11.6), Industrials (8.1, down from its record high of 10.5% in mid-December), Consumer Staples (7.3, down from 7.7), Consumer Discretionary (6.1, down from 8.3), and
Energy (1.4, down from 8.0).

**MSCI World & Region Net Earnings Revisions** *(link)*: Analysts’ recent earnings revisions collapsed during April and suggest the worst pessimism about earnings since the depths of the financial crisis in 2009. The AC World ex-US MSCI’s NERI was negative for a 25th month, as it tumbled to a 132-month low of -20.1% in April from -10.0% in March. The US’s NERI was negative for an 11th straight month, as it dropped to a 133-month low of -27.9% from -11.7%. It remains well below its corporate-tax-rate-cut-boosted record high of 21.8% in March 2018.

Here are April’s scores among the regional MSCIIs: EM Latin America (-14.8% in April [record low dating back to 1989], down from -7.4% in March), EM Eastern Europe (-15.0 [132-month low], -5.8), Emerging Markets (-15.8 [135-month low], -7.4), EM Asia (-15.9 [133-month low], -7.4), AC World ex-US (-20.1 [132-month low], -10.0), AC World (-22.2 [133-month low], -10.5), EAFE (-25.6 [135-month low], -13.5), the United States (-27.9 [133-month low], -11.7), Europe (-28.4 [record low dating back to 1988], -13.8), Europe ex-UK (-29.1 [136-month low], -13.7), and the EMU (-29.5 [record low dating back to 2001], -13.7).

**MSCI Countries Net Earnings Revisions** *(link)*: NERI was negative for all 44 MSCI countries in April, the worst reading since all countries were negative from November 2008 to February 2009. That compares to 2/44 countries positive in March and 11/44 countries positive in May 2019, which was the highest reading since October 2018. NERI weakened m/m in April for all 44 countries for the first time ever. That compares to 6/44 improving in March. During April, NERI turned negative m/m for Argentina and Egypt. Most of the 44 countries had NERI at their lowest levels since early 2009. Among the better readings, Chile and Pakistan were only at two-month lows, followed by Egypt (3-month low), Turkey (4-month low), New Zealand (7-month low), and India (8-month low). South Africa’s NERI has been negative for 71 straight months, followed by the negative streaks of Mexico (42 months), Denmark (33), and Germany (33). The highest NERI readings in April: Egypt (-1.4%), Pakistan (-3.2), Argentina (-5.6), New Zealand (-8.2), Chile (-9.2), and Russia (-10.0). The weakest NERIs occurred this month in Australia (-33.9, record low), Finland (-33.2, 132-month low), France (-32.7, record low), Austria (-32.1, record low), the United Kingdom (-29.9, 219-month low), and Switzerland (-29.9, 133-month low).

**S&P 500 Q1 Earnings Season Monitor** *(link)*: With nearly 17% of S&P 500 companies finished reporting revenues and earnings for Q1-2020, revenues are beating the consensus forecast by 0.8%, but earnings have missed by 1.9% primarily due to a boost in credit and loan-loss reserves for the banks. At the same point during the Q4 season, the revenue
surprise was a slightly higher 1.1% and the earnings beat was sharply higher at 4.9%. For the 84 companies that have reported through mid-day Wednesday, aggregate y/y revenue and earnings growth and the percentage of companies reporting a positive revenue and earnings surprise are below the same point during Q4. All of the earnings measures are markedly weaker. The small sample of Q1 reporters so far has a y/y revenue gain of 3.4%, but earnings are down 20.7% y/y in what’s sure to be the worst quarter since Q1-2009 during the financial crisis. For the time being, slightly fewer companies are reporting a positive revenue surprise (64%) than a positive earnings surprise (68%). More companies are reporting positive y/y revenue growth in Q1 (63%) than are reporting positive y/y earnings growth (49%). That’s the lowest rate for earnings since Q3-2009. These figures will change markedly as more Q1-2020 results are reported in the coming weeks, but the earnings results are expected to remain dismal. Now more than ever, what companies say about the state of their business and their plans to ride out the COVID-19 crisis will be investors’ main focus.