MORNING BRIEFING
April 27, 2020

The Twilight Zone: Where Is Everybody?

Check out the accompanying chart collection.


US Economy: The Fifth Dimension. The very first episode of The Twilight Zone aired on CBS on October 2, 1959. It was titled “Where Is Everybody?.” The TV series was created by Rod Serling and broadcast from 1959 to 1964. Wikipedia observes: “Each episode presents a stand-alone story in which characters find themselves dealing with often disturbing or unusual events, an experience described as entering ‘The Twilight Zone,’ often with a surprise ending and a moral. Although predominantly science-fiction, the show’s paranormal and Kafkaesque events leaned the show towards fantasy and horror.”

Each episode started with Serling explaining: “There is a fifth dimension, beyond that which is known to man. It is a dimension as vast as space and as timeless as infinity. It is the middle ground between light and shadow, between science and superstition, and it lies between the pit of man’s fears and the summit of his knowledge. This is the dimension of imagination. It is an area which we call The Twilight Zone.” That is a remarkably good description of the predicament that we humans are confronting during the current Great Virus Crisis (GVC).

Although the phrase “submitted for your approval” from Serling’s opening narration is closely identified with the show (and often used by Serling impressionists), it is actually heard in only three episodes. Now, submitted for your approval are the following surreal developments:

(1) Pandemic of fear. In The Twilight Zone, fear is the all-consuming emotion that often leads to madness. On February 26, when the S&P 500 closed at 3116.39, Joe and I wrote: “We have
come to the conclusion that even if the virus turns out to be no more dangerous to global medical and economic health than previous outbreaks (as we still expect), extreme government responses aimed at containing the virus, while effective, will create a pandemic of fear, increasing the risk of a global recession and a bear market in stocks.” On March 10, we wrote: “The pandemic of fear continues to spread faster than the cause of that fear, namely, the COVID-19 virus.” On March 12, we pushed our 3500 year-end target for the S&P 500 out to mid-2021, and targeted 2900 for year-end 2020 instead. On March 16, we started to monitor the “mad dash for cash.”

We’ve been monitoring this madness in our chart publication titled Mad Dash for Cash. Liquid assets soared $1.3 trillion from the end of February through mid-April (Fig. 1). Commercial and industrial loans jumped $553 billion over the same time span (Fig. 2).

As a result, credit-quality spreads widened dramatically last month until the Fed expanded QE4, which had been announced on March 15, to QE4ever on March 23. The Fed’s balance sheet has increased by a whopping $2.4 trillion from the end of February through the April 22 week (Fig. 3 and Fig. 4). Credit-quality spreads have narrowed significantly since then as the pandemic of fear abated in the capital markets. The S&P 500 soared as liquidity returned to the bond market, allowing investors to rebalance their portfolios by selling their bonds to buy stocks.

(2) So where is everybody? Meanwhile, a pandemic of fear continues to weigh on our economy. As a result of voluntary and enforced social distancing and lockdowns, the streets are empty, as are office buildings, shopping malls, restaurants, hotels, and airports. It all started when President Donald Trump pivoted on March 16 from his position that COVID-19 is just a bad flu to advising Americans to listen to their governors if they issue 15-day stay-in-place executive orders.

By the end of the week, the governors of both California and New York did so. Other governors followed shortly thereafter. That was the easy part. Now the hard part: They have to decide when and how to open up their states. Even if they soon start to do so gradually, many people may opt to continue to work from home (if they can) and to stay away from public places.

We’ve previously written that the best cure for a viral pandemic is a pandemic of fear. However, lingering fear of a second wave of infection and a seasonal return of the virus in the fall might continue to weigh on the economy. So a V-shaped recovery back to normal is unlikely. Hopefully, the recovery will be more U-shaped than L-shaped.
Many of us may or may not be virologists now that we have become very informed (and disinfomed) about viruses over the past three months. In any case, we certainly are all germaphobes now. On the other hand, even though most of us are staying healthy at home, we are all getting cabin fever, for sure. One day soon, we will venture out of our cabins wearing surgical masks and bandanas and keeping our distance from all our germ-infested fellow humans. In this light, reread Serling's opening narrative to his TV series, and “welcome to The Twilight Zone.”

(3) **MMT to infinity and beyond.** On Friday, March 27, four days after the Fed’s QE4ever announcement, Trump signed the CARES Act. It provided $2.2 trillion in rescue programs for the economy, including $450 billion for the US Treasury to provide as capital to the Fed to make $4 trillion in loans through Special Purpose Vehicles (SPVs). SPVs were newly created for the singular purpose of providing the Fed with a legal way to lend directly to Americans.

In other words, without any discussion or debate, the federal government has embraced Modern Monetary Theory (MMT), which advocates unlimited government borrowing unless and until inflation heats up. The act has already been followed by a $484 billion package of additional spending signed by Trump on Friday. Undoubtedly, there will be more packages to rescue state and local governments and to fund public infrastructure projects.

The federal deficit—which was already back to $1.04 trillion over the 12 months through March—is likely to exceed $4 trillion on a comparable basis by the end of this year, with outlays jumping from $4.6 trillion to $6.6 trillion and revenues falling from $3.6 trillion to $2.6 trillion (Fig. 5 and Fig. 6). Have no fear of these death-defying deficits because the Fed is here to help: Keep in mind that the Fed has already purchased $1.4 trillion in US Treasuries since the end of February! That’s MMT at work on steroids, for sure.

In my numerous conference calls with our accounts in recent days, I was frequently asked about the inflationary consequences of MMT-on-steroids. Yes, I acknowledged, it could all lead to Weimer-style hyperinflation. More likely, though, in my opinion, is that we are going down the same road as Japan, which has a rapidly aging population and lots of government spending that has been financed by the Bank of Japan’s QE4ever without any inflationary consequences.
By the way, on Friday, the Congressional Budget Office (CBO) released a preliminary economic damage assessment. The CBO is projecting that real GDP will fall by 40% (saar) during Q2 and that the unemployment rate will average around 14% for that quarter. For fiscal-year 2020, which ends September, the federal deficit is projected to be $3.7 trillion, with federal debt likely to be 101% of GDP by the end of the fiscal year.

(4) The end of globalization and the new world order. In my recent conference calls, I was also frequently asked about the prospects for globalization. “Not good,” is my short answer. On Saturday, the World Health Organization warned governments against issuing “immunity passports,” saying that there was not enough evidence that a person who has recovered from COVID-19 is immune from a second infection. Nevertheless, borders are likely to make a big comeback as countries require visas from foreigners proving that they’ve had medical checkups, including COVID-19 vaccine shots or antibody certifications.

Perhaps the biggest threat to globalization is that China and the US are already in the early stages of a Cold War with escalating cybersecurity and disinformation campaigns. Many US companies are likely, either voluntarily or as a result of government decrees, to move their supply chains out of China.

(5) Capitalism for cronies. Also in my conference calls, I’ve been making the case for investing in crony capitalism. I am an entrepreneurial capitalist. In providing investment strategy research to institutional accounts, I have many competitors. In my 2018 book, Predicting the Markets: A Professional Autobiography, I explained: “I have no lobbyists or political cronies in Washington, DC to protect my interests. So the forces of the competitive market compel me to work as hard as possible to satisfy my customers more than my competitors do.”

I differentiated entrepreneurial capitalism from crony capitalism as follows: “Admittedly, this is an idealized version of capitalism. It does exist, especially in the United States in many industries. However, it also coexists with crony capitalism. Actually, it can degenerate into crony capitalism and other variants of corruption. Successful entrepreneurial capitalists have a tendency to turn into crony capitalists when they pay off politicians to impose legal and regulatory barriers to entry for new competitors. It doesn’t seem to matter to them that they succeeded because there were no barriers or they found a way around the barriers. Rather than cherish and protect the system that allowed them to succeed, they cherish and protect the businesses they have built.”
As entrepreneurial capitalism evolves into crony capitalism, the government naturally becomes a bigger and more powerful participant in the economy and financial markets. That certainly describes what just happened with the passage of the huge CARES Act and the Fed’s unprecedented actions in the credit markets.

I’m not a preacher, so I am not going to dwell on whether this is a good or bad development. As an investment strategist, I focus on assessing whether the government’s policies are bullish or bearish. The latest developments are bullish for stocks, especially of companies that are likely to benefit from the triumph of crony capitalism. Most importantly, they are the ones that don’t need rescuing by the government, so they won’t be beholden to the whims of politicians to manage their affairs. (I wouldn’t be surprised if the airline industry, which received a $25 billion bailout under CARES, becomes nationalized on a de facto basis.)

Companies that have strong balance sheets with lots of cash will be like kids in a candy store, buying up distressed assets and companies with little resistance from anti-trust regulators, in my opinion. That’s because many of them also have lots of lobbyists in Washington who are vital intermediaries between big business and big government. They grease the wheels of crony capitalism.

(6) Good news: plenty of distressed assets. Several of our accounts told me during our recent audio and video conversations that they are getting inundated with calls from distressed asset fund managers. A few of our accounts are managers of such funds. Last year, they were bemoaning that they were attracting lots of reach-for-yield investors but couldn’t find enough distressed assets. Furthermore, intense competition in the industry for distressed assets boosted their prices, making these dodgy assets more expensive, thus reducing their risk-adjusted expected rates of return. It’s always better to buy a distressed asset at 25 cents on the dollar than at 50 cents on the dollar. But there have been slim pickings even at the higher prices until now.

The good news for distressed asset fund managers is all the bad news for the economy that’s been caused by the GVC: As a result, there’s no longer a shortage of distressed assets. The good news for the economy is that distressed asset funds are already scrambling to buy distressed assets. They have SWAT teams of professionals who are very skilled at restructuring these assets.
I've been saying since 2016 that distressed asset funds are the new shock absorber in the credit markets. It will be interesting to see if they can successfully absorb the latest shock to the benefit of both themselves and the economy. They'll undoubtedly have plenty of assistance from cash-rich companies that will be scooping up cheap assets and companies. That's certainly starting to happen in the oil patch, just as it did in 2015 and 2016 when the price of oil plunged. Of course, the Fed’s recent actions have also greatly reduced the pool of distressed assets.

In The Twilight Zone, good news can be bad news and bad news can be good news. Only in The Twilight Zone is it possible to go from desperately reaching for yield to madly dashing for cash, to scrambling to rebalance from cash and bonds into stocks, to snapping up distressed assets—all within a four-month period since the beginning of this year! That's all truly surreal!

**Global Economy: 20,000 Leagues Under the Sea.** Rod Serling undoubtedly was inspired by French novelist Jules Verne, often called the “Father of Science Fiction.” Two of his titles are particularly resonant today: *Around the World in Eighty Days* (1873) and *Twenty Thousand Leagues Under the Sea* (1870). The Wuhan virus traveled around the world in approximately 80 days, and the lockdowns it has caused have sent global economic indicators plummeting to surreal depths the likes of which have never been seen before. Mali has had to revise over a thousand of our charts because the latest data literally fell off the charts. The result has caused historical data prior to the GVC to appear as virtually flat horizontal lines, so previous cycles look like inconsequential blips, greatly diminished by the new scales required to make room for the GVC’s incredible outliers.

Submitted for your consideration is the latest batch of global economic indicators:

1. **Flash PMIs get flushed.** As Debbie discusses below, the flash estimates for April’s PMIs are gut-wrenching. The lockdowns in the US and Europe have shut down lots of companies, especially in the services sector. Here are the available dismal numbers for the M-PMIs and NM-PMIs: US (36.9, 27.0), Eurozone (33.6, 11.7), Germany (34.4, 15.9), and France (31.5,10.4) ([Fig. 7](#)). Japan’s M-PMI dropped to 43.7 during April. Hopefully, these economies are on the same track as that of China, where the official M-PMI and NM-PMI fell to 35.7 and 29.6 during February and then rebounded to 52.0 and 52.3 in March.

2. **Germany’s freefall.** The viral pandemic isn’t just wrenching the collective gut of Germany; it is ripping the heart out of the country’s economy, according to April’s Ifo Business Confidence
Index, which plunged from 85.9 during March to 74.3 during April (Fig. 8). The current situation component has dropped from 92.9 during March to 79.5 during April, the lowest reading since July 2009. The expectations component fell to 69.4 in April, well below the previous record low of 79.2 during December 2008. The 12-month sum of passenger car production dropped to a record low of 4.4 million units during March, well below the previous record low of 4.8 million units during the summer of 2009 (Fig. 9).

(3) **US depression-like unemployment.** Our Boom-Bust Barometer has never been lower than it was during the April 18 week, at 7.4, a remarkable plunge from 197.2 at the beginning of this year (Fig. 10). That’s because its denominator, i.e., initial unemployment claims, jumped to a record 5.8 million on a four-week average basis. Continuing claims jumped to a record 9.6 million on a comparable basis during the April 11 week. Over the past five weeks, jobless claims have totaled a staggering 26.5 million.

Perversely, it may be hard to get some people back to work once the economy and the labor market start to open up. The problem is that for some jobless Americans, unemployment insurance benefits have been juiced up by the government, making these benefits a better source of income than going back to work! That can only happen in The Twilight Zone!

A March 27 CNBC article reported: “Those eligible to collect unemployment in their state would get an extra $600 a week in benefits for up to four months. That payment is quite generous, experts said—about 156% larger than the current $385-a-week nationwide average. That payout, which is in addition to any existing state benefits, could put jobless workers in a better financial situation than they were previously.”

Have we just crossed into The Fifth Dimension, a place where Universal Basic Income is not just theory but practice? If you get out of bed in the morning, the government will deposit $600 every week in your checking account. Welcome to The Twilight Zone!

(4) **Much less consumer confidence.** Not surprisingly given the calamity in the labor market, another casualty of the GVC is consumer confidence. The Consumer Sentiment Index (CSI) fell sharply from 99.8 at the start of this year to 71.8 during April (Fig. 11). However, that’s still above the previous cyclical low of 55.3 during November 2008. Generous unemployment benefits this time might keep the CSI from diving to lower depths.
CALENDARS

US: **Mon:** None. **Tues:** Consumer Confidence 87.2, Richmond Fed Manufacturing Index -38, Advance Trade Balance -$54.3b, S&P CoreLogic 20-City Composite Home Price Index 0.4%m/m/3.2%y/y. (DailyFX estimates)

Global: **Mon:** Japan Jobless Rate 2.5%. **Tues:** Australia CPI 0.2%m/m/2.0%y/y, ECB Published Quarterly Bank Lending Survey. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index fall 1.3% for its first drop in the past three weeks. The index ranked 16th of the 49 global stock markets we follow in a week when 9/49 countries rose in US dollar terms, and the AC World ex-US index fell 2.0% as all regions declined. The US MSCI index was out of a bear market for a third week and is now in a 16.4% correction from its 2/19 record high. EM Eastern Europe was the best-performing region, albeit with a drop of 0.2%, followed by EMEA (-0.7%). EM Latin America was the biggest underperformer with a drop of 8.8%, followed by EMU (-2.5), BRIC (-2.3), EM Asia (-2.2), and EAFE (-2.1). Israel was the best-performing country last week, with a gain of 4.3%, followed by South Africa (2.3), Morocco (2.0), Pakistan (1.4), Thailand (1.1), and Austria (1.1). Of the 26 countries that underperformed the AC World ex-US MSCI last week, Brazil fared the worst, with a decline of 11.5%, followed by Colombia (-9.3), the Philippines (-5.8), and Norway (-5.1). The US MSCI’s ytd ranking remained steady at 6/49 as its ytd performance edged down to -12.1% from -10.9% the prior week. It’s still way ahead of the 21.8% ytd decline for the AC World ex-US. EM Asia is the best regional performer ytd, albeit with a decline of 14.8%, followed by BRIC (-18.6). The worst-performing regions ytd: EM Latin America (-48.5), EM Eastern Europe (-32.8), EMEA (-28.8), EMU (-26.6), and EAFE (-22.0). The best country performers ytd: Denmark (-2.9), China (-7.2), Switzerland (-9.0), Jordan (-9.9), and New Zealand (-11.3). The worst-performing countries so far in 2020: Brazil (-53.5), Colombia (-51.5), Greece (-44.5), Hungary (-41.7), and Indonesia (-39.9).

S&P 1500/500/400/600 Performance ([link](#)): All three of these indexes fell last week as investors continued to take profits from their gains of the past several weeks. LargeCap was down 1.3% for the week, behind the declines for MidCap (-0.7%) and SmallCap (-1.0). LargeCap was out of a bear market for a third week and 16.2% below its 2/19 record high; MidCap finished 26.4% below its record high on 1/16; and SmallCap remained the worst.
performer, at 34.9% below its 8/29/18 record. Ten of the 33 sectors rose for the week, down from 15 rising a week earlier. Eight of the 33 sectors are out of a bear market now, and six of them are LargeCap sectors. Among the eight sectors, three are out of a correction: LargeCap Consumer Staples, LargeCap Health Care, and MidCap Health Care. SmallCap Energy was the best performer last week, with a gain of 11.3%, ahead of MidCap Energy (8.2%), MidCap Health Care (2.7), LargeCap Energy (1.7), and MidCap Materials (1.4). MidCap Real Estate (-5.0) was the biggest underperformer last week, followed by LargeCap Real Estate (-4.4), LargeCap Utilities (-3.8), SmallCap Real Estate (-3.6), and LargeCap Consumer Staples (-3.2).

All three indexes are still down on a ytd basis, but LargeCap’s 12.2% drop is much smaller than those of MidCap (-24.8) and SmallCap (-30.0). All 33 sectors are still down so far in 2020, with the best performers led by MidCap Health Care (-1.2), SmallCap Communication Services (-1.4), LargeCap Health Care (-1.7), LargeCap Information Technology (-3.3), and LargeCap Consumer Discretionary (-6.5). The biggest laggards of 2020 to date: SmallCap Energy (-61.6), MidCap Energy (-55.3), LargeCap Energy (-42.1), SmallCap Real Estate (-37.6), and SmallCap Financials (-37.5).

**S&P 500 Sectors and Industries Performance** (link): Just one of the 11 S&P 500 sectors rose last week as six outperformed the index’s 1.3% decline. That compares to a 3.0% gain for the S&P 500 a week earlier, when six sectors rose and five outperformed the index. Energy’s 1.7% gain made it the best performer for the week, ahead of Communication Services (0.0), Consumer Discretionary (-0.2), Health Care (-0.5), Information Technology (-0.8), and Materials (-0.9). Real Estate was the biggest underperformer with a drop of 4.4%, followed by Utilities (-3.8), Consumer Staples (-3.2), Financials (-3.1), and Industrials (-2.5). The S&P 500 is now down 12.2% so far in 2020 with six sectors leading the index. The leading sectors ytd: Health Care (-1.7), Information Technology (-3.3), Consumer Discretionary (-6.5), Consumer Staples (-6.9), Communication Services (-9.4), and Utilities (-9.8). The laggards of 2020 so far: Energy (-42.1), Financials (-29.4), Industrials (-24.3), Materials (-18.7), and Real Estate (-14.7).

**Commodities Performance** (link): Last week, the S&P GSCI index fell 10.8% for its biggest drop in five weeks. It’s now down 45.7% from its recent high on 1/6, and still in a bear market at 52.0% below its cyclical high on 10/3/18. Lean Hogs was the best performer last week, with a gain of 17.8%, followed by Cotton (5.2%), Gold (2.2), Nickel (1.6), and Aluminum (0.5). The Energy Commodities index tumbled 23.4% last week to a 21-year low. Crude Oil was the biggest decliner for the week with a drop of 32.3%, followed by Heating Oil (-25.2), GasOil (-21.5), Brent Crude (-21.4), and Coffee (-9.2). Just one of the 24 commodities that we follow is
higher so far in 2020, Gold (14.0). The next-best performers ytd: Kansas Wheat (-0.6), Wheat (-5.1), Cocoa (-8.5), and Soybeans (-12.1). The worst performers ytd: Crude Oil (-72.3), Heating Oil (-63.8), GasOil (-62.9), Brent Crude (-62.4), Unleaded Gasoline (-58.6), and Live Cattle (-34.4).

**S&P 500 Technical Indicators** ([link](#)): The S&P 500 price fell 1.3% last week and was mixed relative to its moving averages. It improved relative to its short-term 50-day moving average (50-dma) and weakened relative to its long-term 200-day moving average (200-dma). It was above its 50-dma for a second week after seven weeks below, but remained below its 200-dma for a ninth week, the first time that has happened since January 2019. Its 50-dma relative to its 200-dma dropped for a ninth straight week, putting the index in a Death Cross (with 200-dmas higher than 50-dmas), for a fifth week—for the first time since March 2019. The index’s 50-dma dropped last week to 7.2% below its 200-dma, the worst reading since October 2011. 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 ninth week after rising for 20 weeks.

The price index improved to 1.5% above its falling 50-dma from 0.8% 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 second 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 ninth week after being above for 38 weeks. It ended the week 5.9% below its falling 200-dma, down from 4.8% 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](#)): Six 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 two weeks ago. All 11 sectors are now out of the Golden Cross club (50-dmas higher than 200-dmas) as Information Technology dropped out in the latest week 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 78 straight weeks. The 50-dma has been falling for nine 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. That’s down from three a week earlier, as Consumer Staples moved back below in the latest week. Financials’ 200-dma was down for a ninth week for the first time since late August. Energy’s 200-dma has been mostly falling since October 2018.

**US ECONOMIC INDICATORS**

**Durable Goods Orders & Shipments** *(link)*: The corona crunch still hasn’t hit the core capital goods orders and shipments data yet, with both continuing to fluctuate around their record highs in March—though overall durable goods orders plunged last month. Nondefense capital goods orders ex aircraft (a proxy for future business investment) ticked up 0.1% in March after a 0.8% loss and a 1.0% gain the previous two months. Core capital goods shipments (used in calculating GDP) edged down 0.2% in March after rising by the same amount during the two months ending February. Meanwhile, total durable goods orders tumbled 14.4% in March—the second largest monthly loss since the data began in 1992. (The biggest decline occurred during August 2014 [-18.4%], reflecting an unusually large decline in orders for Boeing passenger planes, following a substantial order the prior month.) Last month’s contraction was driven by sharp declines in both motor vehicle and aircraft orders; excluding transportation, orders dipped only 0.2%.

**Regional M-PMIs** *(link)*: Three Fed districts have now reported on manufacturing activity for April—New York, Philadelphia, and Kansas City—and show growth in all three regions are in a freefall. The composite index sank to a record-low -54.9 from -17.1 in March, and 18.2 in February—which was the best rate since July 2018. New York’s measure tumbled 56.2 points this month—and 91.1 points the past two months—to a series low of -78.2! (By way of comparison, the lowest level this indicator had reached prior to this month was -34.3 during the Great Recession.) Manufacturing activity in the Kansas City (to -30.0 from -17.0) region also contracted at a record pace, while growth in the Philadelphia (to -56.6 from -12.7) region contracted at its fastest rate since the Great Recession. New orders also took a nosedive this month, tumbling to a record-low -67.1 from -20.9 in March and a 19-month high of 21.2 February. All three regions—New York (-66.3 from -9.3), Philadelphia (-70.9 from -15.5), and Kansas City (-64.0 from -38.0)—saw a record decline in billings. The employment (-45.3 from -9.8) measure indicates factories are slashing jobs, with manufacturers in both the New York (-55.3 from -1.5) and Philadelphia (-46.7 from 4.1) areas cutting jobs at a record pace and Kansas City’s (-34.0 from -32.0) reducing payrolls at their fastest rate since March 2009 this
Consumer Sentiment Index (link): Consumer sentiment in April posted its biggest monthly decline on record, plunging 17.3 points—and 29.2 points during the two months though April—to 71.8; it was at nearly a 15-year high of 101.0 in February. The present situation component tumbled 40.5 points over the two-month period to 74.3, its lowest reading since August 2011; the expectations component sank by roughly half that decline—or 22.0 points over the same two months to 70.1 (the lowest since November 2013)—reflecting the anticipated cyclical nature of the coronavirus. The road ahead is likely to be bumpy as “consumers' reactions to relaxing restrictions will be critical, either putting further pressure on states to reopen their economies, or exerting added pressure to extend the restrictions even if it has negative consequences for economic prospects,” according to the report.

New Home Sales (link): New single-family home sales tumbled 19.3% during the two months through March, to 627,000 units (saar), after reaching a new cyclical high of 777,000 units in January. Sales in the South (-0.8% m/m & 1.3% y/y) dipped slightly in March, though remained above year-ago levels, while sales in the West (-38.5 & -30.8) have been the hardest hit—with sales in the Midwest (-8.1 & -9.2) and Northeast (-41.5 & -4.0) also in the red. Looking forward, April data showed the largest monthly decline in NAHB’s Housing Market Index (HMI) in the history of the series, tumbling 42 points to 30—the lowest builder confidence since mid-2012, and the first reading in negative territory (below 50) since mid-2014. “This unprecedented drop in builder confidence is due exclusively to the coronavirus outbreak across the nation, as unemployment has skyrocketed and gaps in the supply chain have hampered construction activities,” said NAHB Chairman Dean Mon.

GLOBAL ECONOMIC INDICATORS

US PMI Flash Estimates (link): “The COVID-19 outbreak dealt a blow to the US economy of a ferocity not previously seen in recent history during April,” according to the report. April’s deterioration in the flash PMI numbers show a rate of contraction exceeding that at the height of the Great Recession, with jobs slashed at a pace far faster than the survey has ever recorded. April’s C-PMI (to 27.4 from 40.9) and NM-PMI (27.0 from 39.8) flash estimates both contracted at their fastest rates on record, while the M-PMI (36.9 from 48.5) sank to a 133-month low. According to the report, the scale of the fall in April’s PMI signals a “historically dramatic contraction” in the economy this quarter. In the meantime, business confidence turned pessimistic for the first time in the series history (going back to July 2012) reflecting
concern over the uncertainties hanging over the economy, including the longevity of the outbreak, the length of lockdowns, and the resilience of business.

**Eurozone PMI Flash Estimates** (*link*): “Unprecedented collapse of Eurozone economy amid virus lockdown” was the headline of this month’s IHS Markit’s flash estimate report. The Eurozone C-PMI (to 13.5 from 29.7) sank to a record low in April, with the service sector especially hard hit—notably industries such as travel, tourism and restaurants—as the NM-PMI (11.7 from 26.4) plunged to a new record low. The downturn in manufacturing was also steep, though less severe, with the M-PMI (33.6 from 44.5) dropping to a 134-month low. Looking at the top two Eurozone economies, C-PMI flash estimates for both Germany (17.1 from 35.0) and France (11.2 from 28.9) plunged to new record lows, and their NM-PMIs followed suit: Germany’s fell to 15.9 from 31.7 and France’s to 10.4 from 27.4. Meanwhile, Germany’s M-PMI (34.4 from 45.4) showed activity contracted at the fastest pace in 133 months, while France’s (31.5 from 43.2) showed a record decline. The C-PMI for the rest of the region—i.e., outside of Germany and France—plunged to 11.5 this month from 25.0 in March, according to estimates.

**Japan PMI Flash Estimates** (*link*): The coronavirus pandemic has crippled Japan’s economy, according to Jibun Bank, source of April’s flash estimate. The C-PMI (to 27.8 from 36.2) recorded the sharpest contraction in economic activity on record, with the NM-PMI (22.8 from 33.8) sinking to a new record low, while the M-PMI (43.7 from 44.8) recorded its sharpest deterioration in manufacturing activity since April 2009. Prime Minister Abe announced a state of emergency for some parts of Japan on April 7, which was upgraded on April 16 to a nationwide state of emergency. The report noted that GDP looks set to decline at an annual rate exceeding 10% this quarter.

**Germany Ifo Business Climate Index** (*link*): “Sentiment at German companies is catastrophic,” said Ifo President Clemens Fuest. “Companies have never been so pessimistic about the coming months. The coronavirus crisis is striking the German economy with full fury.” Germany’s Ifo Business Climate Index plunged 11.6 points this month and 21.7 points the past two months, to a record-low 74.3! The expectations (to 69.4 from 93.1 in February) component tumbled 23.7 points over the two-month period to a new record low, while the present situation (79.5 from 98.9) component plunged 19.4 points to its lowest reading since July 2009. Ifo reported that the business climate indicator for the service sector plummeted to a record-low -34.2 this month, led by expectations, while the manufacturing index plunged to -44.4—its weakest reading since March 2009. Meanwhile, April’s 22.6-point plunge in
confidence within the construction industry was unprecedented, with the measure tumbling to -17.6—its lowest level since June 2010; both the present and expectations components posted record monthly declines.

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