



MORNING BRIEFING

May 7, 2020

FAANGMs & Drugs

Check out the accompanying [chart collection](#).

(1) Passing time with Puccini. (2) Economic data dropping like a rock. (3) COVID-19 keeps us investing at home. (4) FAANGMs prove asymptomatic. (5) FAANGM products keep us sane while isolating, as their uptrending earnings attest. (6) Struggles to obtain PPE reignite US push to onshore critical manufacturing, including drugs and medical equipment. (7) US & China swap blame-game barbs. (8) The first country to develop COVID-19 vaccine may win more than bragging rights.

Cabin Fever Sing-a-Longs. For those of you who love Puccini operas and need a break from your cabin fever, watch the YouTube video of [Nessun Dorma...alla Corona](#). Sandy and I have [collected](#) other similar COVID-19-themed parodies of popular songs that can help to reduce cabin fever.

US Economy: Over a Cliff & Off the Charts. The recession caused by the Great Virus Crisis (GVC) has turned into a depression-like downturn. It's so bad that the latest batch of global economic indicators are all off the charts. Resizing the charts to accommodate the latest outliers basically makes the economic cycles since World War II virtually disappear. That's obvious in the chart for the monthly changes in private payrolls compiled by ADP. Employment collapsed by 20.2 million during April alone ([Fig. 1](#)). During the previous recession, the comparable measure of employment fell 7.4 million over 18 months ([Fig. 2](#))!

Strategy I: Blast from the Recent Past. Joe and I started to have some concerns about the elevated level of the S&P 500 early last October. We observed then that the spread between the forward P/Es of the US MSCI and the All Country World (ACW) MSCI ex-US was the widest on record ([Fig. 3](#) and [Fig. 4](#)). Accordingly, in our October 8, 2019 [Morning Briefing](#) titled "Cabin Fever," we suggested a switch from a Stay Home to a Go Global strategy, with a caveat: "[T]here may very well be some tactical opportunities to Go Global over the next 6-12 months. If the opportunities do pan out over this period, we will most likely come back home. Furthermore, we may not venture away from home for very long if the opportunities don't pan out in a short period of time."

In our January 28, 2020 [Morning Briefing](#) “Something to Fear,” we wrote: “Until Friday, there was nothing to fear but nothing to fear, other than historically high valuation multiples. Since Friday, there has been something else to fear: that the coronavirus outbreak in China is spreading rapidly and turning into a pandemic, i.e., a global epidemic. ... The most unsettling news over the weekend was that people infected with the virus might show no symptoms for two weeks but still be contagious during that time.”

Sure enough, in our February 10, 2020 [commentary](#), we pulled back our Go Global advice owing to the coronavirus outbreak: “Stay Home again until the virus crisis blows over. ... We reckon it makes more sense to Stay Home than to Go Global during the coronavirus outbreak. Better to suffer from cabin fever than a virus-induced fever.” Meanwhile, that spread between the US and ACW ex-US blew up to 6.7 P/E points during the last week of April.

Strategy II: Fearless FAANGMs. In our February 12 [Morning Briefing](#), we wondered whether the FAANGM stocks might be immune to the virus. We wrote: “The market has had more to worry about lately with the coronavirus, but the FAANGM stocks haven’t suffered. Most among us have our daily lives intertwined in some fashion through Facebook, Amazon, Apple, Netflix, Alphabet (parent of Google), and Microsoft. While these companies may be immune to the coronavirus, they are not immune to government regulation.”

While we have all become even more dependent on the products and services provided by the FAANGMs during the Great Virus Crisis, they might have become more immune to government regulation. They have great balance sheets and generate lots of cash flow. They also have lots of lobbyist in Washington. In other words, they are perfect investments in an era of greater crony capitalism, a subject we discussed yesterday. Let’s review Joe’s statistics on the Magnificent Six:

(1) *Market-cap and earnings shares.* The market capitalization of the FAANGMs peaked at a record \$5.7 trillion on February 14 ([Fig. 5](#)). It plunged \$1.4 trillion during the bear market and rebounded to \$5.4 trillion by the end of April. It recently rose to a record 23.0% share of the S&P 500’s total market-cap share ([Fig. 6](#)). The aggregate forward earnings of the FAANGMs rose to a record 13.5% of the S&P 500’s aggregate forward earnings. While the forward earnings of the S&P 500 excluding the FAANGMs has been spiraling downward in recent weeks, the forward earnings of the FAANGMs remains on an uptrend, continuing the outperformance of these stocks on this score.

(2) *Valuation*. The forward P/E of the FAANGMs rebounded from a recent low of 26.1 on March 20 to 34.4 on April 24, slightly below its record high of 34.8 on February 21 ([Fig. 7](#)). Here are the latest forward P/Es for each of the six stocks: Facebook (23.8), Amazon (71.0), Apple (20.7), Netflix (56.5), Google (Alphabet) (28.1), and Microsoft (28.7).

Interestingly, excluding the FAANGMs, the S&P 500's forward P/E soared from a low of 12.4 during the week of March 20 to 18.7 at the end of last week ([Fig. 8](#)). That well exceeds the 17.1 high earlier this year on February 21.

Strategy III: Making Drugs at Home Again. It's easy to understand why manufacturers moved their operations to China. They saved money on production, increased margins, and competed more effectively. Producing abroad is still more economical, but COVID-19 is reminding everyone, from the President on down to the Average Joe, that national security and health trump profits. It might be a lesson we quickly forget once (if?) life returns to normal. But for the moment anyway, political and economic forces are converging to pressure companies to return manufacturing operations to the US—or at least to countries considered more sympathetic to US interests than China. Let's take a look at the forces driving the awakening:

(1) *US/China relationship fraying*. COVID-19 has infected more than 1.2 million Americans, resulting in more than 71,000 deaths so far. US healthcare professionals have found themselves without sufficient supplies of personal protective equipment (PPE) and ventilators to treat patients safely and effectively. The untenable situation has led to a war of words between Washington and Beijing.

US officials claim China failed to alert the world about the severity of COVID-19 so that it could accumulate necessary medical equipment. A May 1 report by the US Department of Homeland Security (DHS) states that Chinese leaders held off telling the World Health Organization (WHO) that COVID-19 was a contagion for much of January so that it could boost its medical supplies, a May 4 AP [article](#) reported. DHS noted that during that time, China's imports of face masks and surgical gowns and gloves increased and its exports of those items decreased.

The Trump administration also claims that COVID-19 might have been released accidentally by a scientist working in the Wuhan Institute of Virology, which conducts research on the transmission of diseases from animals to people. That contradicts China's explanation that COVID-19 was passed from a bat in Wuhan.

China counters that US officials are using the country as a scapegoat. “As the U.S. presidential election campaigns are underway, the Trump administration has implemented a strategy designed to divert attention from the incompetence it has displayed in fighting the pandemic. ... For Pompeo, and others like him, facts and morals have no value. The ultimate goal now is to win the election,” stated a May 4 [article](#) in the *Global Times*, a newspaper considered to be the Chinese Communist Party’s mouthpiece.

(2) *Race for the COVID cure*. China’s relationship with the US—and the world—will next be tested by whether the country will share a vaccine with the world if it’s the first to develop one. The country didn’t promise to “make any successful vaccine a common public good” during a virtual meeting called by the EU, a May 5 *South China Morning Post* [article](#) reported. China didn’t contribute funding toward the EU’s effort to develop and distribute COVID-19 vaccines, and it sent the lowest-level official to the EU’s online event. The US did not attend the meeting, but it pledged \$8 billion for the EU effort.

There are fears that if China develops a COVID-19 vaccine first, it will have massive negotiating power over the rest of the world. Alternatively, the country could keep the vaccine for itself, allowing it to reopen its economy while other countries remain partially or entirely closed.

While he didn’t clarify the situation, Chinese–EU Ambassador Zhang Ming called on the world to stop the “blame games” over COVID-19. He noted that Chinese companies have supplied the world with 24 billion face masks, 120 million protective suits, and 24,000 ventilators in the last two months. The country has also funded other vaccine efforts, including one run by the WHO.

(3) *Manufacturing tied to national security*. Given the US’s deteriorating China relationship and scramble for PPE, it’s not surprising that the Trump administration has been emphasizing the importance of domestically manufacturing items deemed critical to our health, economy, and defense. “We’re onshoring a lot of these industries, working to make sure we’re never reliant on foreign supplies again,” Trump adviser and son-in-law Jared Kushner told Fox News in an April 26 [interview](#). President Trump this week directed government agencies to buy only American-made components for the national power grid.

Likewise, White House trade adviser Peter Navarro—long a proponent of bringing manufacturing back to the US—is working with the President on an executive order that would provide long-term incentives for American companies to produce medications and medical supplies locally, he said in a March 17 Fox News [interview](#). “We cannot keep having these public health crises and go back to sleep like the previous administrations have,” Navarro said.

The need to manufacture medical supplies domestically has even united legislators on both sides of the aisle. Republican Senators Marco Rubio (R-FL) and Kevin Cramer (R-ND) and Democratic Senators Elizabeth Warren (D-MA), Chris Murphy (D-CT), and Tim Kaine (D-VA) [introduced](#) on March 19 the Strengthening America’s Supply Chain and National Security Act. It aims to fix America’s supply-chain risk and dependence on China for pharmaceuticals. The Act requests the Department of Defense (DoD) to determine its dependency on foreign nations for drugs and drug ingredients, requires drug makers to tell the Food and Drug Administration the volume of active pharmaceutical ingredients they obtain from overseas, and restores the Buy American Act’s mandate for the DoD and the Veterans Administration to buy ingredients and manufactured drugs domestically.

(4) *It’s been done in the past.* The Tax Reform Act of 1976 exempted from federal taxation corporate income generated in US territories, which led pharmaceutical companies to move manufacturing operations to Puerto Rico. A U.S. Government Accountability Office report estimated in 1993 that pharmaceutical companies were, by far, the largest beneficiaries of the Puerto Rican corporate tax system, “benefiting to the tune of \$86 million in 1985,” a March 16 [Forbes article](#) reported. But when the Small Business Job Protection Act of 1996 eliminated the tax break by 2006, many pharmaceutical manufacturers moved overseas. Some went to Ireland, others to China and India.

About 97% of antibiotics now used in the US come from China and 40%-50% of generic drugs come from India, which relies heavily on China for active pharmaceutical ingredients. When most of the pharma companies left, Puerto Rico’s economy was crushed and has yet to recover. The article suggested that reinstating the tax break would help Puerto Rico’s economy and increase the US’s supply of key drugs.

One problem: The island is in the path of hurricanes. Hurricane Maria in 2017 interrupted the supply of drugs and medical supplies still being manufactured there, leading to critical shortages during a US flu outbreak. That incident “highlighted the vulnerabilities in the US

supply chain,” according to a July 2018 [report](#), *Threats to Pharmaceutical Supply Chains*, by the Department of Homeland Security.

The report warned: “Long, complex supply chains can expose U.S. drug makers to increasing levels of risk. Geo-political tensions could upend global drug production. Extreme natural disasters are occurring more frequently, in areas crucial to the foreign production of U.S. drugs and drug components. While cloud computing, outsourcing, and the lowering overall costs to global trade have been a boon to drug-makers, they also expose these companies to a wide range of risks.” No one listened.

(5) *Reshoring moves beyond pharma*. COVID-19 has highlighted US dependence of foreign manufacturing of drugs and medical supplies. It also appears to have reinforced President Trump’s view that more of what the US uses should be manufactured domestically.

“We’ve been working on (reducing the reliance of our supply chains in China) over the last few years but we are now turbo-charging that initiative,” State Department official Keith Krach said in a May 4 Reuters [article](#). The article continued: “The U.S. Commerce Department, State and other agencies are looking for ways to push companies to move both sourcing and manufacturing out of China. Tax incentives and potential re-shoring subsidies are among measures being considered ... Agencies are probing which manufacturing should be deemed ‘essential’ and how to produce these goods outside of China.”

Toward that end, the administration is working to create an Economic Prosperity Network. “It would include companies and civil society groups operating under the same set of standards on everything from digital business, energy and infrastructure to research, trade, education and commerce,” the above Reuters article reported, citing an anonymous senior US official. In addition, the administration is working with allies on the issue. Secretary of State Michael Pompeo [said](#) on April 29 that he was talking with Australia, India, Japan, New Zealand, Republic of Korea, and Vietnam about “how we restructure these supply chains to prevent something like this from ever happening again.”

US companies building US manufacturing operations could take advantage of new robotics to make manufacturing more efficient and eliminate China’s labor-cost advantage, noted Kushner in the Fox interview. He concluded: “We’ve lost a lot of the capability here in America to be the leader in advanced manufacturing, and President Trump is very committed to making sure that ... America regains the ability to be the leading global advanced manufacturer.”

CALENDARS

US: Thurs: Jobless Claims 3.0m, Productivity & Unit Labor Costs -5.5%/4.0%, Consumer Credit \$15b, Challenger Job Cuts, EIA Natural Gas Storage, Harker. **Fri:** Nonfarm Payroll Employment Total, Private, and Manufacturing -21.5m/-21.0m/-2.0m, Average Hourly Earnings 0.3%_{m/m}/3.3%_{y/y}, Unemployment Rate 16.0%, Average Workweek 33.7hrs, Wholesale Inventories -1.0%, Baker-Hughes Rig Count. (DailyFX estimates)

Global: Thurs: Germany Industrial Production -7.4%, France Industrial Production -12.0%, BOE Interest Rate Decision 1.0%, BOE Inflation Report, ECB Annual Report 2019, RBA Statement on Monetary Policy. **Fri:** Canada Employment Change & Unemployment Rate -4.0m/18.0%. (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 fourth week after three weeks below. The BBR climbed for the sixth straight week, to 1.79, after falling from 2.89 to 0.72 (the lowest since February 2016) the prior five weeks. Bullish sentiment advanced for the sixth week, by 18.0ppts to 48.1%, 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 14.8ppts the past six weeks to 26.9%, after shooting up 22.8ppts (41.7 from 18.9) the previous five weeks. The correction count ticked up to 25.0% this week, after dropping 8.0ppts the prior four weeks to 24.3%, following a 4.1ppts increase the four weeks before that to 32.3%. The AAll Ratio increased to 41.0% after falling the prior two weeks from 45.0% to 33.2%, as bullish sentiment rose from 24.9% to 30.6% and bearish sentiment fell from 50.0% to 44.0%.

S&P 500 Earnings, Revenues, Valuation & Margins ([link](#)): Analysts slowed their pace of COVID-19 estimate cuts during the latest week. Consensus S&P 500 forward revenues and earnings had fallen at rates that paralleled the declines during the financial crisis of 2008-09. Forward revenues dropped 0.6% w/w to its lowest level since June 2018 and is now 7.3% below its record high in mid-February. Forward earnings fell 2.2% w/w to its lowest level since October 2017 and is now 20.3% below its record high in early March. Forward growth forecasts are tumbling too. Analysts expect forward revenues growth of 0.2% and a forward earnings decline of 5.6%. The revenues growth measure was down 0.3ppt w/w, and earnings growth dropped 1.3ppts. Forward revenues growth is now the lowest since June 2009 and

6.1ppts below its seven-year high of 6.3% in February 2018. Forward earnings growth is down 22.5ppts from a six-year high of 16.9% in February 2018 and now exceeds the prior all-time low of -5.3% during 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 4.1% y/y in 2020 compared to the 4.2% reported in 2019. That's down 0.7ppts w/w and 9.0ppts since the start of the year. They're calling for earnings to decline 19.9% y/y in 2020 compared to a 1.5% rise in 2019. The 2020 growth rate fell 2.4ppt w/w and is down 28.9ppt since the beginning of the year. The forward profit margin of 10.3% is down 0.2ppt w/w to the lowest level since August 2013 and is down 2.1ppt 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 1.9ppt y/y in 2020 to 9.7%—from 11.6% in 2019—and to improve 1.7ppt y/y to 11.4% in 2021. Valuations have been extremely volatile on both a daily and weekly basis; they rose yet again last week primarily due to tumbling expectations for forward revenues and earnings. The weekly snapshot of the S&P 500's forward P/E rose to 20.8 from 19.4. That's the highest since March 2002 and up from a 77-month low of 14.0 in mid-March. The current 20.8 is well above the 14.3 bottom during the December 2018 selloff (that 14.3 bottom was the lowest reading since October 2013 and down 23% 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 10-week high of 2.14 from 2.03. 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 earnings fell w/w for all 11 sectors, and forward revenues was lower for all but Health Care. Five sectors (Communication Services, Consumer Discretionary, Energy, Industrials, and Materials) had both measures, particularly earnings, reduced sharply in the latest week. Due to sharply lower forward earnings, forward P/E ratios for most sectors are now back above the recent record or cyclical highs prior to the bear market, but forward P/S ratios remain below their highs. Utilities is the only sector 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 seven 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 (21.7%, down from 23.0%), Real Estate (14.9, down from 17.0), Communication Services (13.5, down from 15.4), Utilities (13.8, record high), Financials (13.0, down from 19.2), S&P 500 (10.3, down from 12.4), Health Care (10.1, down from 11.2), Materials (9.0, down from 11.6), Industrials (7.4, down from its record high of 10.5% in mid-December), Consumer Staples (7.2, down from 7.7), Consumer Discretionary (5.4, down from 8.3), and Energy (0.2, down from 8.0).

Consensus 2020 Revenue & Earnings Changes ([link](#)): Over the 14 weeks since the virus hit the news—i.e., from January 23 to April 30—the 2020 revenue forecast for the S&P 500 has dropped 8.9%, and the index's earnings forecast has tumbled 25.9%. Revenue and earnings forecasts for the broader MSCI United States, which includes midcap-sized companies, are down a lesser 7.8% and 25.0% in part due to limited visibility for the midcaps. For MSCI China, revenue forecasts are down 9.9%, but earnings are down only 13.6% because profit margins for the country are relatively low compared to the rest of the world. The following countries have been hit particularly hard: Greece (revenue down 28.9%, earnings down -34.1%), Italy (-10.6, -34.4), Portugal (-13.2, -23.2), and Russia (-22.1, -35.4). Here's how the MSCI World and regional indexes stack up in US dollar terms: World (revenues down 10.4%, earnings down 26.0%), World ex-US (-10.2, -24.9), (EMU -8.3, -30.9), Europe (-12.4, -31.4), Emerging Markets (-12.3, -21.6), EM Asia (-10.0, -16.4), and EM Latin America (-26.9, -41.7). Keep in mind, the results are slightly better in local-currency terms. Within the US, the following S&P 500 industries and sectors are now forecasted to report a loss in 2020: Airlines, Automobile Manufacturers, Casinos & Gaming, Copper, Department Stores, the Energy sector, Hotels, Hotels & Resort REITs, Integrated Oil & Gas, Oil & Gas Drilling, Oil & Gas Equipment & Services, Oil & Gas Exploration, and Oil & Gas Refining & Marketing. The outlook is particularly dire for Oil & Gas Drilling, which is expected to report losses through 2022.

S&P 500 Q1 Earnings Season Monitor ([link](#)): With nearly 70% of the S&P 500 companies finished reporting revenues and earnings for Q1-2020, revenues are beating the consensus forecast by 1.9% and earnings are 2.8% ahead of forecast. Both measures have improved and diluted the disappointing results from the early reporting Financials, which had boosted their credit and loan loss reserves. At the same point during the Q4 season, the revenue surprise was lower at 0.8% and the earnings beat was sharply higher at 5.7%. For the 344 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 have

weakened relative to the same point during Q4. The Q1 reporters so far have a y/y revenue decline of 0.3%, and earnings are down 14.3% in what's certain to be the worst quarter since Q1-2009 during the financial crisis. At the present time, fewer companies are reporting a positive revenue surprise (62%) than a positive earnings surprise (67%). However, more companies are reporting positive y/y revenue growth in Q1 (58%) than are reporting positive y/y earnings growth (48%). That's the lowest growth rate for earnings since Q3-2009. S&P 500 results excluding the Financials & Real Estate sectors are markedly better. The revenue and earnings surprises both improve, to 2.3% and 8.3%, respectively, from 1.9% and 2.8%. The y/y revenue decline improves only slightly without Financials & Real Estate to 0.0% from -0.3%, but the earnings decline is markedly better, improving to -6.4% from -14.3%. While these figures will change markedly as more Q1-2020 results are reported in the coming weeks, the earnings results are expected to remain dismal, and earnings growth is certain to trail revenue growth for the fourth time in the past five quarters. 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.

US ECONOMIC INDICATORS

ADP Employment ([link](#)): “Job losses of this scale are unprecedented. The total number of job losses for the month of April alone was more than double the total jobs lost during the Great Recession,” said Ahu Yildirmaz, co-head of the ADP Research Institute. “Additionally, it is important to note that the report is based on the total number of payroll records for employees who were active on a company’s payroll through the 12th of the month. This is the same time period the Bureau of Labor and Statistics uses for their survey.” The private sector slashed 20.2 million jobs in April as large (-9.0 million), small (-6.0 million), and medium-sized (-5.3 million) businesses cut payrolls drastically. Service-providing industries cut 16.0 million jobs last month, quadruple the 4.2 million drop in goods-producing industries. Leisure & hospitality (-8.6 million) accounted for half the drop in service-providing industries, followed by trade, transportation & utilities (-3.4 million), administrative & support services (-1.1 million), health care & social assistance (-999,000), information services (-309,000), financial activities (-216,000)—and other services (-1.3 million); in the plus column were education (28,000), and management of companies/enterprises (6,000). As for goods-producing companies, construction (-2.5 million) cut the most jobs, followed by manufacturing (-1.7 million), and natural resources/mining (-78,000).

GLOBAL ECONOMIC INDICATORS

Global Composite PMIs ([link](#)): “Global economy suffers worst month in PMI history as output, new orders and employment all fall at record rates,” was the headline of IHS Markit’s April report. The JP Morgan Global Composite Output Index (C-PMI) tumbled for the third month, from 52.1 in January to 26.5 in April—far below its previous low of 36.8 in November 2008 during the global financial crisis—led by a record contraction in service-sector (to 24.0 from 36.8) activity; manufacturing (39.8 from 47.3) activity continued to deteriorate. All of the nations for which April final data were available saw activity and new orders fall at record rates. Here’s a look at C-PMIs from highest to lowest: Japan (27.8), US (27.0), Brazil (26.5), Australia (21.7), Germany (17.4), UK (13.8), France (11.1), Italy (10.9), Spain (9.2), India (7.2). (Note: Due to later-than-usual release dates, the manufacturing PMI data for Thailand and services PMI data for China and Russia are not included in the April Global PMI calculation. Japan services flash PMI data are included in the calculation due to a later release date for the final numbers.)

US Non-Manufacturing PMIs ([link](#)): The US service sector contracted in April at its fastest pace on record, according to IHS Markit, and the steepest since the Great Recession, according to ISM. ISM’s NM-PMI tumbled to 41.8 in April—its first reading below 50.0 since Q4-2009 and only 4.0 points above its all-time low of 37.8 recorded during November 2008. It was as high as 57.3 in February. Just as in the M-PMI, a spike in the supplier deliveries (to 78.31 from 62.1) component moderated the steepness of the NM-PMI’s decline. (Usually, slower deliveries are a sign of strengthening demand, though this time they reflected supply-chain problems due to the coronavirus.) All remaining three components of the NM-PMI have dropped precipitously since February, plunging to new record lows in April: business activity (to 26.0 from 57.8 in February), new orders (32.9 from 63.1), and employment (30.0 from 55.6). IHS Markit’s NM-PMI has been in a freefall since reaching 53.4 at the start of this year, crashing to 26.7 in April. While manufacturing may see a rebound in production as factories are allowed to re-open, the outlook for services is grim, according to the IHS Markit report: “Businesses such as airlines, bars, restaurants, cinemas, sports arenas and other recreational activities will likely be at the back of the line in terms of being able to re-open to anything like previous capacity levels, meaning the recovery will be long and slow.”

Eurozone Retail Sales ([link](#)): COVID-19 triggered the biggest decline in retail sales on record in April, plunging at a double-digit rate of 11.2%—steeper by far than the previous record drop of 1.9% during May 2011. April’s historic decline saw unparalleled declines in spending on non-food products (-23.1%) and automotive fuel (-20.8), while spending on food, drinks &

tobacco (5.0) posted its biggest gain on record. Of the major Eurozone economies for which data are available, France (-17.4%) posted the biggest monthly decline, followed by Spain (-14.4) and Germany (-5.6), while sales in Ireland (0.1) held steady—with sales 3.0% above a year ago.

Germany Manufacturing Orders ([link](#)): Factory orders in March plunged at their fastest pace on record—and April M-PMI data suggest last month's decline could be even bigger. March orders collapsed 15.6%—the biggest decline in the history of the series going back to 1991—with both foreign (16.1%) and domestic (-14.8) orders recording double-digit declines. Capital goods orders (-22.6%) posted the steepest decline, followed by intermediate (-7.5), and consumer (-1.3) goods orders. The decline in capital goods orders was fairly uniform, with both domestic (-23.4) and foreign (-22.2) orders posting similar declines—as did foreign billings from both inside (-23.6) and outside (-21.5) the Eurozone. Domestic (-7.4) and foreign (-7.7) orders of intermediate goods also showed similar declines in March—though the latter was led by a 13.5% drop in orders from within the Eurozone; orders from outside the Eurozone fell a more subdued 2.4%. As for consumer goods, domestic orders increased 1.3% as a 6.7% jump in consumer nondurable goods orders more than offset a 12.6% shortfall in consumer durable goods orders. Meanwhile, foreign orders of consumer goods fell 3.0%, reflecting a 6.9% drop from within the Eurozone; orders from outside the Eurozone eked out a 0.5% uptick. The decline from within the Eurozone was driven by a 24.6% plunge in consumer durable goods orders. Meanwhile, Germany's M-PMI sank from 45.4 in March to 34.5 in April—the lowest since March 2009—with the survey's output index plunging to 19.7.

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