



Market in a Minute

April 14, 2020

Index Performance: As of April 10, 2020

Index	Price	Last Week	YTD
Dow Jones 30	23,719.37	12.7%	-16.5%
S&P 500	2,789.82	12.1%	-13.3%
NASDAQ	8,153.58	10.6%	-8.9%
Russell 2000	6,332.21	18.5%	-25.1%
Russell 2000 Growth	6,170.86	16.9%	-20.5%
Russell 2000 Value	8,675.06	20.6%	-29.8%
Russell 1000 Growth	1,605.64	11.4%	-9.3%
Russell 1000 Value	1,446.92	14.2%	-19.4%
Shanghai SE Index	2,783.05	0.1%	-12.9%
SPDR Gold Shares	158.58	3.9%	11.0%
GS Crude Oil Total Return	2.75	2.2%	-60.8%
Powershares US \$ Index	26.95	-1.2%	3.8%
Ishares EAFE Index	55.57	9.2%	-20.0%
iShares Barclays 20+ Yr Treasury Bond	165.39	-1.8%	22.1%
Utilities Select Sector ETF	60.83	17.5%	-5.9%
Vanguard REIT ETF	78.91	22.3%	-15.0%
iShares Mortgage Real Estate	22.07	52.7%	-50.4%
Wells Fargo BDC	12.37	28.2%	-39.5%
Alerian MLP ETF	3.86	8.1%	-54.6%

A Word on the Market by Pat Adams, CFA

The market had a historic rally last week up about 12% on the S&P 500, driven by massive short covering, insider buying and bargain hunters. Some of the moves off the bottom in depressed value names have been extraordinary. Early stage bull markets are typically led by value stocks and small cap companies. This part of the market has some real gems. As an example, S&P Small Cap Index was up over 19% last week. Below is the Value Index versus Growth, the Value Index is up 26% over the 13 years and Growth up 184%, that is a massive underperformance which may be in the initial stage of reversing.

Value versus Growth



As we have detailed before in other Market in a Minute weekly updates, we believe the fair value for the S&P 500 is around 2700 and the current price is 2761. Our target is based on 16.5x 2019 earnings. We believe 16.5x is an appropriate multiple given the higher amount of risk caused by the virus. Our range of outcomes is 2400-3000 on the S&P 500, discounting worse than expected virus trends or better than expected. Our assumption is in June the economy starts to get back to normal, third quarter GDP up significantly, and 2021 trends moving back toward 2019 levels.

The Federal Reserve has done a good job in getting out in front of this crisis. At last count the Fed has committed to pouring over \$6 trillion into the markets. You could argue

iShares Global Telecom	54.05	8.6%	-12.0%
ETFMG Alternative Harvest ETF	11.45	9.7%	-33.1%
BitCoin Investment Trust	7.8	4.3%	-4.8%

Source: Bloomberg & Yahoo.com, Returns are appreciation only.

S&P Sector Performance: As of April 10, 2020

Index	Price	Last Week	YTD
Information Technology	1,499.20	10.6%	-6.9%
Consumer Disc.	856.78	13.8%	-12.9%
Consumer Staples	597.14	4.9%	-7.6%
Health Care	1,106.01	9.4%	-6.6%
Financials	388.28	19.1%	-23.8%
Industrials	534.19	12.3%	-22.1%
Energy	259.63	13.2%	-42.8%
Communications Services	158.14	9.9%	-12.7%
Utilities	309.35	17.6%	-5.3%
Materials	323.19	20.7%	-15.9%
Real Estate	220.5	21.2%	-7.9%

Source: Bloomberg website, Returns are appreciation only.

Interest Rates

Fed Fund	.25	5-Year	.41
3-Month	0.25	10-Year	.73
6-Month	.24	30-Year	1.35
2-Year	.23		

Source: Bloomberg.com

Economic Events This Week

13-Apr	Trade Balance	175B	-43B
15-Apr	Retail Sales m/m	-8.0%	-0.5%
15-Apr	Overnight Rate	0.25%	0.25%
15-Apr	Employment change	-30.0K	26.7K

based on what the Fed is doing the markets could go back to the old highs. That is a remarkable amount of money! The Fed's balance sheet got to \$4.5 trillion as a result of the 2008 financial crisis. There is an adage, "Don't fight the Fed", we would strongly agree with that statement. At some point the virus is going to subside, the economy will come back to some normal state, and all this stimulus will have a very positive impact on the financial markets. The government has made it a point to send a message that there is an endless amount of money to fix this problem. So, we are creating another problem down the road.

There are two obvious risks the Federal Reserve and the U.S. Treasury have been focused on, liquidity risk and credit risk. The Fed has, more or less, eliminated the liquidity risk. The Fed has moved all the way into buying junk bonds. The credit risk has not been eliminated yet, but the Fed and the Treasury are pushing programs forward to bridge the economy over this chasm. Earnings reports start this week and the market already understands the reports are meaningless. We would focus on the banks. The market needs to feel comfortable there is not a massive amount of credit problems that would change this from a very short deep recession, into a protracted and deep recession. Again, the banks will give very important commentary about credit trends this week. J.P. Morgan and Wells Fargo report on Tuesday, Bank of America, Citigroup, and U.S. Bank on Wednesday.

Please let us know if you would like to discuss.
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15-Apr	Unemployment Rate	5.4%	5.1%
16-Apr	Unemployment Claims	5000K	6606K
Source: Briefing.com			
Economic Events Last Week			
Date	Event		
7-Apr	Covid-19 triggers mass layoffs starting a nationwide hiring freeze		
7-Apr	U.S. Consumer credit increased by \$22.3 billion, up 3.5% from the previous month		
8-Apr	Fed officials backed a forceful policy to slash rates close to zero, worst case scenario, no recovery until next year		
9-Apr	Jobless claims jump by 6.6 million in early April as virus destroys the labor market; unemployment likely over 10%		
9-Apr	Consumer sentiment drops to 71 in April from 89.1 hitting 9-year low		
10-Apr	CPI dropped 0.4% last month due to virus		
10-Apr	U.S. Runs \$119 billion budget in March, down from \$146.9 billion last year		
Source: Briefing.com			

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