Market Update

The economy sucks. That is not a shock to anyone, at least it shouldn't be, but what may be a surprise is how well the market's handled the slow trickle of record-setting data that's come out over the last month. Earnings season is wrapping up and fundamental ratios are hitting multi-decade highs as the denominators fall through the floor and the numerators (price) work their way back from the shadowy hole of March. Businesses are closing and Congress is trying to talk over itself to show who cares the most while working on the next round of

to matter, which it hasn't in quite some time. The retail landscape appears to be a disaster, with several notable brick and mortar stores announcing bankruptcy filings. We get more insight into this corner of the economy this week with earnings from Target, Home Depot, Walmart, Urban Outfitters, Alibaba, TJ Maxx, Best Buy, Nordstrom as well as the retail sales economic report on Friday. If the market is to pay any attention to what's slowly unraveling in the consumer-driven portion of economy, you'd think it'd be this week.

All that's mattered so far has been five stocks. Those five mega caps nearly account for a quarter of the S&P 500, providing safe haven for investors who don't know where else to turn. From an earnings standpoint, those five carried the water for the index in terms of expansion, with EPS growth of 12% compared to the other 495, according to Goldman, reporting growth of just 2%. If you back out Amazon's figures from the consumer discretionary sector for Q1, sales dropped 6% with other retailers relying on their own online presence to capture sales. Look at Wayfair, a stock that was nearly left for dead coming into this year having fallen from $174 to under $30 has rocked over 755% from the March low. If it doesn't sell something online or utilize the internet for the lion share of its business (video games, web conferencing, grocery ordering, etc.) then it's been left in the cold from a consumer standpoint. But that's okay, the stock market is content with the five stocks that have moved needle higher.

Those five are near flat-to-up on the year with the rest of the S&P 500 down 13% after the rally from March. Jason at Sentimentrader.com shared last week that this hasn't been bullish when just a few stocks ran the show in the past. In fact, it's only happened in the last thirty years during bear market rallies during the tech-wreck and '08 recession. Jason noted that when five stocks accounted for nearly 25% of the gain in the index, the SPX was higher less than 30% of the time 2-weeks or 1-month later and was never higher 3-months later.

webcast that he was not to a point where he was seeing much value to gobble up. Some of the greatest investors of our time, Dalio, Tepper and Druckenmiller have come out with their own warnings about the market and/or the economy. Are they self-serving? Most likely. But they also have reputation risk when they make statements like they have. These gentleman aren't going to put their neck out publicly if they have less than strong feelings on the topic, their AUM and standing in the industry matters more to them than getting airtime on CNBC, so I do take their comments seriously. Professional investor and institutional sentiment has been quite bearish, so who is buying? Robinhood/retail accounts. Small trader options contracts have hit a new record and the major brokerage firms are reporting big increases in trade activity. Fidelity online activity rose over 50% in March. Robinhood saw trading activity triple. Schwab announced their plan to roll out fractional shares, with $5 per trade minimums. How long can retail stocks carry the volume? We'll see.

Back to the economy. Like I said earlier, we get retail sales data on Friday, which will surely be an input to many economists GDP estimates. Currently there's two major Fed "live" GDP forecasts. One comes from St. Louis and the other from Atlanta. Each get updated with each new economic report and both have fallen off a cliff. The St. Louis's Real GDP Nowcast forecast for Q2 is -48% and the Atlanta Fed's GDPNow is -42.8%. That's insane. The counter-point to these dire expectations for Q2 GDP is that the numbers are baked in already and the data will likely be higher than expected. Well so far that hasn't been the case. Based on Citigroup's Economic Surprise Index, the data continues to under-deliver as it continues to sit near the 2008 lows. It's one thing for the data to be bad (it is) but it's another that it's worse than what the economic Ph.D.s thought it would be (it has been). Well okay, but what about the virus? That's all that matters right, and economies are starting to open again so that's a good thing. It would be if the infection rates stayed low during that process. Instead, and I will it's note it is extremely early, Texas just had

spaces and businesses. Many scientists are continuing to discuss the real risk of a second wave, something many retailers (sorry back to retailers again) won't be able to handle. In fact, the CEO of OpenTable (the popular online reservation booking site) predicts 25% of restaurants will be permanently closed by the time all of this is over. In the same article linked above, the Nat'l Restaurant Assoc. says about $80 billion was lost during March and April.

Fed Chair Powell appeared on 60 Minutes this evening and the most important thing he said was regarding the Fed's ability to continue to unload "emergency powers" onto the market. Stating there's no limit to their lending facilities. He does state that he doesn't believe the economic impact of the virus will be short-lived and we have a long road ahead of us, but if the Fed is prepared to provide an eternal backstop then that's quite a force to be reckoned with.

From an index lens, the S&P 500 hasn't really done anything in three weeks. The Index sits at the same level it did on April 17th, having moved sideways for the last month and remains below the 200-day Simple and Exponential Moving Average. The EMA has now been tested twice, the last sent the index down by nearly 6% before approaching its year-to-date VWAP (volume weighted average price) which current sits at 2757. Momentum also remains below its bear market range high of 60, finishing the week at 52. From here, I'm sitting on my hands with regards to a forward bias. SPX needs to move 3% to clear is 200-MA and 3.5% to close below its Thursday low. Until we see one of those happen, at the very least, I'm a watcher rather than an action taker.

I'll be back next Sunday with a chart-focused letter.

Andrew Thrasher, CMT

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