INCISIVE INVESTOR

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WEEK IN REVIEW

EARNINGS DISAPPOINT

Stocks traded sharply lower Friday afternoon, kicking off May on a down note as investors showed disappointment with earnings from big tech companies and with President Donald Trump's threat to impose import tariffs on China in retaliation for its handling of the COVID-19 pandemic.

The Dow Jones Industrial Average DJIA fell 600 points, or 2.5%, to 23,740, while the S&P 500 SPX gave up 85 points, or 2.9%, to trade at 2,828. The Nasdaq Composite COMP was off 304 points, or 3.4%, at 8,587. NQ00, -3.01%

Stocks ended lower Thursday, but still saw a historically strong April rebound as major indexes took back a chunk of the ground lost in the coronavirus-inspired selloff that took the S&P 500 down nearly 34% from its February 19th record close to its March 23rd low.

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Central banks modify monetary policies

The US Federal Reserve, the European Central Bank and the Bank of Japan all met this week and revised their monetary policies to offset the negative economic effects of coronavirus pandemic lockdowns. The message from all three was the same: Almost everything is on the table. While none of the major central banks is likely to lower its main lending rates further, with the ECB and BOJ already in negative territory and the Fed at its effective lower bound, they have expanded programs to improve market liquidity and keep credit flowing to households and businesses. Flexibility is a key theme as officials continually alter programs to navigate the rapidly changing economic and market developments. Some key points to remember from this week's meetings include the following: On Monday, the BOJ increased asset purchases and removed its ¥80 trillion annual limit on Japanese government bond purchases. On Wednesday, the Fed redrafted its Main Street Lending Program, expanding it to make it available to more companies while lowering the minimum loan size. It also made its Municipal Liquidity Facility available to a wider variety of cities and counties. On Thursday, the ECB lowered the lending rate on its targeted long-term refunding operations to as low as -1%, further encouraging banks to borrow from the central bank to lend to clients (and buy government bonds). However, the People's Bank of China has been less assertive than its developed market counterparts. This week, PBOC Governor Yi Gang said a too-aggressive easing posture could boost inflation and macro leverage.

Economic growth dropped in first quarter

The lockdowns meant to slow the spread of the coronavirus that mostly began in March. The virus took a heavy toll on first-quarter economic growth in the Eurozone, where growth declined 3.8% — around 15%, annualized — from the prior quarter. Gross domestic product in the United States, which measure changes on an annualized basis, fell to 4.8%, though the US economic shutdown unfolded somewhat later in March than the ones in Europe. That drop was still the deepest quarterly decline since the last quarter of 2008. Data for the second quarter are expected to be shocking, with White House economic advisor Kevin Hassett forecasting a 40% annualized GDP decline and a rise in the unemployment rate to between 16% and 20%. Markets generally continue to look past the poor figures despite growing signs that a return to economic and societal normalcy is not likely for some quarters to come as the search for a coronavirus vaccine and treatments continues.

EARNINGS NEWS

With 55% of the constituents of the S&P 500 Index having reported for Q1 2020, blended

earnings per share (which combines reported data with estimates for those who have yet to report) shows that earnings growth is running at -13.8% while sales were nearly unchanged compared with the same quarter a year ago, according to data from FactSet Research. The sectors hardest hit include consumer discretionary, financials and industrials while health care, consumer staples and tech have held up the best.

HEADLINERS

Fitch Ratings unexpectedly downgraded Italy's sovereign debt rating to BBB-, the lowest rung of the investment-grade ladder, reflecting the impact of the coronavirus pandemic.

US consumer confidence fell by the largest amount since 1973, the Conference Board reported this week. The index fell to 86.9 in April from 118.8 in March.

The number of S&P 500 companies suspending or cutting their dividends now numbers more than 200 and is expected to rise. So far this year, more corporations have suspended or cut payouts than in the past 10 years combined.

The S&P 500 Index rose 12.7% last month, the strongest April since 1938, and its best month since 1987.

Weekly claims for unemployment benefits remain in extreme territory, with 3.8 million applications filed this week, bringing the total number of new enrollments to over 30 million since the pandemic began. States continue their struggle to process the unprecedented wave of applications.

US personal spending fell 7.5% in March, the largest monthly decline since the government began gathering personal spending data in 1959.

Dr. Anthony Fauci, a member of the White House coronavirus task force, said the results of the drug trial of the antiviral medication remdesivir were "quite good news." Fauci also said he believes it is "doable" to have a vaccine ready for widespread distribution next January if some elements fall into place.

Social distancing guidelines issued by the Trump administration expired on Thursday, leaving it up to each state to decide how to proceed going forward. Some states have begun to lift restrictions, though many have not. Several European governments have begun to ease their lockdowns while remaining on the lookout for a resurgence in new coronavirus cases. South Korea and Hong Kong plan to ease social distancing limits next week.

MAJOR STOCK MOVES

The U.S. Food and Drug Administration said late Friday that it granted drugmaker Gilead Sciences Inc. GILD, emergency use authorization for remdesivi, its experimental COVID-19 treatment. Late Thursday, the company said it would spend around $50 million to test and manufacture remdesivir, while reporting better-than-expected first-quarter results. Gilead shares fell 4.8% after rising more than 12% in April.

Clorox Co. CLX, shares rose 3.4% after the maker of cleaning and household products topped quarterly earnings forecasts, boosted by demand for disinfecting and other cleaning products.

Dow component Chevron Corp. CVX, on Friday reported a rise in first-quarter earnings but a drop in revenue from a year ago, as oil and commodity prices plunged in March. The oil giant said it was further reducing its 2020 capital expenditure outlook by $2 billion to $14 billion, and expects operating costs to decrease by $1 billion. Shares closed 2.8% lower.

Exxon Mobil Corp. XOM, shares retreated 7.2% on the day after the oil giant and Dow component posted its first quarterly loss in three decades.

Honeywell International Inc. HON, shares lost 3.3% after it reported a first-quarter profit that beat expectations, but sales that fell more than forecast as the industrial conglomerate said the COVID-19 pandemic had a significant impact on its supply chain, customer sites and on the commercial aerospace and oil and gas end markets.

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THE WEEK AHEAD

- The ADP employment report, weekly jobless claims, and Markit Services Purchasing Managers Index (PMI) takes center stage amid the pandemic.
- Several more big names on the earnings docket, including blue-chip Walt Disney (DIS), Spirit Airlines (SAVE), Jetblue Airways (JBLU), and Uber (UBER).

Do you have questions about your stimulus check, the CARES Act, recession, SBA loans, finances, the market or the economy?

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ONE LAST THING

MORTGAGES IN RETIREMENT

Explore the benefits and drawbacks to paying off your mortgage prior to retirement with this article.

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