

## Weekly Market Notes

March 23, 2020

Dow Industrials 19173  
S&P 500 2304

BAIRD

Please refer to Appendix – Important Disclosures

### SUNDAY

**Where We Are.** The U.S. stock market was hammered over the last two weeks as the coronavirus shut down business across the country and jobless claims spiked. Additionally, the speed of the decline was exacerbated by the oil shock when Saudi Arabia increased its production output and sent worldwide energy prices spiraling downward. U.S. Treasury securities fell to record lows. We are looking at real contraction in the U.S. economy. Social distancing will have a major impact on economic growth. U.S. industries will face difficulties created by global supply chain disruptions and overseas weakness will also weigh on U.S. exports.

**What is being done to curb spread of the virus?** We know that the virus will be contained because it has been contained in China, South Korea, and several other countries are reporting stabilization. However, things will look worse for a while because we will see more cases of the coronavirus emerge because we are doing more testing.

The good news is that it appears that a great job is being done to slow the spread of the virus. Governments, individuals and businesses are stepping up to hopefully contain this virus and to contribute to a strong recovery.

The Federal Reserve has been working fast to flood the market with liquidity. Thirty-eight central banks have lowered interest rates and many are buying bonds and setting up emergency loan programs in order to keep businesses solvent and people employed and paid so that when the virus is contained people can go back to their jobs and businesses can rebound.

The news changes so rapidly on this virus. As I write this memo, Congress announced it could not come to an agreement on a massive stimulus package that would include income replacement for households and is designed to help small to mid-size companies borrow money, with loan forgiveness. Additional stimulus would be made available for lending to other distressed companies. The news of the stalemate in Congress on Sunday night sent the equity futures trading limit down 900 Dow points Sunday evening. Best guess is that the bill will be rewritten with similar language and passed sometime on Monday.

**Where are we headed?** According to U.S. Treasury Secretary Mnuchin, if the virus can be contained within the next couple of months, the likelihood is we would see a tick-up in third-quarter GDP and a sizeable rebound in the fourth quarter with low interest rates, low energy prices and pent-up demand. If this goes into summer, it will be harder to bounce back because layoffs will accelerate and some businesses will fail. Whether the U.S. falls into recession depends on the duration of this virus and whether GDP growth ticks back up in the third quarter or remains in negative territory. However, it is more important to focus on how fast the economy can rebound once this virus is contained.

**Will we see a fast or prolonged recovery in the stock market?** Investor confidence will rely on seeing a slowdown in new cases of the coronavirus and if there is a sense that the Administration and Congress are moving quickly. Brian Skorney, Baird Senior Research Biotechnology Analyst, believes the peak pain in the U.S. will be somewhere between two and four weeks from now.

It is difficult to rely on fundamental analysis with price and earnings projections not quantifiable. We have been watching the technical indicators which have been very reliable. The initial stage of the bottoming process often sees a contraction of the number of stocks hitting new 52-week lows and volume contracting. We are not there yet. On Friday, the S&P 500 Index closed below the support level of 2347, which was the December 2018 low. The next level of support will be 2000-2100.

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	RS Ranking		RS Trend	Sub-Industry Detail
	Current	Previous		
<b>Consumer Staples</b>	1	** 3	+	<i>Leaders:</i> Drug Retail; Food Retail; Hypermarkets & Super Centers; Household Products <i>Laggards:</i> Food Distributors
<b>Information Technology</b>	2	** 4	-	<i>Leaders:</i> Internet Software & Services; Application Software; Systems Software; Technology Hardware, Storage & Peripherals <i>Laggards:</i>
<b>Health Care</b>	3	** 2		<i>Leaders:</i> Health Care Distributors; Biotechnology; Pharmaceuticals <i>Laggards:</i>
<b>Communication Services</b>	4	6		<i>Leaders:</i> Integrated Telecom Services; Home Entertainment Software <i>Laggards:</i> Broadcasting
<b>Utilities</b>	5	** 1		<i>Leaders:</i> <i>Laggards:</i>
<b>Consumer Discretionary</b>	6	7		<i>Leaders:</i> Internet Retail; General Merchandise Stores <i>Laggards:</i> Auto Parts & Equipment; Automobile Manufacturers; Leisure Products; Casinos & Gaming; Hotels, Resorts & Cruise Lines; Department Stores
<b>Real Estate</b>	7	5		<i>Leaders:</i> Specialized REITs <i>Laggards:</i> Health Care REITs; Retail REITs
<b>Materials</b>	8	8		<i>Leaders:</i> Metal & Glass Containers; Gold <i>Laggards:</i>
<b>Financials</b>	9	10		<i>Leaders:</i> <i>Laggards:</i> Consumer Finance; Life & Health Insurance; Multi-line Insurance
<b>Industrials</b>	10	9		<i>Leaders:</i> Environmental & Facility Services <i>Laggards:</i> Airlines
<b>Energy</b>	11	11		<i>Leaders:</i> <i>Laggards:</i> Oil & Gas Drilling; Oil & Gas Equipment & Services; Integrated Oil & Gas; Oil & Gas Exploration & Production; Oil & Gas Refining & Marketing; Oil & Gas Storage & Transportation

\*\* Denotes Current Relative Strength-Based Overweight Sectors

Sentiment Indicators

	Current		Previous		Indication (from contrarian perspective)
<b>CBOE 10-Day Put/Call Ratio</b> <i>Below 85% is bearish; Above 95% is bullish</i>	130%		125%		Bullish
<b>CBOE 3-Day Equity Put/Call Ratio</b> <i>Below 52% is bearish; Above 65% is bullish</i>	98%		110%		Bullish
<b>VIX Volatility Index</b> <i>Below 13 is bearish; Above 28 is bullish</i>	66		58		Bullish
<b>American Association of Individual Investors</b> <i>Twice as many bulls as bears is bearish; 2X more bears than bulls is bullish</i>	Bulls:	34%	Bulls:	30%	Neutral
	Bears:	51%	Bears:	51%	
<b>Investors Intelligence (Advisory Services)</b> <i>55% bulls considered bearish/more than 35% bears is bullish</i>	Bulls:	35%	Bulls:	30%	Neutral
	Bears:	33%	Bears:	23%	
<b>National Assoc. of Active Investment Mgrs. (NAAIM)</b> <i>Below 25% is bullish; Above 80% is bearish</i>	11%		17%		Bullish
<b>Ned Davis Research Crowd Sentiment Poll</b>	Excessive Pessimism		Excessive pessimism		Bullish
<b>Ned Davis Research Daily Trading Sentiment Composite</b>	Pessimism Excessive		Pessimism Excessive		Bullish

## Appendix – Important Disclosures and Analyst Certification

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