INCISIVE INVESTOR

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May 15, 2020

WEEK IN REVIEW

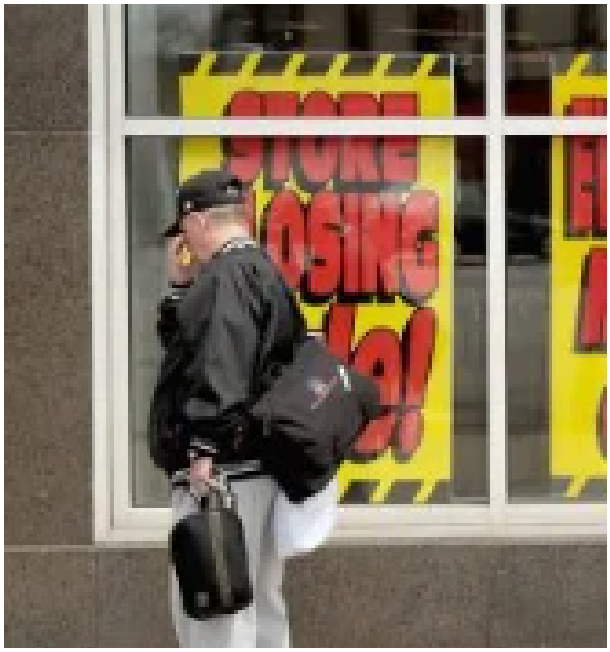
DISMAL U.S RETAIL SALES DATA

Stocks recovered from steep losses early Friday to close higher, despite data showing U.S. April retail sales plunged more than forecasts and news the Trump administration will block shipments of semiconductors to China's Huawei Technologies, stoking fears of renewed trade tensions.

However, sentiment was improved by news the House of Representatives was set to vote on another $3 trillion coronavirus package that could be the opening bid in another round of fiscal stimulus.

The Dow Jones Industrial Average DJIA rose 61 points, or less than 0.3%, to 23,685.42, while the S&P 500 SPX added 11.20 points, or 0.4%, higher to end the session at 2,863.70. The Nasdaq Composite Index COMP closed at 9,014.56 after gaining 70.84 points, or 0.8%.

However, stocks closed out the week lower, with the Dow down 2.7%, the S&P 500 losing 2.3% and the Nasdaq 1.2% lower.



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Focus turns toward valuations

With forward earnings estimates for the S&P 500 Index at their highest levels since the dotcom bubble era, investors grew more uneasy this week amid dwindling odds of a V-shaped bounce back by the US economy. The large-cap index trades at more than 20 times next-twelve-months' estimates at a time when earnings will be extremely problematic to forecast, given the uncertainty caused by the coronavirus epidemic. Bulls, however, point out that low interest and inflation rates could support markets while the economy mends and earnings prospects become clearer. The narrow nature of the rebound in equities in recent weeks was also a concern since it was led by only a handful of mega-cap tech names.

US–China dissention intensifies

As the coronavirus pandemic drags on, so does the finger-pointing between the US and China. This week, US intelligence agencies accused China of trying to steal research on COVID-19 vaccines, testing, and treatments using cyberattacks. The claims come amid persistent doubts over whether China will live up to its commitments under the phase-one trade deal signed in January. This week, US President Donald Trump dismissed any discussion of renegotiating the agreement and said that 100 trade deals could not make up for the damage caused by the pandemic. Trump also said that his administration is looking at Chinese firms listed on US stock exchanges that do not follow US accounting rules. Furthermore, the White House short-circuited a planned moved that would have allowed the US government employee retirement plan to invest in an index fund with Chinese equity exposure. The prohibition stops an approximate $4.5 billion flow into Chinese markets. For its part, China is contemplating countermeasures against US states and politicians who pursue damages from China over the coronavirus pandemic. On Friday, Chinese state media reported that China could activate its unreliable entities list if the US blocks technology sales to Huawei.

Powell advocates additional policy help

US Federal Reserve Chair Jerome Powell said that while the government's response to the coronavirus pandemic has been both well-timed and large, "it may not be the final chapter, given that the path ahead is both highly uncertain and subject to significant downside risks." Powell again ruled out the use of negative policy rates but said the Fed has a good toolkit with which to respond to the crisis. The Fed used one of its new tools for the first time this week, purchasing investment-grade and high-yield bond ETFs. The central bank announced this week that its balance sheet approached $7 trillion as a result of the astonishing interventions to support market functioning as a result of the pandemic.

EARNINGS NEWS

With 90% 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 that have yet to report) shows that earnings growth is running at -13.9%, while sales rose less than one percent compared to the same quarter a year ago, according to data from FactSet Research. The sectors hit hardest included consumer discretionary, financials, energy and industrials, while health care, utilities, tech, and consumer staples have held up the best.

HEADLINERS

In the US, nearly 3 million first-time jobless claims were filed for the week ending May 9th, while continuing claims totaled nearly 23 million. With much of the nation locked down, April retail sales plunged a record 16.4%. Sales in 12 of 13 categories were lower, except for online sales. Lastly, industrial production fell 11.2% in April.

The Fed's Senior Loan Officer Survey showed that credit card lending standards tightened in the first quarter by the most since 2009.

According to a Goldman Sachs survey, Corporate America does not expect a V-shaped economic recovery. Most expect a U- or L-shaped rebound.

US federal spending and its budget deficit hit record highs in April due to spending related to the pandemic. Spending jumped 161% last month year-over-year, while revenue declined 55%.

MAJOR STOCK MOVES

Shares of Applied Materials Inc. AMAT fell 4.4%, after the chip maker reported mixed second-quarter results late Thursday. Premarket losses were extended after the reports about potential U.S. restrictions on chip sales to Huawei. Chip stocks overall were under pressure, with the PHILX Semiconductor Index SOX down 3.5%.

Nike Inc. NKE shares gained 0.5% after the athletic-wear said that strong online sales were picking up the slack for sluggish store sales.

Shares of department-store retailer J.C. Penney Co. Inc. JCP jumped 21.2% after it said it had made an interest payment of around $17 million on its senior secured term loan credit facility and will continue to consider its strategic alternatives. Shares had fallen in premarket trade after news reports Thursday night said the retailer was set to file for bankruptcy in coming days.

Sorrento Therapeutics Inc. SRNE shares soared 158% after reports that it might have an antibody that can fight the novel strain of coronavirus.

Bank of America securities analyst Robert Ohmes reduced his price target on Canada Goose Holdings Inc. GOOS shares by 38%; the outerwear company's stock fell 7.2% Friday.

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THE WEEK AHEAD

- The calendar will be light on economic data, but keep an eye on these blue-chippers stepping into the earnings confessional.
- The market cap battle between Netflix and Walt Disney (DIS) is worth watching, as is this SPX level, which could determine how severe this week's broad-market slide really is.
- Fibonacci retracements and their relation to rallies offer some optimism for investors, going forward.

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

Park 10 Financial has the knowledge and expertise to answer all of your concerns.

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ONE LAST THING

SHOULD YOU TAP RETIREMENT SAVINGS TO FUND COLLEGE?

There are three things to consider before dipping into retirement savings to pay for college

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