

Mixed Signals
May 19, 2020



After trading flat for most of the day, the stock market sold off sharply in the last hour of trading. For most of the session the market acted as though it would hang on to Monday’s best rally in six weeks but it turn lower as a STAT News report raised concerns about Moderna’s vaccine trial report and the drug’s effectiveness. The S&P 500 fell 31 points today, or -1.05% to close at 2923 and the Dow Jones Industrial Average sunk 391 points, or -1.59% to close at 24,206. The Nasdaq Composite was lower by 50 points, or -0.54%, closing at 9,185 and finally the Russell 2000 dropped by 26 points or -1.95% to close at 1308.

Positive news about a potential Covid-19 vaccine, in part, fueled Monday’s strong rally. However, late in the trading session the healthcare news website STAT published an article that reported skepticism from vaccine experts noting that they were unable to draw firm conclusions from the company’s released data about the potential vaccine’s effectiveness and durability.

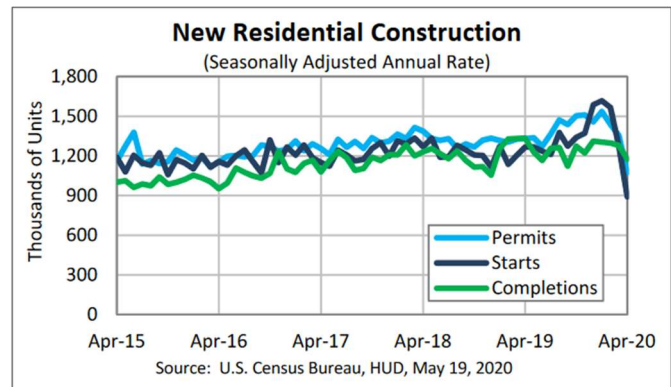
In April, housing starts slid 30% to a seasonally adjusted rate of 891,000 While dramatic, this drop was less than expected. Building permits, which gives a glimpse of future activity fell 21% to 1.1 million, also less than expected. Barrons



Photograph by Justin Sullivan/Getty Images

reported that mortgage applications have recovered more than half the

drop triggered by the lockdowns and Google searches for “new homes” are now trending above the pre pandemic peak. Perhaps sensing that things might improve, the NAHB Housing Market index, which measures home builder sentiment rose in April, albeit at a very low level.



Walmart and Home Depot each reported quarterly earnings and both announced revenue that beat expectations. Both also reported significant incremental costs due to coronavirus mitigation efforts. In Walmart’s case they were able to overcome \$900 million in new costs because their online sales rose 74% and therefore their earnings beat expectations. Home Depot had \$850 million in new costs due to the pandemic. While their same store sales were strong, growth wasn’t enough to overcome their costs and earnings missed expectations.

Finally, some good news in the oil patch as oil inventories unexpectedly fell by 4.8 million barrels in the week ended May 15th that followed a gain of inventories of 7.6 million the prior week. While its too early to say definitively, but perhaps either the production cuts agreed to over a month ago are working their way through the system or demand is beginning to pick up. We would prefer the latter.

