

Weekly Market Notes

June 29, 2020

Dow Industrials 25015
S&P 500 3009

BAIRD

1Please refer to Appendix – Important Disclosures

Last week the U.S. registered an all-time high in new coronavirus cases as recent spikes have caused at least eleven states and some businesses to pause in their reopening. This set off a broad selloff in the equity markets with the S&P 500 and Dow Industrials losing about 3% while small cap indices fell more than 4%.

Trends which are likely to drive markets as the U.S. economy transitions from a gradual reopening to a recovery:

1 - An increase in infection rates of Covid-19 could slow the economic rebound. However, deaths are declining or leveling off even though new cases are increasing. **As long as the virus cases stay localized and new treatments continue to be developed, we will probably not experience a nationwide lockdown.**

2 - Aggressive fiscal and monetary stimulus to continue. The commitment by the Federal Reserve to keep interest rates low and to do everything within their power to stabilize the economy promises to be an ongoing fundamental support for the markets. A Phase Four Stimulus Package is on the table in Washington which places an emphasis on bringing American manufacturing jobs back home from overseas, incentives for domestic travel, support to consumers and businesses most vulnerable to this decline, and a payroll tax cut.

3 - Recent data suggests an economic recovery is beginning to emerge. Retail sales, housing demand, new business applications have all recently reported strong numbers. Claims for unemployment insurance have remained high but the pace of new claims has been steadily slowing. Hiring rose by a massive 2.5 million jobs added in May as opposed to an expected loss of 7.5 million.

On Friday the Bureau of Economic Analysis reported that consumer spending jumped 8.8% last month despite a continued lockdown in some areas and an enormous consumer savings rate. But American's income fell 4.2% as government payouts declined. Consumer spending makes up 70% of GDP and will be the key to the recovery. The Congressional Budget Office is predicting a surge in GDP of 23% in the third quarter and 20% in the 4th quarter. The economy will likely experience a strong rebound but it may take years to work through the disruptions caused by the covid-19 virus.

4 - The second quarter of this year is expected to see a decline of 44% in corporate earnings for S&P 500 companies from a year ago. Debt defaults and bankruptcies will likely rise and many restaurants will go out of business because they will not be able to stay afloat at partial capacity. **The collapse in earnings according to consensus estimates is expected to improve gradually through the end of this year and begin to recover next year.**

5 - At the bottom of the market in March investors were excessively pessimistic. Sentiment has since steadily turned more optimistic verging on excessive optimism in early June. The recent pullback however has caused sentiment to begin to reverse moving toward pessimism the past two weeks. **Should investor sentiment continue to deteriorate toward excessive pessimism that would signal, from a contrarian stance, a potential buying opportunity.**

Bruce Bittles

Chief Investment Strategist

bbittles@rwbaird.com

941-906-2830

	RS Ranking		RS Trend	Sub-Industry Detail
	Current	Previous		
Information Technology	1	** 2		<i>Leaders:</i> Data Processing & Outsourced Services; Application Software; Systems Software; Technology Hardware, Storage & Peripherals; Electronic Components; Semiconductor Equipment; Semiconductors <i>Laggards:</i>
Consumer Discretionary	2	** 1		<i>Leaders:</i> Consumer Electronics; Homebuilding; Footwear; Internet Retail; Computers & Electronic Retail; Home Improvement Retail; Automotive Retail <i>Laggards:</i> Apparel, Accessories & Luxury Goods; Specialized Consumer Services
Materials	3	** 5		<i>Leaders:</i> Diversified Chemicals <i>Laggards:</i>
Communication Services	4	** 3		<i>Leaders:</i> Home Entertainment Software <i>Laggards:</i> Alternative Carriers; Integrated Telecom Services; Advertising
Industrials	5	** 4	+	<i>Leaders:</i> Trading Companies & Distributors; Diversified Support Services; Trucking <i>Laggards:</i> Environmental & Facility Services
Real Estate	6	10		<i>Leaders:</i> Industrial REITs <i>Laggards:</i> Hotel & Resort REITs; Office REITs; Residential REITs
Consumer Staples	7	9	-	<i>Leaders:</i> <i>Laggards:</i> Drug Retail; Brewers; Soft Drinks
Health Care	8	7	-	<i>Leaders:</i> <i>Laggards:</i> Health Care Facilities
Financials	9	11		<i>Leaders:</i> <i>Laggards:</i> Diversified Banks; Multi-sector Holdings
Energy	10	8	+	<i>Leaders:</i> <i>Laggards:</i> Oil & Gas Drilling; Integrated Oil & Gas
Utilities	11	6	-	<i>Leaders:</i> <i>Laggards:</i> Gas Utilities; Independent Power Producers

** Denotes Current Relative Strength-Based Overweight Sectors

Sentiment Indicators

	Current		Previous		Indication (from contrarian perspective)
CBOE 10-Day Put/Call Ratio <i>Below 85% is bearish; Above 95% is bullish</i>	87%		77%		Neutral
CBOE 3-Day Equity Put/Call Ratio <i>Below 48% is bearish; Above 72% is bullish</i>	64%		62%		Neutral
VIX Volatility Index <i>Below 20 is bullish; Above 45 is bearish</i>	36		35		Neutral
American Association of Individual Investors <i>Twice as many bulls as bears is bearish; 2X more bears than bulls is bullish</i>	Bulls: Bears:	24% 49%	Bulls: Bears:	24% 48%	Bullish
Investors Intelligence (Advisory Services) <i>55% bulls considered bearish/more than 35% bears is bullish</i>	Bulls: Bears:	57% 18%	Bulls: Bears:	55% 19%	Bearish
National Assoc. of Active Investment Mgrs. (NAAIM) <i>Below 30% is bullish; Above 80% is bearish</i>	77%		88%		Neutral
Ned Davis Research Crowd Sentiment Poll	Optimism Fading		Optimism Rising		Neutral
Ned Davis Research Daily Trading Sentiment Composite	Pessimism Rising		Optimism Fading		Neutral

Analyst Certification

The senior research analyst(s) certifies that the views expressed in this research report and/or financial model accurately reflect such senior analyst's personal views about the subject securities or issuers and that no part of his or her compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report.

Disclaimers

This is not a complete analysis of every material fact regarding any company, industry or security. The opinions expressed here reflect our judgment at this date and are subject to change. The information has been obtained from sources we consider to be reliable, but we cannot guarantee the accuracy.

ADDITIONAL INFORMATION ON COMPANIES MENTIONED HEREIN IS AVAILABLE UPON REQUEST

The Dow Jones Industrial Average, S&P 500, S&P 400 and Russell 2000 and any other indices mentioned are unmanaged common stock indices used to measure and report performance of various sectors of the stock market; direct investment in indices is not available. Baird is exempt from the requirement to hold an Australian financial services license. Baird is regulated by the United States Securities and Exchange Commission, FINRA, and various other self-regulatory organizations and those laws and regulations may differ from Australian laws. This report has been prepared in accordance with the laws and regulations governing United States broker-dealers and not Australian laws.

United Kingdom (“UK”) disclosure requirements for the purpose of distributing this research into the UK and other countries for which Robert W. Baird Limited holds a MiFID passport.

The contents of this report may contain an "investment recommendation", as defined by the Market Abuse Regulation EU No 596/2014 ("MAR"). This report does not contain a "personal recommendation" or "investment advice", as defined by the Market in Financial Instruments Directive 2014/65/EU ("MiFID"). Please therefore be aware of the important disclosures outlined below. Unless otherwise stated, this report was completed and first disseminated at the date and time provided on the timestamp of the report. If you would like further information on dissemination times, please contact us. The views contained in this report: (i) do not necessarily correspond to, and may differ from, the views of Robert W. Baird Limited or any other entity within the Baird Group, in particular Robert W. Baird & Co. Incorporated; and (ii) may differ from the views of another individual of Robert W. Baird Limited.

This material is distributed in the UK and the European Economic Area ("EEA") by Robert W. Baird Limited, which has an office at Finsbury Circus House, 15 Finsbury Circus, London EC2M 7EB and is authorized and regulated by the Financial Conduct Authority ("FCA") in the UK.

For the purposes of the FCA requirements, this investment research report is classified as investment research and is objective. This material is only directed at and is only made available to persons in the EEA who would satisfy the criteria of being "Professional" investors under MiFID and to persons in the UK falling within Articles 19, 38, 47, and 49 of the Financial Services and Markets Act of 2000 (Financial Promotion) Order 2005 (all such persons being referred to as "relevant persons"). Accordingly, this document is intended only for persons regarded as investment professionals (or equivalent) and is not to be distributed to or passed onto any other person (such as persons who would be classified as Retail clients under MiFID).

All substantially material sources of the information contained in this report are disclosed. All sources of information in this report are reliable, but where there is any doubt as to reliability of a particular source, this is clearly indicated. There is no intention to update this report in future. Where, for any reason, an update is made, this will be made clear in writing on the research report. Such instances will be occasional only.

Investment involves risk. The price of securities may fluctuate and past performance is not indicative of future results. Any recommendation contained in the research report does not have regard to the specific investment objectives, financial situation and the particular needs of any individuals. You are advised to exercise caution in relation to the research report. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

Robert W. Baird Limited and Robert W. Baird & Co. Incorporated have in place organisational and administrative arrangements for the prevention, avoidance, and disclosure of conflicts of interest with respect to research recommendations. Robert W. Baird Limited's Conflicts of Interest Policy, available, outlines the approach Robert W. Baird Limited takes in relation to conflicts of interest and includes detail as to its procedures in place to identify, manage and control conflicts of interest. Robert W. Baird Limited and or one of its affiliates may be party to an agreement with the issuer that is the subject of this report relating to the provision of services of investment firms. Robert W. Baird & Co. Incorporated's policies and procedures are designed to identify and effectively manage conflicts of interest related to the preparation and content of research reports and to promote objective and reliable research that reflects the truly held opinions of research analysts. Robert W. Baird & Co. Incorporated's research analysts certify on a quarterly basis that such research reports accurately reflect their personal views.

This material is strictly confidential to the recipient and not intended for persons in jurisdictions where the distribution or publication of this research report is not permitted under the applicable laws or regulations of such jurisdiction.

Robert W. Baird Limited is exempt from the requirement to hold an Australian financial services license and is regulated by the FCA under UK laws, which may differ from Australian laws. As such, this document has not been prepared in accordance with Australian laws.

Copyright 2019 Robert W. Baird & Co. Incorporated