

WEEK IN REVIEW

FRIDAY, APRIL 17TH 2020

- Markets have shifted up and down throughout the course of the week, closing on Thursday evening near where it began at the week's outset. Friday intraday performance was influenced by initial trial results of its anti-viral medication initially intended for treatment for the Ebola virus. Pre-market on Friday, S&P500 traded up 3.5%, but has settled lower at 1.5% intraday.
- Remdesevir (Gilead Sciences) has shown promise in helping COVID-19 infected patients recover from the illness. The trials at a Chicago hospital have demonstrated rapid recoveries in fever and respiratory symptoms. This contrasts with an earlier study in China that was halted due to efficacy rates in those trials. Gilead has projected Phase 3 trial data to be available by the end of April, and additional data by May. The company is up > 6% within intraday trading.
- This week's initial jobless claims tally is set to shift the four-week total above 22 million, eliminating the gains since the last recession. Consensus sees 5.5 million filings, a figure that's an improvement over last week's 6.6 million historic high. Economists expect the jobless rate to reach 20% this month and keep rising. New York City may lose 500,000 jobs and run about \$10 billion short on tax revenue through mid-2021, the Independent Budget Office estimated.
- China's economy shrank 6.8% year over year in the first quarter, the first contraction in decades. This figure was slightly worse than the 6% consensus. The government said it will step up policy support.
- Reported U.S. deaths reached a record 4,591 in 24 hours. The number of reported deaths in the U.S. from the coronavirus spiked to nearly double the prior record on Thursday. German cases climbed for a second day, but the growth is declining given a reproduction rate at 0.7, down from 0.9 on Wednesday. Singapore had its biggest increase in infections and China revised up its total death toll to 4,632 after adding about 1,290 in Wuhan.
- The SPX is still below its 50DMA (daily moving average) of ~2870. Using \$150 as normalized earnings for 2020, putting the market multiple in a range of 19x. This suggests that investors are looking past current earnings and towards widespread accommodation, historically low discount rates, and more quantifiable data relating to exogenous coronavirus shock.
- Credit facilities that were launched by the government to purchase the debt of fallen angels haven't been released to the markets yet. This suggests that March's growth in credit issuance and recent spread tightening was the result of organic demand pressures, and that volatility may continue to decline from currently elevated levels. Despite continue growth of infections, global containment policies appear to demonstrate efficacy as the medical capacity utilization across many regions remain below critical levels. The pace of stimulus deployment continues to accelerate within the US, and ex-US policies come into greater alignment.

- While oil (-70% YTD) and banking (-34% YTD) remain pressured, the biotech sector (-8% YTD) and pharmaceutical companies (-11%) are faring better. More importantly, Pharmaceutical companies become the new low-volatility sector as uncertainty and credit issues re-priced REIT/Utility risk. This rotation may present opportunities within elevated volatility levels as investors gravitate towards stability as bottoms continue to be tested.

In our prior weekly wrap-up, we suggested that a few factors that would precede a recovery had started aligning. Despite continue growth of infections, global containment policies appear to demonstrate efficacy as the medical capacity utilization across many regions remain below critical levels. The pace of stimulus deployment continues to accelerate within the US, and ex-US policies come into greater alignment.

Gilead contributed to the brightening of medical prospects through initial trials of its anti-viral medication, remdesivir. The study at the University of Chicago Medical center did not include those with the most severe symptoms that required respirators nor was a control group implemented within the tests. Nevertheless, patient response to the medication has been very positive.

If data from the Phase-3 trials indicates a positive outcome when available, this may be an initial step for aligning the 3rd leg of a three-legged stool. As social policies continue to buffer against sharp declines in health capacity, and stimulus policies support a dramatically weakened economy, evolving acute treatments buys more time to develop vaccines or other long-term solutions.

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