May 25, 2020
Market Research
UW FINANCE ASSOCIATION
Research and Education

Equities Market Update

All amounts in $US unless otherwise stated. Equity quotes are as of market close May 22nd 2020.

North American Market Movements

Author(s):
Victoria Novakovskaya
Research Analyst
Editor(s):
John Derraugh and Brent Huang
Co-VPs of Research and Education

Since the first circuit breaker in over 10 years on March 9th 2020, when the S&P tumbled 7%, to say it has been a bumpy ride would be an understatement. Once the novel coronavirus surpassed Chinese borders and hit pandemic status, North American equities suffered a near 34% drop from Februaries all-time highs, very briefly entering bear market territory. Not 30 days after the beginning of the market's freefall on February 20th, the drop was countered with a to-date 32% rally, flying back into bull market territory just as fast as it had dropped. This begs the question, should the efficient markets hypothesis be re-worded as "stocks only go up"?

At present, analysts are expecting a likely U-shaped recovery, with more sophisticated estimates towards a "W". This means that the next few months will look like a recovery, and then we will face a setback driven by either market sentiment, or perhaps renewed shutdowns from another wave of the virus. Potential bear scenarios see a contraction lasting 12 to 15 months, while the bull scenario sees positive news on the medical front bolstering an extended recovery and a strong second half of 2020. Unfortunately, any type of V-shaped recovery is gone. The pandemic's deep ramifications are beginning to show, seen even more so with sky-rocketing unemployment and a halt in demand as well as supply-chain disruptions.

Exhibit 1: See below the price movements of the S&P 500 (SPX Index), Dow Jones (INDU Index), and TSX Composite (SPTSX Index) between January 2nd 2020 and May 22nd 2020. *At present, the indices are down 9.06%, 15.25%, and 12.79% (about 19%, with CAD adjustment) ye year-to-date. These indices represent the broad North American markets, not including Mexico.*

Important Earnings Season Results

Earnings were anticipated more than ever in this volatile time, however the bulk of negative results as well as the true impact of the pandemic will show in the next quarter. We'll take a closer look at some of the big technology companies that posted earnings in the month of April. See the end of the section for stock movements.

Facebook, Inc. (NASDAQ: FB) | Wednesday, April 29th
Facebook posted better-than-expected quarterly revenue, but missed on earnings. The company doubled its profit from a year ago, and shares shot up 10% in after-hours trading after they announced. They reported EPS of $1.71 and compared to the estimated $0.85. Revenue grew 17% to $17.74bn, from $15.08bn in the year-ago period. Monthly average users improved 10%, and the company indicated that ad prices are stabilizing after a steep drop in March. At present, Facebook sits at a high of $234.91.

Microsoft Corporation (NASDAQ: MSFT) | Wednesday, April 29th
Microsoft was one of the most highly anticipated companies to post earnings this quarter, as the results of the cloud business were to be announced. Shares rose as much as 5% after-hours as the company posted sales growth of 15%, mostly fueled by its cloud business. Growth from Azure, however, slowed to 59% compared to 64% previously. EPS were $1.40 and revenue was $35.05bn, beating the $1.26 and $33.66bn expected. The coronavirus "had minimal net impact on company revenue" and the effects "may not be fully reflected until future periods." The stock price is now less than 4% away from its record high in February, and currently sits at $183.51.

Apple Inc. (NASDAQ: AAPL) | Thursday, April 30th
The company announced second quarter results, posting revenue of $58.3bn and EPS of $2.55, up 4%. International sales accounted for 62% of the quarter's revenue, and the company announced a cash dividend of $0.82 per share, an increase of 6%. The board also authorized an increase of $50bn to the existing share repurchase program. Apple has a five-year commitment to contribute $350bn to the United States economy, and continues to make investments in all areas of their business. The company is also focused on helping to provide face masks and shields to medical professionals, as well as millions donated to Global Citizen and America's Food Fund. The stock currently sits at $318.89, a year-to-date gain of around 6%.

Amazon.com, Inc. (NASDAQ: AMZN) | Thursday, April 30th
Reporting first quarter earnings after the bell, Amazon came out with earnings of $5.01 per share, missing estimates of $6.36 per share, representing a -21.23% surprise. Over the last four quarters, the company has surpassed consensus EPS estimates only once. The company posted revenues of $75.45bn, beating estimates by 1.46%. Amazon plans to spend all of its profit for the second quarter of 2020, an estimated $4bn, on its response to the coronavirus pandemic. This includes hundreds of millions on Covid-19 tests for its workers and improving its delivery network to get packages to customers on time. The company has stated that investors "may want to take a seat", as they are thinking big. Amazon's shares have added about 29.3% since the beginning of the year, compared to the S&P 500's decline of 9.4%. Following the announcement, the stock price tumbled 7.6% the day after. Currently, Amazon sits at $2,436.88.

Stock Movements

Exhibit 2: Facebook, Inc. (NASDAQ: FB) | Wednesday, April 29th

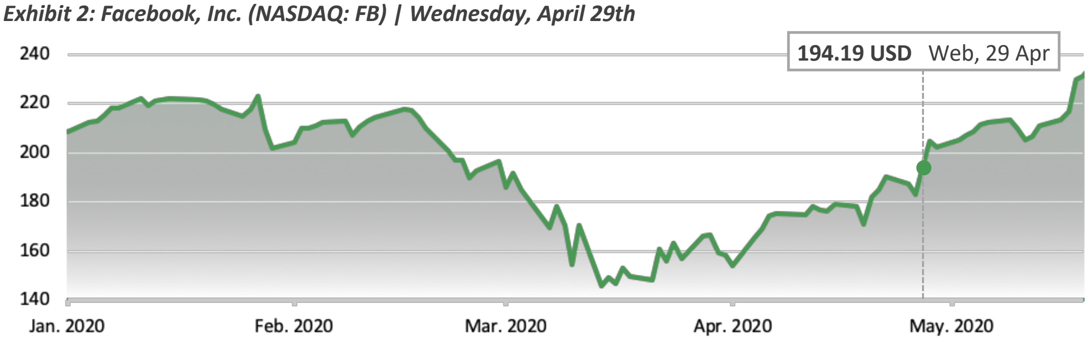


Exhibit 3: Microsoft Corporation (NASDAQ: MSFT) | Wednesday, April 29th

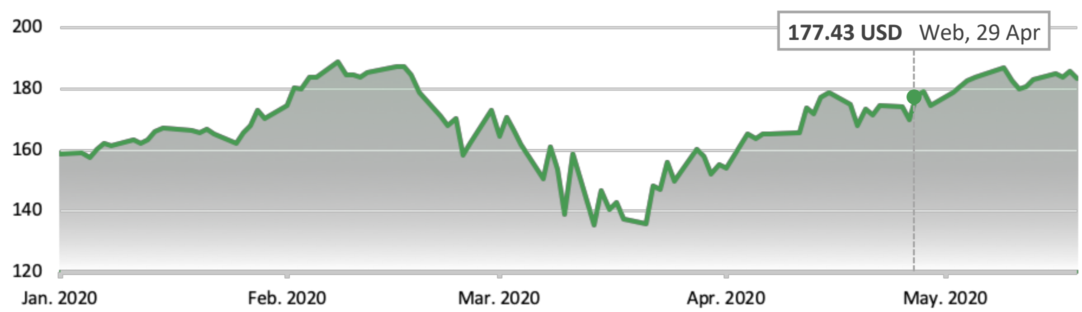


Exhibit 4: Apple Inc. (NASDAQ: AAPL) | Thursday, April 30th

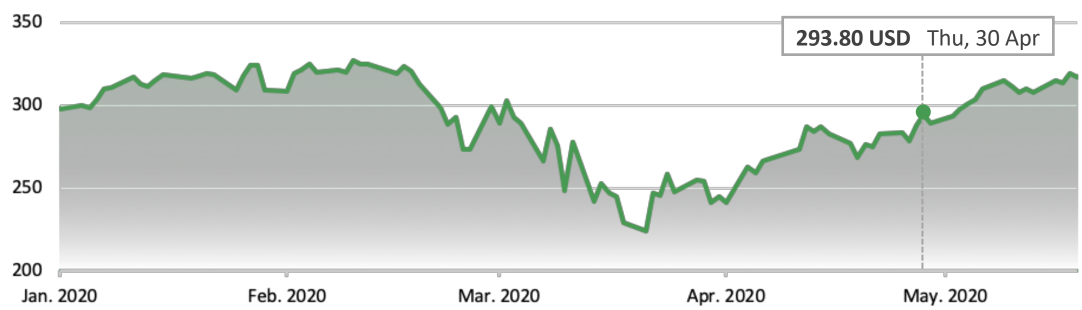
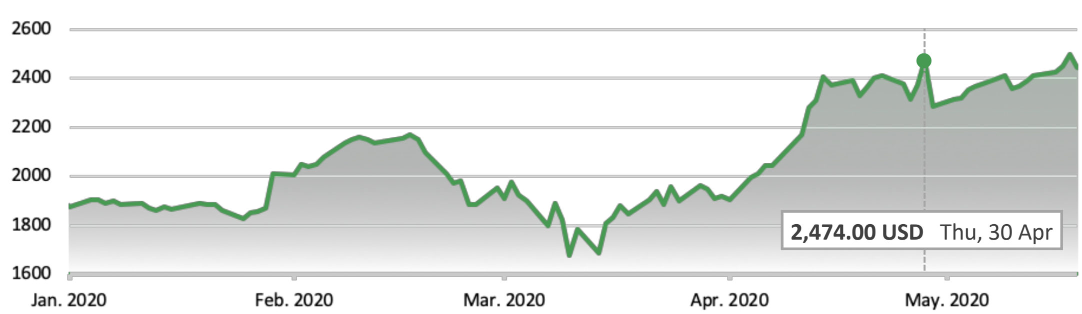


Exhibit 5: Amazon.com, Inc. (NASDAQ: AMZN) | Thursday, April 30th



Author's Note: companies to look out for during next earnings season

Etsy (NASDAQ: Etsy), Walmart (NYSE: WMT), Clorox (NYSE: CLX), Disney (NYSE: DIS)

Around the World

Chinese Equity Markets

The Chinese "National Team", government-backed entities ready to step in and support asset prices, helped to control the crisis in Chinese equity markets. In short, investors who held funds in on-shore Chinese equities were not allowed to be rid of them, on top of the long-running short sell ban. The graph below compares on-shore Chinese equities that are influenced by the National Team (CSI300 Index), the broad North American markets index (SPX Index), and off-shore Chinese equities that are listed on non-Chinese exchanges (MSCI China Index) from January 2nd 2020 to May 22nd 2020. It is important to highlight the on-shore vs. off-shore difference, as you can see clearly in the chart below that while the S&P 500 and off-shore equities outperformed in normal market conditions, they suffered much more in times of high market volatility. This is interesting given the virus' origination in Mainland China and the expectation that on-shore equities would perform the worst.

Looking into EM Equities

Emerging markets, economies that were on the rise through 2019 and had amazing growth prospects for 2020, ended up being hit hardest by this year's unprecedented market crash. A quick glance at Brazil's IBOVESPA index and India's INDA, we see year-to-date drops of 31% and 26.6%. On top of this, the Brazilian Real is down over 27% year-to-date with USD, outlining the currency risks of holding emerging markets instruments in times of global crises. This is just one EM currency amongst many that have suffered in a similar fashion. Almost all emerging markets have posted revised GDP forecasts, with South Africa expecting a 4% contraction compared to 0.2% growth earlier, and Mexico expecting a 5.1% contraction compared to 1% growth. Adding fuel to the fire, many emerging markets countries including Turkey, Indonesia, and South Africa, see a large chunk of their exports being fuel related. With the recent crash in oil, there is more bad news in store for these markets.