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The Fed's Promise and Vaccine Progress Boost Stocks

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The official statement released immediately following today's FOMC meeting showed Fed officials made no further changes to monetary policy, but acknowledged "the virus and the measures taken to protect public health are inducing sharp declines in economic activity and a surge in job losses." In response, the FOMC is "committed to using its full range of tools to support the U.S. economy in this challenging time." The stock market reacted favorably to the Fed's sympathetic words. In the press conference that followed, Chairman Jay Powell doubled down on his intent to use the Fed's full powers, saying "the Fed won't run out of money" for its lending programs.

Powell also urged Congress to add even more stimulus, and indicated there will be a time to get the fiscal house in order *"…but that time is not now."* He went on to say "this is the time to use the great fiscal power of the United States to do what we can to support the economy…" While Powell was speaking, the stock market continued to climb as investors realized the Fed intended to continue providing massive, unprecedented support. Although some believe equity investors may be overly optimistic at this point, the Fed has provided an explosive amount of recovery fuel for the markets, assuming a vaccine can be found sooner-rather-than-later.

According to the World Health Organization (WHO), there are at least 70 different COVID-19 vaccines currently in development. In recent days, quite a bit of hopeful news has been reported. Yesterday, Oxford University announced it has already begun human testing on 550 participants and is hopeful a vaccine will be widely available as soon as September. According to CBS News, the Oxford vaccine will use the genetic material of the coronavirus itself and inject it into a modified common cold virus that will mimic COVID-19. The human immune system would then fight off the modified cold virus and thereby protect against the deadly coronavirus. The Serum Institute of India, the world's largest maker of vaccines, is already working to produce 40 million units of the Oxford vaccine, without waiting to find out whether it will prove effective.

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In other hopeful news, a University of Chicago hospital, participating in a study of the Gilead Sciences antiviral treatment Remdesivir, reported "rapid recoveries in fever and respiratory symptoms, with nearly all patients discharged in less than a week." Dr. Tony Fauci said the early trial results were "quite good news." On a related note, Japan is reportedly in the process of fast-tracking approval for Remdesivir, while India has asked Gilead to issue generic licenses for its heralded antiviral drug. And finally, a front page story in this morning's Wall Street Journal said the race to find a vaccine is moving faster with Pfizer indicating it would begin testing its experimental vaccine in the U.S. as early as next month, while Johnson & Johnson expects to start human testing in September, and Moderna is preparing to enter the second phase of its testing.

While we wait on a cure, the economy flounders. The initial reading of first quarter GDP (released this morning) showed a -4.8% annualized decline, a bit worse than the -4.0% median forecast. The *sharpest contraction in more than 11 years* marked the end of the longest economic expansion on record. Since the U.S. consumer has historically accounted for roughly 70% of economic growth in the U.S., it was a sharp drop in consumer spending that did the majority of damage. The personal consumption component plunged by -7.6%, slicing 5.3 percentage points from the overall number and dragging it into negative territory with the worst showing by U.S. consumers in 40

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Please see disclosure on page 2.

years. Within the consumption number, spending on services was the weakest on record as oil changes, dry cleaning, yoga classes, gyms, massage therapy sessions, and self-service dog washing all abruptly ended. Business investment also took a nosedive, as the nonresidential fixed investment category dropped by -8.6%, shaving 1.2 percentage points from the headline. On the positive side of the ledger was residential investment, which skyrocketed +21% on a quarter-over-quarter annualized basis as very strong January and February home sales more than compensated for sagging sales in March. Government spending also made a small positive contribution in Q1.

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First quarter GDP numbers are expected to be revised significantly in May and June as Q1 data collection is thought to be suspect, but it'll be second quarter growth that better reflects the pitiful state of the current economy. Home and auto sales are in hibernation mode along with business investment, leaving only government spending to carry the load. As a result, early forecasts of Q2 annualized GDP growth indicate a drop of -30% as consumers continue to hunker down and businesses wait for the all's-clear sign.

Market Indications as of 3:30 P.M. Central Time

DOW	Up 532 to 24,634 (HIGH: 29,551)
NASDAQ	Up 307 to 8,915 (HIGH: 9,817)
S&P 500	Up 76 to 2,940 (HIGH: 3,386)
1-Yr T-bill	current yield 0.15%; opening yield 0.14%
2-Yr T-note	current yield 0.20%; opening yield 0.21%
5-Yr T-note	current yield 0.36%; opening yield 0.37%
10-Yr T-note	current yield 0.62%; opening yield 0.61%
30-Yr T-bond	current yield 1.25%; opening yield 1.20%