

Wentz Weekly

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FDA Gives the Green Light For Gilead's Remdesivir



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U.S. stocks rallied Wednesday on upbeat news about Gilead's remdesivir as a potential treatment for COVID-19. Data released Wednesday showed the government's trial of the drug met its primary goal, with the time to recovery significantly improving in severely ill patients receiving the treatment. Dr. Anthony Fauci, director of the NIAID, said the trial is "quite good news" with the data showing "clear cut significant positive effect in diminishing the time to recovery. What it has proven is that a drug can block this virus." However, Dr Fauci said the mortality benefit has not yet reached statistical significance. Gilead will donate its entire supply chain and will begin ramping up production after receiving emergency use authorization from the FDA.

Following the conclusion of the FOMC meeting on Wednesday, the Fed announced no change in monetary policy, but did emphasize its pledge to use a full range of tools to support the economy. Since the pandemic started, the Fed has responded quickly to deteriorating financial conditions, announcing actions outside its normal policy meeting schedule. Jerome Powell signaled to lawmakers in his press conference the Fed cannot carry the economy alone. He mentioned more fiscal stimulus will be appropriate and policy makers should focus on protecting from "avoidable insolvency". There was no forward guidance, which the Fed usually provides, but Powell did say the Fed is in no hurry to withdraw its supportive measures, and will use its tools "forcefully, proactively, and aggressively until we're confident that we're solidly on the road to recovery."

First quarter earnings so far have been largely mixed, with a large hit to profits as companies saw a significant increase in coronavirus-related costs. It was an important week as the five largest companies in the S&P 500 - Microsoft, Amazon, Apple, Alphabet and Facebook - reported. One of the concerns was on advertising, with entertainment and travel businesses having little reason to promote themselves and more reason to conserve cash. The last three weeks in March saw a sharp decline in ad spending, but ad demand surprisingly stabilized in April. Still, the market is forward looking and with a majority of companies foregoing forward looking guidance, there remains uncertainty on how long or how sharp the recovery will be.

U.S. officials believe China covered up the extent of the coronavirus outbreak and how contagious the disease is to stock up on medical supplies needed to combat the virus, according to intelligence by the Department of Homeland Security. The documents show China "intentionally concealed the severity" of the pandemic in early January, at the same time data shows a sharp increase in imports of face masks, surgical gowns, and other personal protective equipment. There have been discussions between senior U.S. officials on developing proposals for retaliatory actions against China over their handling of the outbreak.

The GDP report released Wednesday showed the largest contraction in the economy since the middle of the financial crisis. GDP declined 4.8% in the first quarter after growing 2.1% in the fourth quarter of 2019. Consumer spending, which makes up nearly 70% of the U.S. economy, fell 7.6%. Business investment fell 15%, while residential investment was a bright spot rising 21%. Exports were down 8.7% and imports down 15.3%. Government spending helped GDP, but the \$3 trillion in stimulus did not start flowing until April, which will fall into the second quarter GDP report. Markets shrugged off the data showing the large contraction in the economy as this was expected and the bigger news on the day was the positive results from remdesivir.

Company News

- Amazon reported mixed results with revenues up 26.5% compared to a year ago and easily beating expectations. The cloud platform, Amazon Web Services, missed expectations for the first time in years. Amazon's forecast for revenues was in line with expectations while operating income was below due to higher costs from the pandemic, with coronavirus related expenses of \$4 billion.
- Facebook beat earnings and revenues expectations, with revenues up 17.6% y/y and operating income up 78% due to higher margins, although management forecasted lower margins in the near term. Facebook saw a steep drop in ads in the last 3 weeks of March, which resulted in a large drop in the cost per ad, then saw ad sales stabilize in April which was the biggest surprise.
- Boeing reported mixed results, with revenues down 26% from a year ago. The company burned through more cash than expected in the quarter. Management announced they will cut 10% of workers, production numbers will be cut in half and laid out options for additional liquidity.

The Week Ahead

It will be another busy week of earnings, with over 100 S&P 500 companies reporting this week. Highlights include Disney after the bell Tuesday, GM, CVS and PayPal on Wednesday, and Bristol-Myers, Hilton and Raytheon on Thursday. On the economic calendar we will see trade data for March released Tuesday morning, the latest figures on unemployment claims Thursday, and end the week with the DOL's employment report on Friday where an estimated 21 million jobs were lost in April.

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