



A VIRAL MARKET UPDATE II: CLUES IN THE DEBRIS

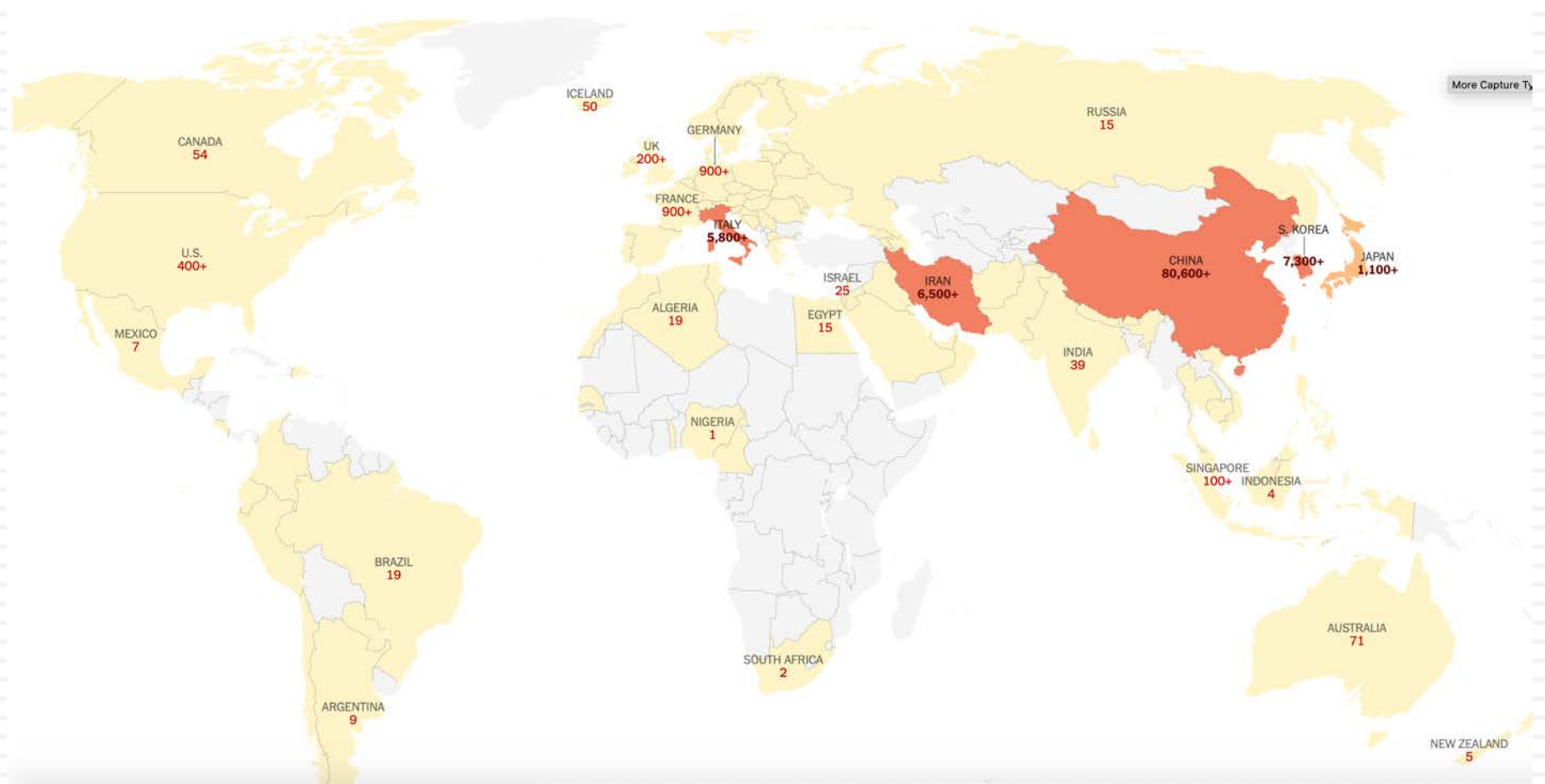
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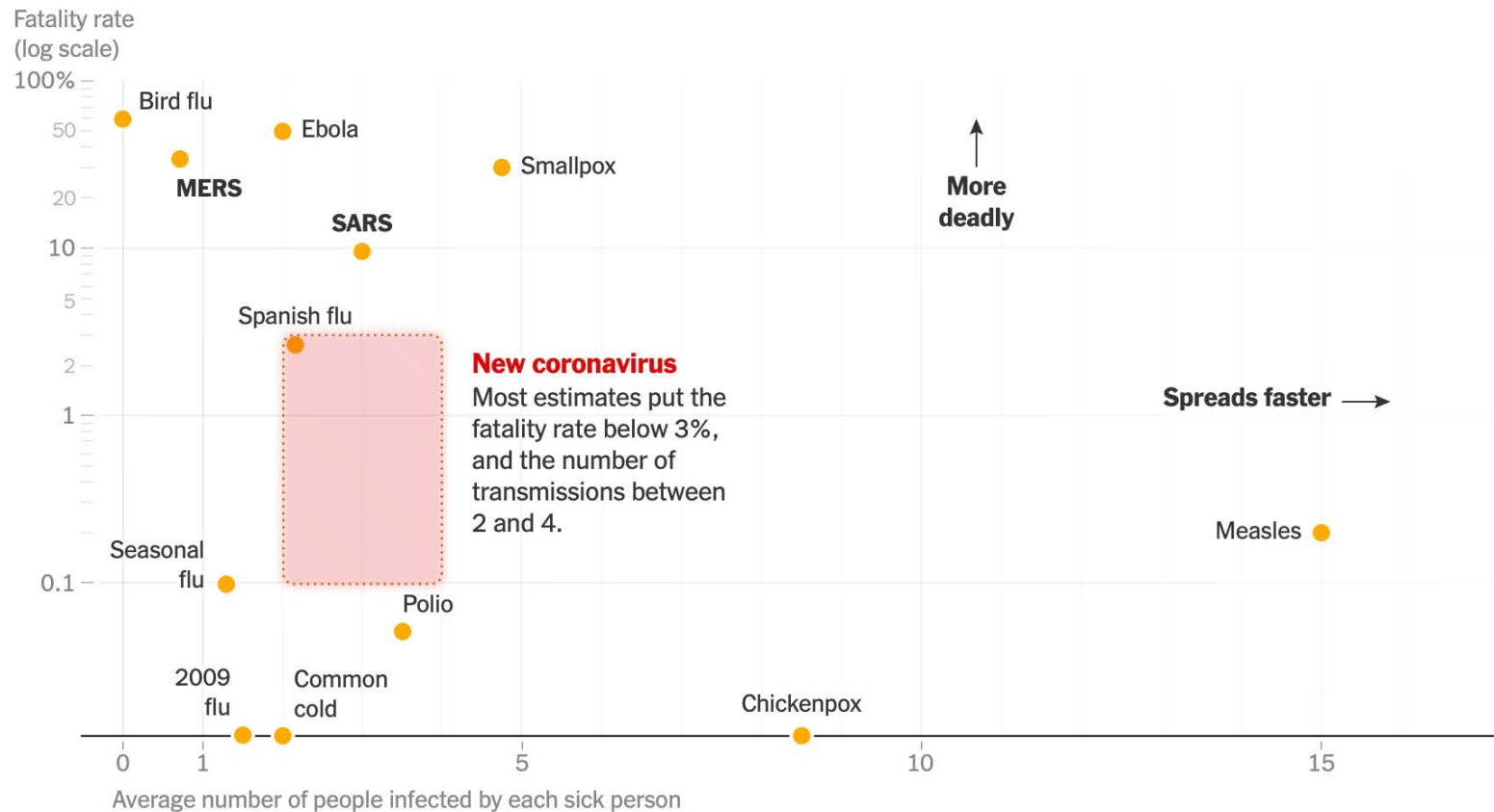
How much can happen in eleven days?

- I wrote a post on how the Corona Virus was playing out in markets on February 26, two days into the market going into convulsion.
- I said that analysis was a work in progress, that I would revisit as we learned more about the virus and its economic consequences.
- Eleven days later, we don't have clarity but while we have only a little more information on both the virus itself, but we do have substantially more data on what the market reaction has been. In this post, I will spend more time on the market damage, looking at where it has been greatest, seeking clues for the future.

1. Updating the news on the virus: Its global

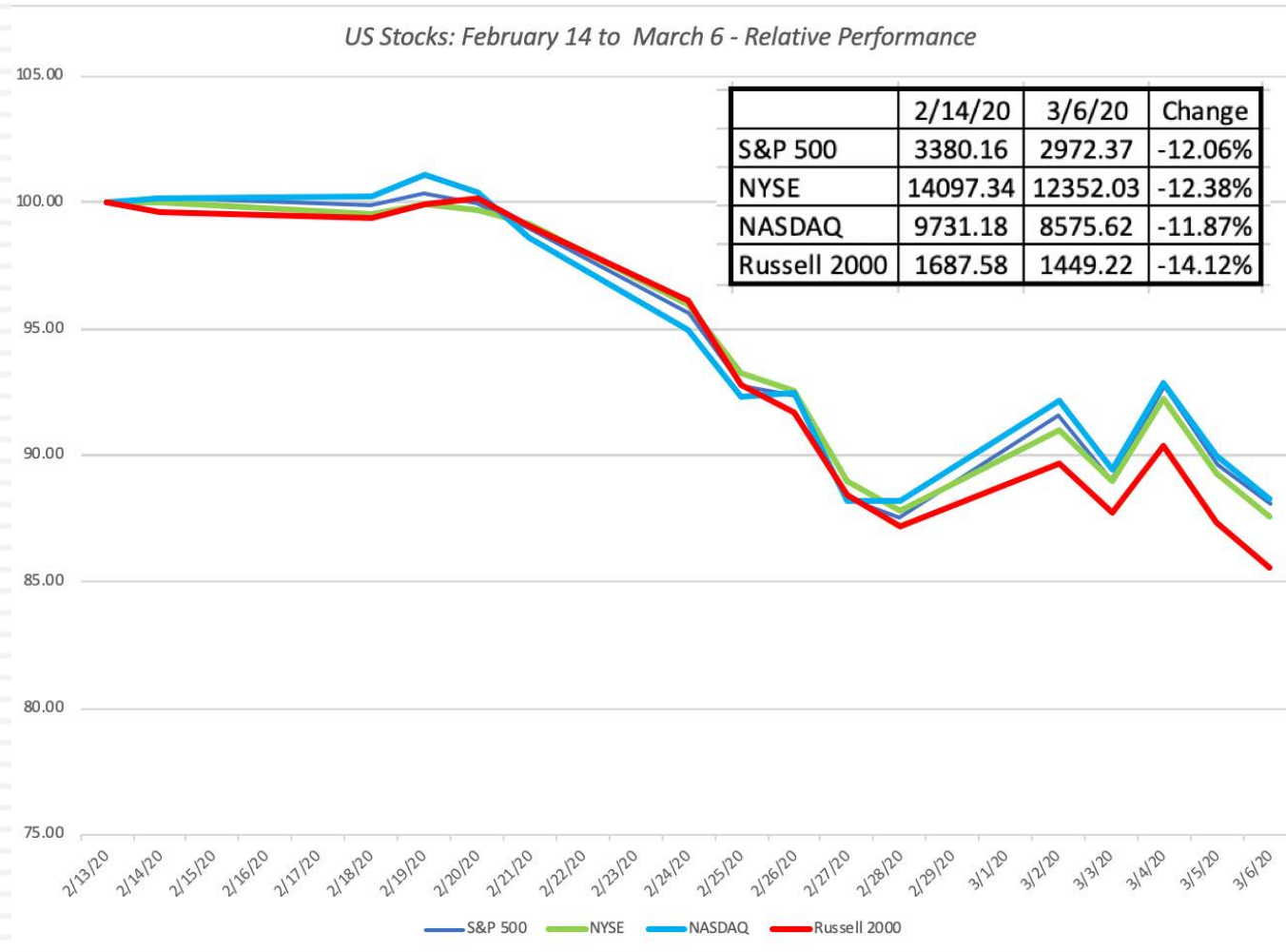


And there is uncertainty about its evolution and lethality...



Note: Average case-fatality rates and transmission numbers are shown. Estimates of case-fatality rates can vary, and numbers for the new coronavirus are preliminary estimates.

II. Markets: US Equity Indices – February 14, 2020 – March 6, 2020



I. From percent to dollars.. And regionally

Region	Number of firms	Mkt Cap (3/6)	Mkt Cap (2/14)	Change in Mkt Cap	% Change	Percentage Change in Stock Prices (Individual Stocks)				
						First Decile	First Quartile	Median	Third Quartile	Ninth Decile
Africa	794	\$518,006	\$582,116	-\$64,110	-11.01%	-20.09%	-12.06%	-4.64%	0.00%	4.83%
Asia w/o China	12,439	\$6,714,742	\$7,327,266	-\$612,523	-8.36%	-21.63%	-14.21%	-6.95%	-1.45%	3.88%
Australia & NZ	1,723	\$1,401,949	\$1,619,840	-\$217,891	-13.45%	-30.35%	-22.17%	-13.61%	-4.95%	2.91%
Canada	2,660	\$2,091,165	\$2,282,214	-\$191,048	-8.37%	-28.06%	-18.67%	-9.65%	-0.72%	15.32%
China	6,413	\$14,415,138	\$14,039,275	\$375,863	2.68%	-9.73%	-3.30%	4.34%	11.99%	20.70%
EU & Environs	5,651	\$12,356,715	\$13,701,496	-\$1,344,781	-9.81%	-23.44%	-15.85%	-8.48%	-1.21%	4.77%
Eastern Europe & Russia	560	\$699,502	\$819,837	-\$120,336	-14.68%	-21.87%	-16.95%	-8.04%	-1.02%	4.09%
Japan	3,852	\$5,485,757	\$6,057,236	-\$571,478	-9.43%	-22.67%	-17.63%	-12.88%	-7.52%	-2.02%
Latin America & Caribbean	1,047	\$2,079,618	\$2,380,766	-\$301,148	-12.65%	-25.40%	-18.28%	-10.59%	-3.39%	1.48%
Middle East	1,454	\$3,018,921	\$3,100,789	-\$81,869	-2.64%	-18.18%	-12.12%	-6.84%	-1.35%	2.94%
UK	1,232	\$2,687,872	\$3,070,102	-\$382,230	-12.45%	-26.60%	-19.62%	-12.32%	-5.17%	0.93%
United States	7,091	\$31,905,592	\$35,760,425	-\$3,854,833	-10.78%	-28.95%	-18.39%	-9.74%	-0.28%	12.56%
Global	44,916	\$83,374,977	\$90,741,362	-\$7,366,385	-8.12%	-23.26%	-15.31%	-7.28%	0.00%	10.06%

Ila. A Sector Breakdown

Sector	Number of firms	Mkt Cap (3/6)	Mkt Cap (2/14)	Change in Mkt Cap	% Change
Communication Services	2,152	6,788,543.7	7,394,272.8	-\$605,729	-8.19%
Consumer Discretionary	6,049	9,229,654.0	10,167,731.1	-\$938,077	-9.23%
Consumer Staples	2,885	6,888,624.3	7,143,300.8	-\$254,677	-3.57%
Energy	1,765	5,306,927.7	5,940,350.5	-\$633,423	-10.66%
Financials	5,020	13,372,892.5	14,997,205.3	-\$1,624,313	-10.83%
Health Care	4,074	8,540,646.5	8,982,522.7	-\$441,876	-4.92%
Industrials	7,756	9,246,717.6	10,198,421.4	-\$951,704	-9.33%
Information Technology	5,697	12,442,530.6	13,649,410.8	-\$1,206,880	-8.84%
Materials	5,924	4,630,483.3	5,002,800.8	-\$372,318	-7.44%
Real Estate	2,658	3,841,071.9	4,055,519.9	-\$214,448	-5.29%
Utilities	913	3,081,973.3	3,208,134.1	-\$126,161	-3.93%

II. Best and Worst Performing Industries in US

	Worst Performing Industry Groups				
Industry Group	Number of firms	Mkt Cap (3/6)	Mkt Cap (2/14)	Change in Mkt Cap	% Change
Air Transport	17	\$90,846	\$128,708	-\$37,862	-29.42%
Hotel/Gaming	60	\$219,827	\$302,922	-\$83,095	-27.43%
Oilfield Svcs/Equip.	137	\$188,978	\$252,670	-\$63,693	-25.21%
Broadcasting	28	\$65,629	\$87,535	-\$21,906	-25.03%
Insurance (Life)	25	\$149,810	\$193,521	-\$43,711	-22.59%
	Best Performing Industry Groups				
Industry Group	Number of firms	Mkt Cap (3/6)	Mkt Cap (2/14)	Change in Mkt Cap	% Change
Precious Metals	59	54,765.17	48,472.47	\$6,293	12.98%
Retail (Grocery and Food)	10	40,154.88	36,003.74	\$4,151	11.53%
Drugs (Biotechnology)	453	929,451.85	934,115.29	-\$4,663	-0.50%
Tobacco	11	220,620.12	225,648.19	-\$5,028	-2.23%
Utility (Water)	14	46,530.53	48,127.36	-\$1,597	-3.32%

III. Size Classes

						Percentage Change in Stock Prices (Individual Stocks)				
Size Classes	Number of firms	Mkt Cap (3/6)	Mkt Cap (2/14)	Change in Mkt Cap	% Change	First Decile	First Quartile	Median	Third Quartile	Ninth Decile
Bottom decile	4,087	13,525.8	13,207.8	\$318.03	2.41%	-29.63%	-18.83%	-7.73%	0.42%	17.20%
2nd decile	4,085	41,360.1	44,310.5	-\$2,950.42	-6.66%	-26.42%	-17.07%	-7.75%	0.00%	8.46%
3rd decile	4,076	92,845.8	100,366.7	-\$7,520.93	-7.49%	-24.24%	-16.22%	-7.59%	-0.90%	6.00%
4th decile	4,099	181,774.7	192,336.6	-\$10,561.90	-5.49%	-22.86%	-15.08%	-7.68%	-1.67%	3.81%
5th decile	4,083	331,151.4	351,715.3	-\$20,563.88	-5.85%	-22.16%	-15.34%	-7.92%	-2.21%	2.96%
6th decile	4,092	647,722.0	684,941.7	-\$37,219.70	-5.43%	-21.66%	-15.09%	-8.12%	-1.46%	4.96%
7th decile	4,088	1,313,047.0	1,329,875.1	-\$16,828.10	-1.27%	-20.65%	-13.94%	-5.73%	3.66%	13.61%
8th decile	4,086	2,594,616.8	2,682,034.5	-\$87,417.70	-3.26%	-20.38%	-13.44%	-5.12%	5.65%	15.67%
9th decile	4,088	6,474,202.7	6,890,834.3	-\$416,631.60	-6.05%	-21.13%	-14.51%	-7.22%	1.32%	10.72%
Top decile	4,088	71,537,186.6	78,450,853.6	-\$6,913,667.00	-8.81%	-20.59%	-14.88%	-8.95%	-2.55%	3.74%

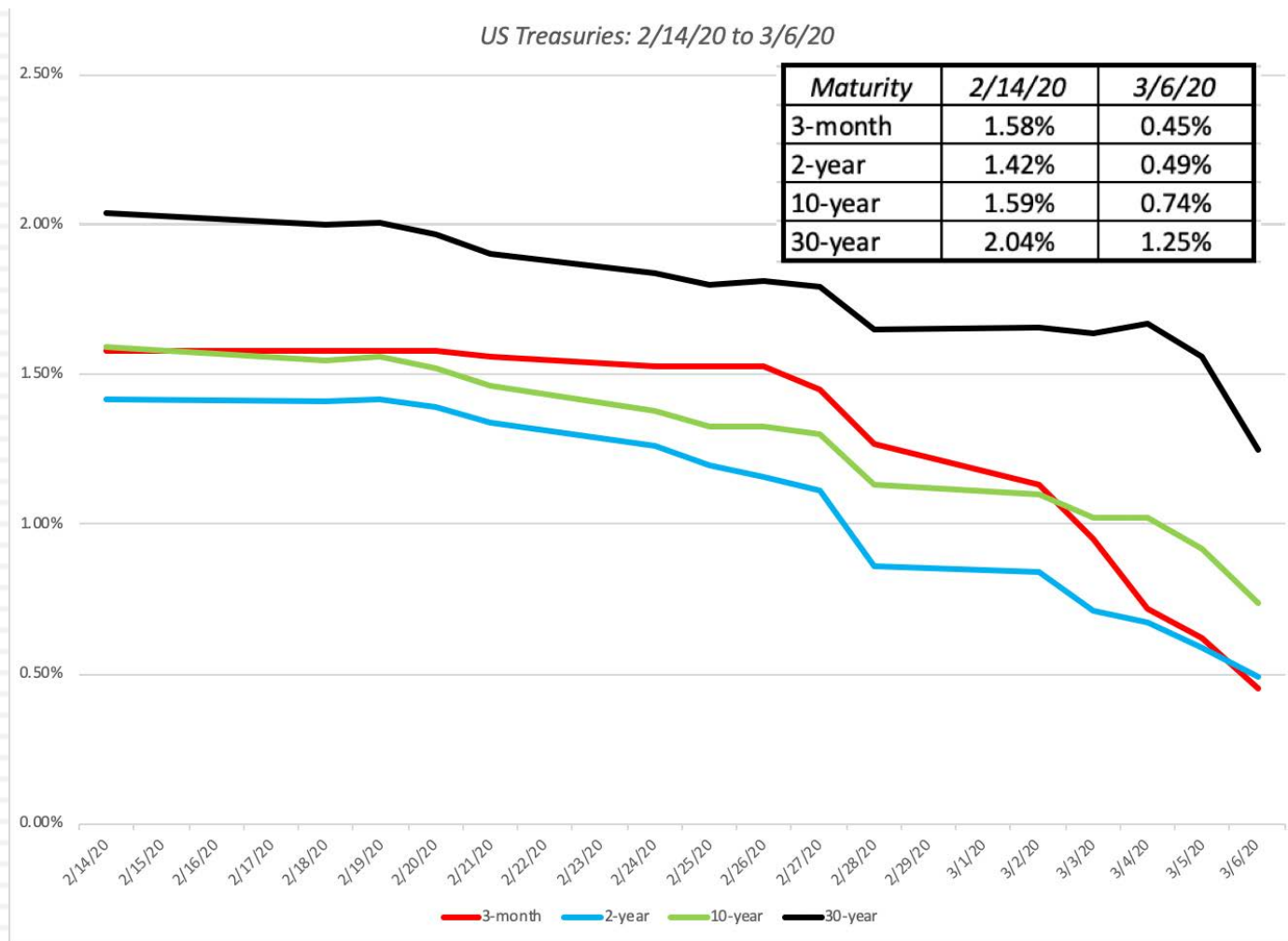
IVa. Momentum Classes

% Price Change in year before 2/14	Number of firms	Mkt Cap (3/6)	Mkt Cap (2/14)	Change in Mkt Cap	% Change
Worst Performers	3,935	\$577,301	\$527,760	\$49,542	9.39%
2nd decile	3,936	\$1,780,900	\$1,822,320	-\$41,420	-2.27%
3rd decile	3,934	\$2,753,831	\$2,917,119	-\$163,288	-5.60%
4th decile	3,937	\$5,251,215	\$5,766,805	-\$515,590	-8.94%
5th decile	3,936	\$5,762,155	\$6,353,406	-\$591,251	-9.31%
6th decile	3,935	\$5,968,156	\$6,707,690	-\$739,534	-11.03%
7th decile	3,936	\$11,068,927	\$12,276,461	-\$1,207,534	-9.84%
8th decile	3,935	\$17,281,432	\$19,090,339	-\$1,808,907	-9.48%
9th decile	3,936	\$19,545,825	\$21,349,685	-\$1,803,860	-8.45%
Best Performers	3,936	\$9,695,887	\$10,314,886	-\$618,999	-6.00%

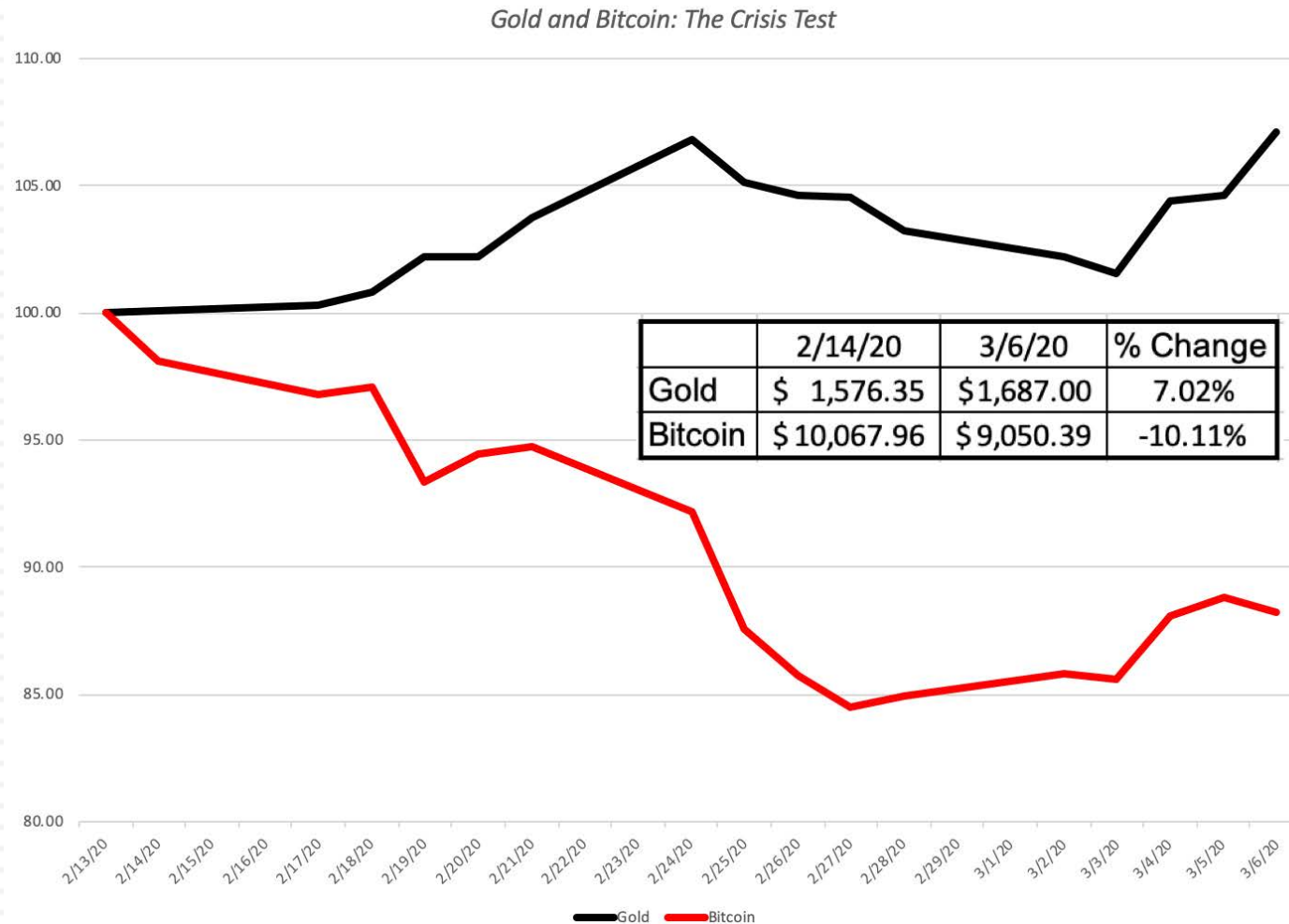
IVb. PE classes

PE Classes	Number of firms	Mkt Cap (3/6)	Mkt Cap (2/14)	Change in Mkt Cap	% Change	First Quartile	Median	Third Quartile
Bottom decile	2,649	2,482,242.9	2,672,189.6	-\$189,947	-7.11%	-14.74%	-7.76%	-1.26%
2nd decile	2,649	4,730,484.9	5,249,246.5	-\$518,762	-9.88%	-14.39%	-7.78%	-1.90%
3rd decile	2,649	5,123,809.7	5,781,038.7	-\$657,229	-11.37%	-14.80%	-8.23%	-2.03%
4th decile	2,650	6,670,968.0	7,486,121.2	-\$815,153	-10.89%	-14.63%	-7.69%	-1.70%
5th decile	2,649	6,323,245.4	7,011,477.4	-\$688,232	-9.82%	-14.37%	-7.66%	-1.38%
6th decile	2,649	9,899,097.2	10,708,272.1	-\$809,175	-7.56%	-13.94%	-7.24%	-0.72%
7th decile	2,650	12,797,866.8	13,792,051.9	-\$994,185	-7.21%	-13.64%	-7.16%	-0.13%
8th decile	2,649	13,465,323.6	14,682,753.9	-\$1,217,430	-8.29%	-13.55%	-6.58%	1.08%
9th decile	2,649	9,657,579.5	10,236,434.8	-\$578,855	-5.65%	-13.05%	-4.69%	4.20%
Top decile	2,650	6,385,498.6	6,806,965.3	-\$421,467	-6.19%	-13.01%	-4.55%	4.65%
Money Losing	18,423	5,838,860.3	6,314,810.4	-\$475,950	-7.54%	-17.99%	-7.86%	0.00%

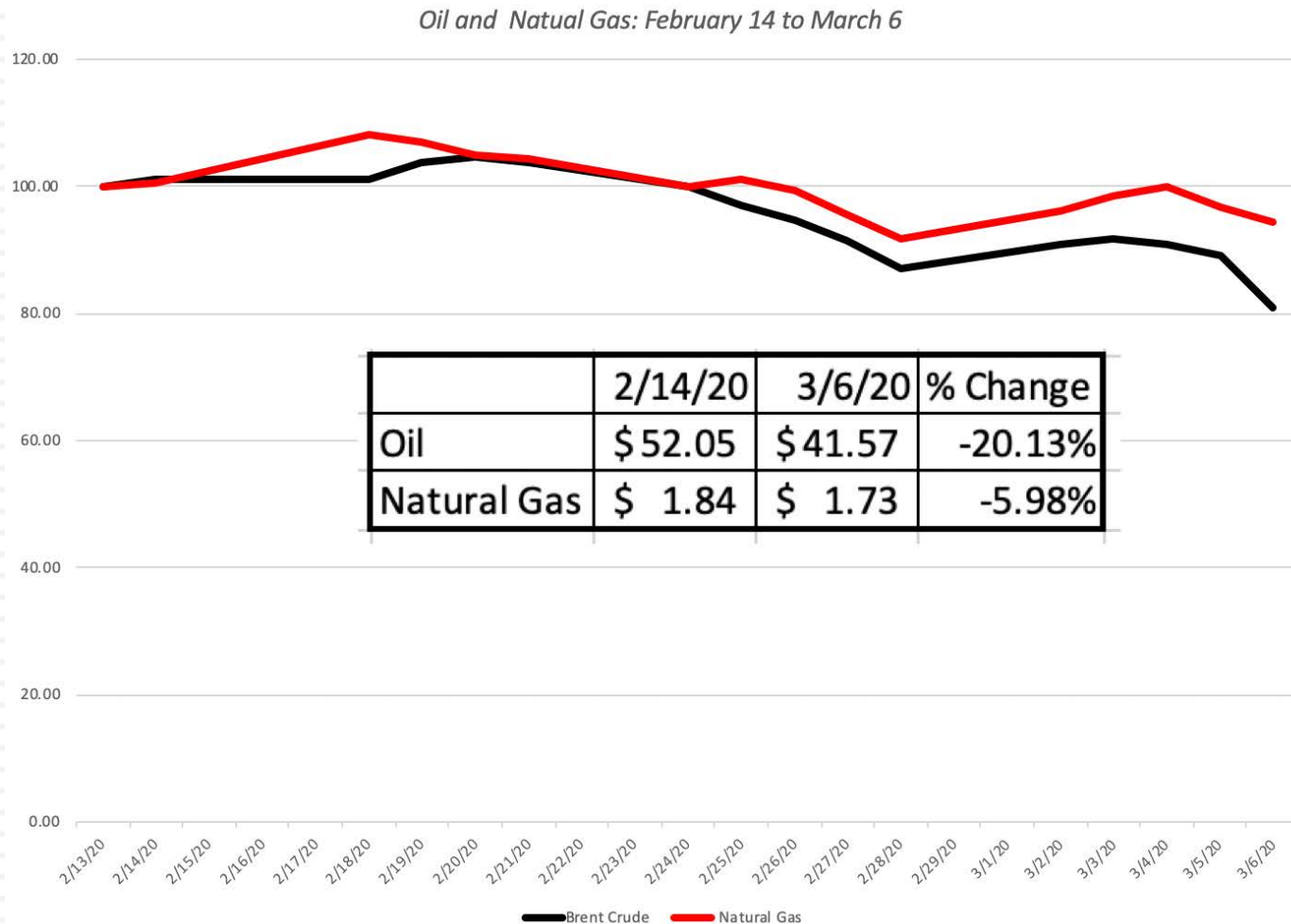
1a. The Rest of the Story – Treasury Rates



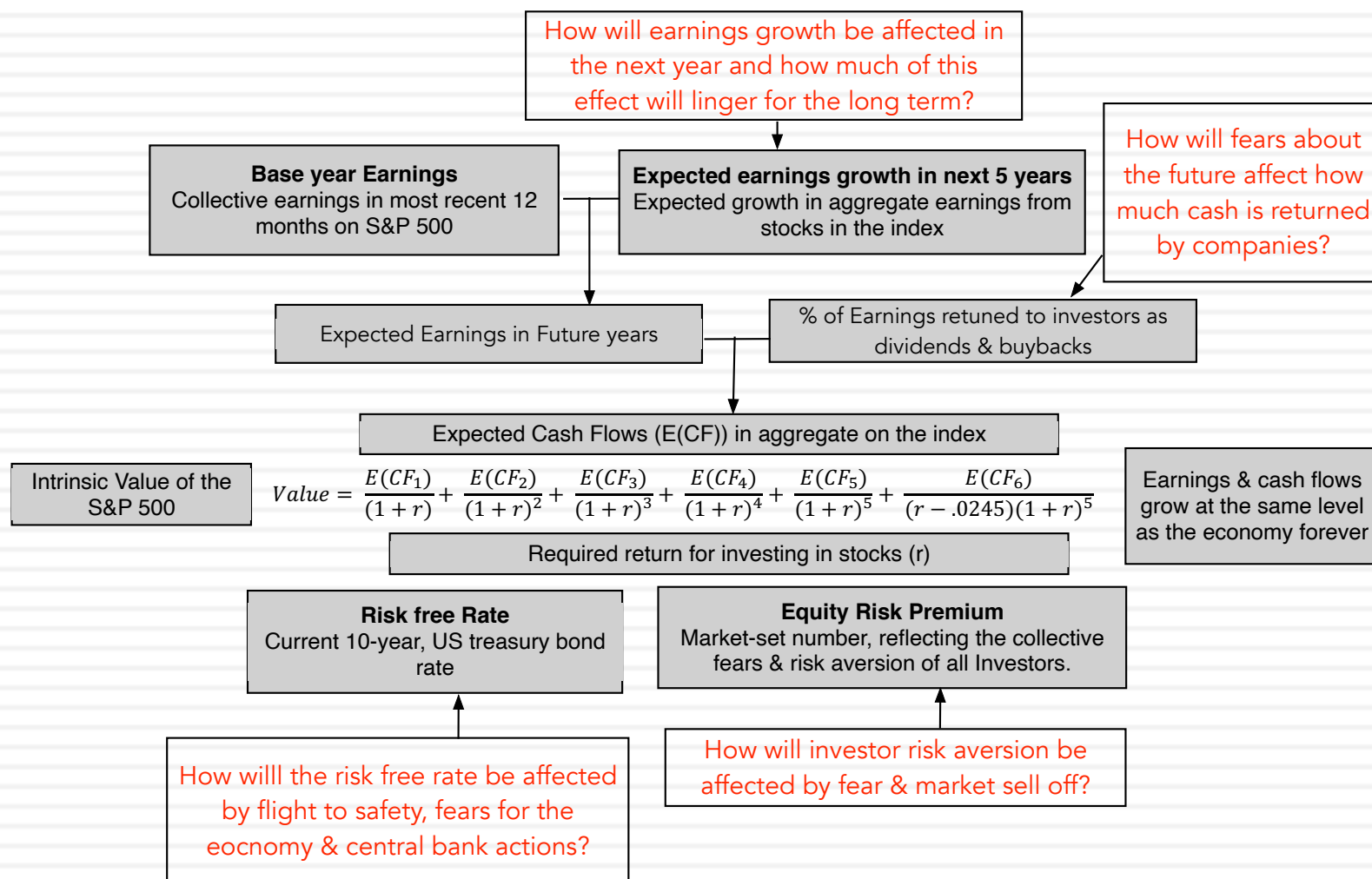
1b. Gold and Millennial Gold (Bitcoin)



1c. Oil and Gas - The Commodity front



Back to Value: Recapping the Drivers



An Earnings Update

Magnitude - Consensus Estimate Trend ⓘ

	Current Qtr (12/2019)	Next Qtr (3/2020)	Current Year (12/2019)	Next Year (12/2020)
Current	42.00	37.00	163.00	163.00
7 Days Ago	42.00	37.00	163.00	163.00
30 Days Ago	42.50	40.00	163.00	172.00
60 Days Ago	42.50	40.00	163.00	172.00
90 Days Ago	42.50	40.00	163.00	172.00

A Revaluation

	<i>Percent of 2020 Earnings drop recouped by 2025</i>				
<i>% Drop in 2020 Earnings</i>	0%	25%	50%	75%	100%
-5.00%	2877.88	2925.64	2973.37	3021.08	3068.76
-10.00%	2726.41	2807.84	2889.20	2970.47	3051.68
-15.00%	2574.94	2690.03	2804.96	2919.72	3034.35
-20.00%	2423.48	2572.20	2720.64	2868.81	3016.75

What to watch for...

<i>Indicator</i>	<i>Good for value</i>	<i>Bad for value</i>
T. Bond Rate	Rises to above 1%: Higher long-term growth	Stays below 1%, and get lower: Lower long-term growth
VIX	Declines: Lower ERP	Stays elevated or increased: Higher ERP
Earnings Guidance	Companies maintain guidance & preserve expected revenue/earnings numbers	Companies continue to withdraw guidance and lowering expected numbers.
Cash Flows	Companies continue to increase dividends & stay with planned buybacks.	Companies announce dividend cuts & scaling back of planned buybacks

And what happens to stocks is less important than...

- As I write this analysis of how the virus can affect stock market values and portfolio returns, I am aware that there is a human toll that it is taking that makes any market effects seem trivial.
- If I were given the choice, I would trade a large market drop for a small loss of lives and a quick passing of the virus.
- At times like these, I am reminded again of the fragility of life and the importance of good health and family. Be well, Godspeed, and please wash your hands!