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Cyclical Companies Drive Rally In Stocks

By Caitlin McCabe
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Shares of economically sensitive companies like manufacturers, energy companies and banks are powering the latest leg of the market rebound.

The industrials and energy sectors logged the biggest gains in the S&P 500 last week, while the financials group also rallied.

It was a rare period of outperformance in what has otherwise been a punishing year for cyclical stocks and marked the first time since early January that industrials were the top-performing group.

Much of the recent optimism in the stock market has been driven by signs of progress toward a coronavirus vaccine, hopes that have propelled the S&P 500 to its highest level since early March. Some traders are betting on effective virus protection by the end of 2020, enabling economic activity to return to prepandemic levels.

Bargain hunters last week scooped up shares that have been beaten down during the pandemic. Boeing Co. surged 15%, Halliburton Co. rose 18% and Bank of America Corp. added 5.7%. All are down at least 35% this year.

Meanwhile, the rally in big **technology** stocks that has fueled the market's gains over the past two months slowed. Netflix Inc., a beneficiary of the lockdown, lost 5.5%.

"It makes sense that people are buying cyclicals on the [vaccine] optimism," said JJ Kinahan, chief market strategist at TD Ameritrade. "But the part that makes me nervous is midmonth in June when most states [are open] . . . I don't know if the reality will be able to keep up with the great expectations that we're seeing right now."

This week, investors will parse fresh data on April consumer spending and the Conference Board's index of consumer confidence for May. Both economic indicators are expected to fall. They will also review earnings reports from home builder Toll Brothers Inc. and apparel maker Ralph Lauren Corp.

The S&P 500 is now off just 8.5% for the year after rallying 3.2% last week and 32% from its late March low. The industrials, energy and financial sectors of the index all remain down 22% or more for the year.

The coronavirus pandemic has brought the economy to a near halt, forcing more than 38 million Americans to seek unemployment benefits as stay-at-home orders have closed businesses and prompted companies to shave their workforces. As a result, consumer spending has plummeted and manufacturing output has slumped. Analysts are projecting record declines in gross domestic product in the current quarter.

Most analysts agree any meaningful recovery in the stock market will be driven by cyclical shares. But when so much remains unknown about the outlook for the economy, many are questioning the viability of the recent rally. A second wave of coronavirus infections, long-lasting economic fallout from stay-at-home orders and escalating tensions with China could send the economically sensitive shares tumbling, they warn.

Any stumbles could propel defensive sectors forward again -- in particular, the health-care, consumer staples and utilities groups that tend to shine in times of turmoil. Since the stock market peaked Feb. 19, the health-care sector has fallen just 4.3%, making it the best performer of the S&P 500's 11 groups.

Analysts say the sector's resilience this year has been twofold. Traders initially flocked to the shares in part because spending on health care, like consumer staples or utilities, tends to be more stable, even when Americans tighten their budgets.

At the same time, the sector has benefited as investors bet on which biotechnology company will be first to find an effective coronavirus vaccine or treatment. Moderna Inc. and Inovio Pharmaceuticals Inc. both said last week that their vaccine candidates showed promise in early trials. The stocks have more than tripled this year.

Gilead Sciences Inc. is also working on a drug to fight Covid-19 and has seen some success, pushing its shares up 13% in 2020.

The stocks are also popular among institutional investors. Global health care remains the most overweight sector among fund managers, according to a May survey conducted by Bank of America Global Research, with managers' net allocation to the sector at an all-time high.

Meanwhile, some of the cyclical sectors that tumbled the most during the selloff have subsequently seen the largest gains off this year's low. Energy shares have recovered the most since stocks bottomed March 23, jumping 60%.

Some analysts and traders, however, caution that some of those gains could be driven by short sellers rushing to cover their bets. Energy stocks have been particularly battered this year as fuel demand plunged from stay-at-home orders and an oil-price war between Saudi Arabia and Russia sent supply surging. A recent curtailment in output and signs of an increase in demand for gasoline have pushed oil prices higher and lifted the shares as well. U.S. crude is up by a third over the past two weeks.

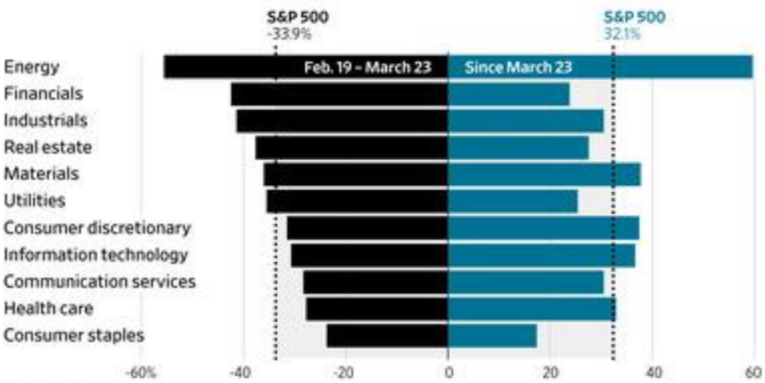
Despite some signs of a brightening economic picture, Liz Ann Sonders, chief investment strategist at Charles Schwab & Co., said she would like to see a stronger rally among financial stocks to bet the tide has turned.

She and others said it would be difficult to achieve meaningful economic recovery without the group, given how intertwined the sector is with the economy. During the nearly 11-year bull market that followed the financial crisis, financials were the third-best performing group, according to Dow Jones Market Data.

Despite last week's gains, the group's rebound from the March low is still among the smallest. Bank stocks, in particular, have been hit hard by the possibility of a surge in loan losses, as well as declining interest rates. The yield on the 10-year U.S. Treasury note settled Friday at 0.659%.

"For me, it's hard to envision a scenario where we are truly getting back on our feet economically with financials being [among] the worst performing sectors," Ms. Sonders said. "It would be very odd that we see the economy recover and not see some participation by financials."

S&P 500 sectors performance



Source: FactSet

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The New York Times

Business/Financial Desk; SECTB

Caught in a Crisis, Big Banks Prepare for Rough Days Ahead

By Emily Flitter and Kate Kelly
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Bank of America, Goldman Sachs and Citigroup, all reporting quarterly earnings, said they had set aside billions of dollars in preparation for loan defaults.

While many other industries are deeply threatened by the coronavirus outbreak, the country's banks are still earning billions, in part because the market volatility it caused was a moneymaking opportunity for their trading divisions.

But the chaos wrought by the pandemic, which has shut down businesses across the country and put millions of people out of work, has them setting aside billions of dollars to prepare for the defaults that lie ahead.

''This isn't a financial crisis,'' Citigroup's chief executive, Michael Corbat, said Wednesday. ''It's a public health crisis with severe economic ramifications.''

To prepare for the fallout, Citigroup and other banks are adding to their reserves -- which is pinching their profits. Citi said Wednesday that it had earned $2.5 billion for the quarter, a 46 percent drop from a year earlier. It added $7 billion to its reserves, bringing its pool to nearly $21 billion.

''While we've built significant loan loss reserves,'' Mr. Corbat said. ''No one knows what the severity or longevity of the virus' impact on the global economy will be.''

Mr. Corbat praised his employees for their efforts to help clients in their time of need, and said the bank was using its largely empty corporate cafeteria to make meals for food banks.

''We know many consumers are facing real struggles, and we're doing our best to support them,'' he said.

Bank of America also announced its quarterly results Wednesday, reporting a profit of $4 billion in the first three months of 2020, down from $7.3 billion a year earlier. The difference came mostly from a $3.6 billion increase in the amount of money the bank set aside for bad loans; the total reserved by the bank during this quarter reached $4.8 billion.

But as bad as the coronavirus has been for most businesses, at Bank of America it triggered a 34 percent surge in revenue from the sales and trading of stocks, bonds and other financial products. That gain was generated during a period when some employees say they have been under pressure to go to the office despite the health risks. Bank of America said in a statement last week that it was ''sparing no expense or consideration taking care of our people.''

At Goldman Sachs, profits fell 46 percent to $1.2 billion, reflecting a set-aside of an additional $937 million for potential credit losses, losses in its asset-management division and a rise in **technology** costs.

But the bank's revenue was essentially flat, helped in part by a 28 percent upswing in trading revenue and a 25 percent rise in investment-banking fees related primarily to direct lending to corporations and help when they raised public money through the bond and stock markets.

The chiefs of major U.S. banks testifying in Washington on Wednesday. (PHOTOGRAPH BY SARAH SILBIGER/THE NEW YORK TIMES)

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The New York Times

Foreign Desk; SECTA
In a Scramble, Businesses Vie For U.S. Loans

By Stacy Cowley and Emily Flitter
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1
English

A $349 billion program to throw them a financial lifeline got off to a rocky start on Friday as the U.S. economy continued to seize up.

The frenzy began even before most banks opened. By 9 a.m. on Friday, banks had already processed 700 loans totaling $2.5 million for small businesses as the spigot opened on a federal emergency relief program. But that was just the beginning. By early afternoon that number had ballooned to $1.8 billion. And by evening it was $3.2 billion in loans that will go to more than 10,000 small businesses desperate to save themselves.

It was all part of a scramble by small businesses around the country to stay alive by grabbing a piece of a Treasury Department program to pump $349 billion into the sputtering U.S. economy. Small businesses, which employ nearly half of America's private-sector workers, are hemorrhaging, and the loans are meant to help them retain employees or rehire those they let go because of the coronavirus pandemic.

But business owners found that applying for the money was harder than they had anticipated. Lenders had received guidance from the Treasury Department only the night before, just hours before they were to start making loans. On top of that, banks imposed their own rules on which businesses could and couldn't borrow. And many lenders, including JPMorgan Chase, the nation's largest, didn't have their websites ready for borrowers until later Friday.

For small-business owners, many of whom have run out of cash to pay salaries and rent, time was everything. Fearful that the money will run out -- Treasury Secretary Steven Mnuchin said the loans would be on a first-come, first-served basis -- they flooded banks with calls and emails as they tried to get to the front of the line.

''I've been up all night,'' said Jeremy Resnick of Jacksonville, Fla., who runs several businesses, including a real estate brokerage and a chain of ice cream stores. ''They put out these rays of hope for people, and the reality behind it isn't there.''

The frenzy played out against the backdrop of yet another grim unemployment report. On Friday, the Labor Department said employers shed 701,000 jobs last month -- the biggest monthly drop in more than a decade, ending a landmark 113 months of job creation. And nearly 10 million people applied for unemployment benefits over the previous two weeks.

Some of their former employers view the relief program, called the Paycheck Protection Program, as a potential lifeline. Companies with fewer than 500 workers have slashed millions of jobs in recent weeks as restaurants, bars, retailers and other Main Street businesses across the country were ordered to shut their doors.

The program offers such companies loans of up to $10 million, which can be forgiven if the business uses the money to retain workers for eight weeks or rehire for positions it cuts in the wake of the pandemic. The Small Business Administration is backing the loans, but customers must apply through banks or other lenders.

Bank of America was the first big bank to begin taking applications, and it had around 10,000 by early Friday, Brian Moynihan, the bank's chief executive, said on CNBC. By evening, its loan requests totaled $22 billion, a spokesman said.

But many Bank of America customers were dismayed to find that the lender would not work with them because they had only accounts, and not loans, with the bank. The bank said it was accepting applications only from customers who had both ''a pre-existing business lending and business deposit relationship'' as of Feb. 15.

That eliminated Tamara Alexander and her business in Houston, which provides behavioral therapy for children with autism. With 13 employees, Ms. Alexander is struggling to stay afloat with just a trickle of clients who can connect over video chat.

She went to her Bank of America branch Friday morning with high hopes. But although her banker had assured her the day before that she could get a loan, she was told that only those with an existing loan or credit card would be eligible.

''We kind of bootstrapped our way to our business -- thankfully we haven't needed to acquire any debt,'' Ms. Alexander said. ''The one bit of help we need, we can't get. And coming from our own bank, it's just so stressful.''

Dean Athanasia, the head of Bank of America's consumer and small business group, sent a memo to employees on Friday pledging to ''enhance'' the program soon ''to accommodate more and more of our small-business clients.''

But even customers with previous loans were struggling. Melissa Perri, who runs a software consulting firm, ProdUX Labs, in New York that employs six people, has for years had a business bank account and a $42,000 line of credit with Bank of America, she said. But when she tried to apply on Friday, she got a message that said she was denied because she didn't have a credit card.

''I was pretty frustrated,'' she said. ''I said: 'I have multiple accounts with you, and I've been banking with you for years. How is this possible?'''

Bank of America said on its website that a ''business credit card, line of credit or loan'' would all qualify. That should have made Ms. Perri eligible. A spokesman said the bank would look into her case.

Other large banks imposed similar requirements.

JPMorgan Chase said it would take applications only from people who had a business checking account with the bank as of Feb. 15. A notice on Wells Fargo's website said it, too, required an existing business checking account. Citi has not yet announced its rules; a spokesman said it was reviewing the program's rules and planned to start accepting applications ''as soon as possible.''

Hundreds of business owners complained on Twitter that they were ineligible for their bank's program or that it had not yet started accepting applications. The National Federation of Independent Business said many feared they would be shut out of the aid effort.

''This has the potential to be the last straw for many small businesses and their employees,'' it said.

Adding to the pressure: Many expect the program's $349 billion lending pool to run out unless Congress allocates more money. ''If we run out of money, we're going to go back to Congress and get more money for small business,'' Mr. Mnuchin said on the Fox Business Network on Friday.

The Treasury Department had hoped to bring nonbank lenders into the program, but as of Friday, the government had not even released an application that would let financial **technology** companies apply to participate, industry executives said.

Stephen D. Steinour, the chief executive of Huntington Bank, a lender in Columbus, Ohio, said his staff had worked all night to get the bank's website ready to start taking applications online by late Friday afternoon.

Mr. Mnuchin said banks would be able to approve applications and send borrowers money ''the same day.'' Mr. Steinour said he thought a same-day turnaround would be possible in a few weeks, but not immediately. He expects to have his bank's first batch of approvals -- and borrowers' checks -- ready by early next week.

Lenders struggled with operational issues throughout Friday.

Chase's website for the program returned error messages at times in the morning, leading many aspiring applicants to assume it was overwhelmed with traffic.

A Chase spokeswoman said that the site had not crashed and that it was taken offline for updates. The bank started accepting loan requests shortly after 1 p.m.

One would-be borrower was Anne Lanier. She and her husband had been working the phones since Thursday looking for a bank to lend them $11,000 to keep paying the five employees of their Brooklyn bar, Black Rabbit, which closed on March 16.

Without immediate help, the couple will be out of business. But the last time they borrowed money for the bar was 13 years ago, from a local bank that has long since discarded the paperwork.

Lenders that Ms. Lanier found on the S.B.A.'s website said they were dealing only with existing customers. The couple turned to Chase, which provides them a business checking account. On Friday afternoon, they submitted a preliminary loan request with their business name, tax identification number and contact information, and received a message saying a Chase representative would contact them. At the time of this article's publication, they were still waiting.

Some of the features that were supposed to make it easier for banks to quickly ramp up lending through the program may actually make it harder for people who need the money to get it.

Participating banks are protected from liability for some things that regulators would normally punish them for, like not performing a thorough-enough background check on a borrower who later turns out to be a criminal. But they aren't completely exempt from having to look into customers' profiles, and one way they can avoid having to do too much extra paperwork is to lend only to existing customers.

That barrier is causing problems for small businesses that have not borrowed money recently. It is an even bigger problem for minority-owned businesses, which struggle even in good times to get banks to lend to them.

''Small-business lending already has a discrimination problem,'' said Amanda Fischer, the policy director at the Washington Center for Equitable Growth.

Another fear is that the program will be overrun by fundamentally healthy businesses eager to have the government cover up to two months of their payroll costs. Borrowers don't have to document a hardship like a sharp sales drop; they simply have to affirm that ''current economic uncertainty'' makes the aid necessary to support their ''ongoing operations.''

Despite the paycheck program's chaotic start, Mr. Steinour of Huntington Bank said he hoped it would play a vital role in salvaging tens of thousands of businesses that would otherwise collapse.

''This is an extraordinary program, and to have it all put together in a week was a phenomenal, around-the-clock effort,'' he said.

Alan Rappeport and Nathaniel Popper contributed reporting.

Melissa Perri was denied a loan from Bank of America on Friday despite already having a business account and a line of credit there. (PHOTOGRAPH BY SARA NAOMI LEWKOWICZ FOR THE NEW YORK TIMES) (A14)

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