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*Stimulus talks are in focus. Two Covid trials were paused. Big week ahead for earnings. Some firms are preparing clients for a “blue wave.”*

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## The Hot List

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### 1. Coronavirus (last week: #1)

Johnson and Johnson paused all clinical trials (<https://www.npr.org/sections/coronavirus-live-updates/2020/10/13/923225994/johnson-johnson-vaccine-trial-paused-due-to-unexplained-illness-in-participant>) of its vaccine after a participant had an “unexplained illness.” Less than 24 hours later, Eli Lilly decided to pause a study

(<https://www.npr.org/sections/coronavirus-live-updates/2020/10/13/923225994/johnson-johnson-vaccine-trial-paused-due-to-unexplained-illness-in-participant>) on its antibody treatment. These pauses will result in delays as they investigate safety concerns.

Europe set a record for new COVID-19 infections ([https://www.washingtonpost.com/world/europe/covid-europe-records/2020/10/15/0126c256-0ee7-11eb-b404-8d1e675ec701\\_story.html](https://www.washingtonpost.com/world/europe/covid-europe-records/2020/10/15/0126c256-0ee7-11eb-b404-8d1e675ec701_story.html)) and now has more cases per capita than the United States. In the past ten days, Europe has recorded a million new cases. New lockdowns and stricter social distancing policies are starting to take place across Europe. This article from the BBC

## 2. Federal Reserve/Stimulus (last week: #2)

(<https://www.investors.com/news/economy/federal-reserve-meeting-wall-street-expects-yield-curve-control/>)

After the White House proposed a \$1.8T stimulus package, Senate Majority Leader McConnell disagreed and proposed a bill (<https://www.cnn.com/2020/10/15/politics/donald-trump-nancy-pelosi-stimulus-coronavirus/index.html>) of his own for \$500B. He stated he has no plans to bring any package to the floor of \$1.8T or more. After McConnell offered his \$500B proposal, President Trump tweeted (<https://finance.yahoo.com/video/trump-stimulus-big-home-204451065.html>) “go big or go home.”

Treasury Secretary Mnuchin said later in the week the White house was willing to make additional concessions to their \$1.8T proposal for Speaker Pelosi. He said this is an effort to try to get a deal done before the election.

## 3. Election (last week: #3)

Some major Wall Street firms have started increasingly advising their clients (<https://www.cbsnews.com/news/wall-street-predicting-2020-election-democrat-blue-wave-biden/>) to prepare for a “blue wave” next month. This scenario would put Biden in the White House and give democrats the majority in both chambers of Congress.

## 4. Earnings (last week: unranked)

With the markets back near their highs, company earnings will be the focus to hopefully glean insights into various areas of the economy. This week investors will hear from highfliers like Netflix and Tesla, as well as traditional ones, like AT&T and Coca Cola.

## 5. Unemployment (last week: #4)

New claims for unemployment benefits jumped again last week, with 886,000 workers filing. These claims have as a result of large employers (<https://www.nytimes.com/live/2020/10/15/business/us-economy-coronavirus#in-paris-and-london-tighter-virus-rules-bring-worries>), like Disney, Allstate and United Airlines, who have laid off tens of thousands of workers in the last month.

## 5. Infrastructure (last week: #5)

Infrastructure Should become a topic in the election too. Both sides agree that they want an infrastructure bill, but what it looks like could be different.

Here’s (<https://www.whitehouse.gov/briefings-statements/building-stronger-america-president-donald-j-trumps-american-infrastructure-initiative/>) a look at Trump’s infrastructure plan. Here’s (<https://joebiden.com/clean-energy/#>) a look at Biden’s

## Last Week



**Monday:** S&P 500 jumped 57.08 (+1.64%) to 3534.22. Tech stocks lead the way. Markets focus on stimulus.

**Tuesday:** S&P 500 dropped 22.46 (-0.64%) to 3511.76. Markets fell. Negative vaccine news released.

**Wednesday:** S&P 500 dropped 23.26 (-0.66%) to 3488.67. Stimulus talks in focus. Mnuchin says it will be “tough to get deal done by election.”

**Thursday:** S&P 500 dropped 5.33 (-0.15%) to 3483.34. Weekly jobless claims were worse-than-expected.

**Friday:** S&P 500 was up 0.47 (+0.01) to 3483.81. Q3 Retail sales stronger-than-expected.

## Technical Look



The S&P 500 continued to hold the 3400 level as it broke out of the 3200-3400 trading range. The index could be forming a new range from 3400-3600, if it remains above 3400. Continue to look for 3400 to hold as support. To the upside, the previous highs near the 3600 level should be the next technical resistance.

## My Takeaway

Markets remain near historic highs while so much of the economy is in shambles. The economy is recovering slowly, but recovering nonetheless. I'm not sure if it deserves to be trading near all-time highs, based on all the news we are getting. It certainly appears there is more downside than upside at this point.

This leads me to my main point: I think low rates and an unlimited Fed backstop are driving these gains. There aren't many good investment alternatives to stocks. If you could get a decent rate on a CD, I do not think investors would be taking quite the level of risk that they are now.

It seems clear the Fed wants inflation badly. This is bad news for cash. It's also bad news if you are in a bond fund that moves on the price of bonds. So, I think investors are willing to pay a higher multiple for stocks. The question is how much higher.

The economy is facing increasing COVID-19 cases as we head into flu season. The headlines around the election are going to be wild. Unemployment remains elevated. However, rates are near zero and your cash will be worth less in a few years if you put it under your mattress. I believe this is the predicament that most investors are facing.

As far as the outcome of the election, I wouldn't make any bold moves based on who you think will win. Remember the Trump trade was supposed to be financials and energy due to deregulation, and those have been the worst performers by far.

My plan is to continue positioning for upcoming volatility as we approach the election. It would be smart to raise cash and have extra gunpowder to deploy as opportunities present themselves. I still think gold remains a smart play, not only for its value against inflation, but it can also act as a safety trade.

Earnings this week will give us a sneak peek into what we should expect for Q3 earnings. I think certain pockets of tech look attractive where there are social trends. India remains a favorite of mine, as I think their economy is on the rise. Finally, I still think you add to infrastructure, since both candidates will likely push a bill forward.

Remember, investors have different goals and risk tolerances. What may be right for you, may not work for others. If you need help finding your own personal strategy during these turbulent times, contact DreamWork Financial Group (<https://dreamwork.financial/contact/>) and let us develop your Investing Gameplan™ today.

Until next time,

Clint Kirby

Chief Financial Strategist

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