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Coronavirus fears have impacted the markets. Bernie Sanders takes the lead in Democratic Primaries. Are we in the middle of a Mega-Cap Tech bubble?

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The Hot List

↑ HOT

Coronavirus

As cases continue to increase around the globe, coronavirus has now fully scared investors. Initially, it was thought this would just be a short-term thing, but now companies are starting to revise earnings due to the impact. From supply chain disruption, to lower consumption of US goods, pain related to the coronavirus will spread throughout markets IF they don't get a handle on this soon.

Election:

With 3 of the Democratic Primaries down, Bernie Sanders has emerged as a clear front runner. His progressive nature has Wall Street on edge. The markets hate uncertainty and Sanders' policies would be a big shift from where we are now.

Mega-cap Tech:

The five biggest tech companies make up almost 20% of the S&P 500, which is the index most used in passive investment vehicles and 401(k)s. If something were to disrupt these handful of stocks, it would have a large effect on the overall market.

Oil Prices

Oil prices were falling prior to the coronavirus outbreak and have started to escalate. Now it is at a breaking point where oil producers have trouble making money. If they keep falling, oil companies may start to default on debt, which could weigh on banks and trickle into the rest of the economy.

Federal Reserve:

Recent Fed minutes show that officials believe the current interest rate policy is "likely to remain appropriate for a time." The markets are starting to price in at least one Fed cut now with renewed worries over global slowdown from coronavirus.

Trade War:

Earlier this month China cut tariffs on $75 billion of U.S. goods. This was in reciprocation to the Trump administration cutting the tariffs in half on $112 billion in Chinese goods. This shift came after the signing Phase One of the trade deal, where President Trump agreed to lower some of the tariffs on Chinese goods.

However, with China dealing with the coronavirus, I am not sure how much more progress we will see in the near future. But then again, knowing President Trump he may try to use the situation to his advantage.

Last Week

(https://dreamwork.financial/wp-content/uploads/Hotsheet-chart2-2-24.png)

Monday: President's Day, markets closed.

Tuesday: S&P 500 down 9.87 (-0.29%) to 3370.29. Apple warns on revenues due to coronavirus. Walmart earnings disappoint.

Wednesday: S&P 500 up 15.86 (+0.47%) to 3386.15. Markets hit all time highs. Building permits jump to highest level since 2007. Fed minutes show that they believe current policy "likely to remain appropriate for a time."

Thursday: S&P 500 down 12.92 (-0.38%) to 3373.23. Morgan Stanley buys E-Trade for $13 billion. Coronavirus fears escalate as South Korea cases surge.

Friday: S&P 500 down 35.48 (-1.05%) to 3337.75. U.S. business activity contracted for first time since 2013. 30-year yield hits record low.

Monday: S&P 500 down 111.86 (-3.35%) to 3225.89. Coronavirus spreads globally.

Technical Look

(https://dreamwork.financial/wp-content/uploads/Hotsheet-Chart-2-24.png)

From the chart you can see the the clear melt up with any dips being supported by either the 20-day or 50-day moving averages. However, Monday's plunge has broken through both support levels to put us back at essentially even for the year. The next few days will give us new technical information that should help ascertain whether this market can get back above support levels or if these levels will become future resistance.

My Takeaway

It is no secret that I have been skeptical of this latest market melt up. Coronavirus is definitely a major concern but I personally feel that this market was looking for a reason to pull back. Earnings have been solid but it appears much of the run up has been from multiple expansion (paying higher prices in relation to earnings). With interest rates low and so much liquidity out there, it is no surprise that money has been flocking to risk assets, like stocks. Until now, the playbook has been to buy the dips because the Fed has the market's back. However, these riskier trades work, until they don't, and risky investors just got popped in the mouth.

Technical damage has been done, and now that the froth has come off, we are about to see just how strong this market really is. I definitely wouldn't make any hasty moves based solely on the coronavirus, as this could be a non-event in a few months. But, you should revisit your current allocations and risk levels. Without a rebound in the next few sessions, the bears could take full control.