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Coronavirus panic has fully erupted leading to the worst week since the financial crisis. Technical damage has been done. What should investors do now?

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The Hot List

↑ HOT

Coronavirus

Novel Coronavirus fears have erupted into full blown panic. The virus has officially been named Covid-19, and cases have spread to the US and across the globe. Markets appear to be assuming the worst-case scenario which could include major supply chain disruptions and a global pandemic forthcoming.

While this is scary and troubling, there is a chance that the fears could be overblown. Starbucks has actually reopened most of their China stores as the number of new infections is falling.

If we get positive news on containing the virus or additional financial stimulus from global central banks, the markets could get a nice bounce.

Election:

Joe Biden has gained some momentum on front runner Bernie Sanders after a large victory in South Carolina. With Super Tuesday coming up this week, we will really start to see how things are shaping up. Sanders is seen as a much more drastic change for Wall Street than Biden. So, Biden's momentum could possibly be seen as a positive for stocks.

Federal Reserve:

The Fed appeared to be in a pretty comfortable spot until the coronavirus hit. Fed Chair Powell now vows that they will use their "tools" as they may get more aggressive to keep the economy rolling. It's debatable how much impact a rate cut could have, but it certainly shouldn't hurt.

Mega-cap Tech:

The fact that the five biggest companies made up 20% of the S&P 500 was enough to make me nervous. But with markets in correction mode, this scenario has sharpened the selloff. Tech company stocks move more than the average stock, so when times are good, you can see large gains. But when things turn bad, these stocks can get hit harder than the average stock.

Oil Prices

Oil prices were falling prior to the coronavirus outbreak but have now started to escalate. Prices seem to be approaching a breaking point where oil producers could have trouble making money. If prices keep falling, oil companies may start to default on debt, which could weigh on banks and trickle into the rest of the economy.

Trade War:

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

However, with China dealing with the coronavirus, we may not see a great deal of progress in the short-term.

Last Week

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

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

Tuesday: S&P 500 down 97.68 (-3.0%) to 3128.21. **Coronavirus panic.**

Wednesday: S&P 500 down 11.82 (-0.4%) to 3116.39. **Coronavirus panic.**

Thursday: S&P 500 down 137.63 (-4.4%) to 2978.76. **Coronavirus panic.**

Friday: S&P 500 down 24.76 (-0.8%) to 2954.22. **Coronavirus panic.**

Technical Look

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

From the chart you can see the the clear melt up with dips being supported by either the 20-day or 50-day moving averages. However, the recent plunge has broken through all recent support levels. If we can get back above the 200-day moving average, we could start to put in some nice support. However, if the markets continue to free fall, I would expect to see some support around the 2800 level, which has served as a very significant technical level in the past.

My Takeaway

The past week was the worst for stocks since the financial crisis. Markets appear to be preparing for a pandemic as full-fledged panic broke out last week. It's obvious that companies are going to have to revise earnings due to the coronavirus. However if global supply chains remain disrupted for an extended period, that could hurt result in more than just a quarter or two of lower revenues.

In my opinion, the selloff wasn't completely due to coronavirus. Stocks were acting a little "bubbly" to start the year, and frankly the markets were overdue for a correction – which would hopefully help investors to respect risk again. Now that the froth has come off the market prices, investors have a chance to buy at levels that haven't been seen in a while.

I often reference a quote by legendary investor Warren Buffett, and this week it rings especially true to me: "Be greedy when others are fearful, and fearful when others are greedy."

We witnessed the greed to start the year, now we are witnessing the fear. While things are certainly scary and could get worse, there is a chance that this panicked selloff is actually a gift to disciplined investors. After all, knowing the tendencies of President Trump to double-down on self preservation, he may try to use the situation to his advantage.