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Coronavirus continues to dominate headlines, Biden surges on Super Tuesday, Oil prices take a dramatic plunge. What should investors make of this?

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The Hot List

↑ HOT

Coronavirus

Covid-19 (coronavirus) fears continue to run rampant across the globe with over 100,000 cases worldwide. It has also shown up here in the United States with 300 known cases as of this writing.

The good news is that it doesn't seem quite as deadly as initially thought. However, the bad news is that we could be at least a year a way from a vaccine.

As we expected, central banks did provide stimulus in an attempt to ease worries. And in China, the rate of new cases has declined, leading to 60% of it factory production coming back online. But while things may be getting better for China, they seem to be **getting worse for Italy, Iran and the rest of the world (https://www.bbc.com/news/world-middle-east-51787238)**.

Oil Prices

Oil prices have been on the decline for a while, and now pandemic worries have put them in full free fall. OPEC held a meeting to try to stop the bleeding. But they failed to reach a deal and **prices have fallen sharply (https://www.reuters.com/article/us-global-oil/oil-prices-plunge-hit-by-erupting-saudi-russia-oil-price-war-idUSKBN20V131)**.

This scenario has become a double edged sword as low prices will provide consumers with a form of stimulus. But oil companies may start going under as they will no longer be able to turn a profit or meet their debt obligations. If this happens, we may start to see some pain in the high-yield bond market, as oil producers make up a large percentage of it.

Election:

Joe Biden gained a big victory on Super Tuesday which contributed to Wednesday's rally. It was largely led by insurers and healthcare as he is favored by those industries as opposed to Sanders.

Sanders is also seen as a more drastic change for Wall Street than Biden. So, Biden's momentum is currently seen as a positive for stocks.

Federal Reserve:

The Fed succumbed to market pressures and issued an emergency .50% rate cut. This was the first emergency cut since the financial crisis in 2008. It didn't quite have the market shock they'd hoped for, primarily because they telegraphed it beforehand. On top of that, the move was seen as a sign of weakness – leading to further panic.

Lastly, the move was questionable in my opinion. That is because it doesn't fix the inherent problem of stopping the pandemic. Now, fittingly enough, the market is expecting yet another rate cut at the next meeting.

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.

Trade War:

Phase Two talks have really taken a backseat to the coronavirus. So, we probably won't see a great deal of progress in the short-term.

Last Week

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

Monday: S&P 500 up 136.01 (+4.6%) to 3090.23. **Relief rally, expectation of rate cut.**

Tuesday: S&P 500 down 86.86 (-2.8%) to 3003.37. **Fed uses "emergency" rate cut of .50%, lifted markets for 15 minutes.**

Wednesday: S&P 500 up 126.75 (+4.2%) to 3130.12. **Biden wins big on Super Tuesday, IMF stimulus, 60% of China production capacity back online.**

Thursday: S&P 500 down 106.18 (-3.3%) to 3023.94. **More uncertainty worries**.

Friday: S&P 500 down 51.57 (-1.7%) to 2972.37. **Strong jobs report, OPEC failed to reach deal, oil down 8%.**

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 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 “froth” has now completely come off the market. It is clear that companies will have to revise numbers downward to account for the coronavirus. However, this selloff has taken pretty much every single sector down. This factor has really caused investors to scratch their heads. Is the market overreacting and “throwing the baby out with the bathwater?” Or is this selloff justified where we are entering a recession sparked by a black swan scenario?

We sit at a clear crossroads where technical damage has been done. Momentum is to the downside and there seems to be more negative headlines printed by the day. On the flip side, low mortgage rates and oil prices should help boost consumers as the world is dealing with a possible pandemic.

If we get some positive news on slowing the coronavirus, there is a real chance we could see a V-shaped recovery, sending stocks screaming back to all-time highs. After all, the economy still is showing plenty of strength as we just posted a very strong jobs report. However, if headlines continue to get worse, we could essentially talk ourselves into a recession. If this happens, it will take some time before markets start to consolidate and begin the bottoming process.

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