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Markets experience a relief rally on the back of massive stimulus. The oil price war continues. What does this mean for your investments?

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The Hot List

↑ HOT

Coronavirus

The U.S. has the most COVID-19 cases in the world and is now the epicenter of global outbreak. Sunday, President Trump **extended the social distancing guidelines (https://www.usatoday.com/story/news/health/2020/03/29/coronavirus-update-donald-trump-cdc-travel-advisory-nypd-deaths/2918869001/)** until April 30th, which is later than his goal of having the country open by Easter. This new timeline comes as the death toll is really starting to climb. Dr. Fauci says 100 -200K could die before this crisis is over. We are in desperate need of testing to determine who can go back to work. Just yesterday, the **FDA greenlighted (https://www.usatoday.com/story/news/health/2020/03/28/coronavirus-fda-authorizes-abbott-labs-fast-portable-covid-test/2932766001/)** a COVID-19 point-of-care test from Abbot Labs that could give results in 5 minutes. This on the heels of news last week from Cepheid and Mesa Biotech that also received clearance for other tests with results in 45 minutes.

Stimulus

The Fed has shown that it is willing to **do whatever it takes (https://www.federalreserve.gov/newsevents/pressreleases/monetary20200323b.htm)** to support the economy. In The Fed's statement, Central Bankers indicate they are using their "full range of authorities to provide powerful support" for US families and businesses. Earlier this week, the Fed had announced it would buy assets "in the amounts needed" to support the economy in what some are calling QE-infinity. This comes on top of slashing rates to near zero earlier this month, increasing the scale of repurchase agreements as well as many other measures to increase liquidity and spur lending from banks.

The government also came together in a bipartisan way to approve the **$2 trillion Coronvirus relief bill (https://www.npr.org/2020/03/26/821457551/whats-inside-the-senate-s-2-trillion-coronavirus-aid-package)**. This was passed as an effort to keep American consumers and business afloat during this "freeze" on the US economy.

One move by The Fed was unexpectedly met with complications (https://www.cnbc.com/2020/03/29/mortgage-bankers-warn-fed-purchases-of-mortgages-unbalanced-market-forcing-margin-calls.html). In an effort to suppress mortgage rates, they purchased about $183 billion in mortgage backed securities [MBS] on the open markets last week. This was a move that had been supported by the Mortgage Bankers Association, until there were unintended side effects. As it turns out, the impacts of massive intervention into markets isn't always cut and dry. The Feds aggressive purchasing of these MBS worked to suppress mortgage rates, however it put major pressure on a hedge that was intended to protect mortgage holders from increasing rates. This has resulted in a groundswell of margin calls which threaten to upend the mortgage market.

It looks like the market is getting the nuclear response it was hoping for. Now it's just a question of how many rounds they are willing to go. And, will it work?

Oil Price War

Saudi Arabia has **recently reiterated (https://www.aljazeera.com/ajimpact/saudis-bowing-trump-admin-pressure-oil-price-war-200327195527029.html)** that it is not in talks with Russia to stabilize oil prices. This is despite rising pressure from the Trump administration to call a truce in the price war. In fact, Saudi has pledged to pump oil next month at record levels.

With plunging demand worldwide due to the coronavirus forces lockdowns, this is the worst time for a price war to be occurring in the energy markets. Let’s hope this gets straightened out soon and helps to reduce some of the current volatility we are facing.

Corporate Debt

As interest rates hit record low levels after the financial crisis, corporations borrowed lots of debt to help boost profitability. And while this use of leverage can be rewarding in strong economies, the abundance of debt can punish during downturns.

In a downturn like we are seeing, the bankruptcies will be inevitable. There will be obvious damage to airlines, cruise ships, energy companies, restaurants, malls and many more industries. There will be ripple effects throughout the economy. In times like this, companies with strong balance sheets and little debt will be rewarded, while competitors with weaker balance sheets may start to fold.

Election

The election is starting to take shape, and it appears it will be Biden versus Trump. Biden is seen as a much less drastic change than Sanders, so markets appear to not be as worried about the election as it had been. If Sanders is able to surge in the near term, the election coverage could grab the markets’ attention again. But with everything else going on, this probably isn’t going to drive markets anytime soon.

Last Week

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

Monday: S&P closed down 67.52 (-2.9%) to 2237.40. Fed announces unlimited bond buying (QE). Stimulus bill falters.

Tuesday: S&P closed up 209.93 (+9.4%) to 2447.33. Stocks up on rescue package hopes.

Wednesday: S&P closed up 28.23 (+1.2%) to 2475.56. $2 trillion coronavirus stimulus agreed upon.

Thursday: S&P closed up 154.51 (+6.2%) to 2630.07. Jobless claims surge to record 3.28 million.

Friday: S&P closed down 88.6 (-3.4%) to 2541.47. House approves and Trump signs $2.2 trillion stimulus bill. Consumer sentiment drops.

Technical Look

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

As we have mentioned the last few weeks, technical damage has been done. Most charts can be thrown out the window since most support and resistance has been thrashed.

The levels of importance to me would be 2400, which is basically the Christmas 2018 low and then Monday's low of 2200. I wouldn't be surprised to see a retest of the lows as testing and number of cases ramps up. If we break, 2200 there are no real significant levels below, so that would be worrisome. If we hold here, there could be a chance that we see a double bottom, which would be encouraging.

My Takeaway

Last week, we had one of the best weeks for the market since the 1930s. This is right after the bloodbath from the week before, so some of this was a relief rally. However, we did get a nuclear response from the Fed with QE infinity, which could be one of those defining market moments. The combination of that and the passing of the Coronavirus relief bill have brought some much needed clarity to the market.

It is obviously way too early to call a bottom. It's basically impossible to make any kind of earnings forecasts, so any signs of a bottom are simply investors who are taking a leap of faith on the U.S. economy. I still feel that we won't see a definitive bottom until we start getting a lot more testing and we see folks going back to work.

However, if you are an investor with a longer time horizon, these max fear moments are usually great entry points into quality names with strong balance sheets. Also, be sure to avoid risky sectors, like airlines, cruise ships and energy, as it's too early to see who will actually get "bailed out" and how those stocks will fare over the long-term.

Please reach out to DreamWork Financial Group (https://dreamwork.financial/contact/) if you would like my help navigating the market during these wild times.

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