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Is COVID-19 starting to slow? Earnings season kicks off. The oil price war could be over. What should investors do right now?

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The Hot List

↑ HOT

Coronavirus

The U.S now **leads the world (https://www.bloomberg.com/news/articles/2020-04-11/u-s-testing-capacity-in-ballpark-for-may-reopening-czar-says)** in total deaths from COVID-19 making it the global epicenter. But this past week, there were signs of optimism as World Health Officials said on Friday that the virus **appears to be slowing (https://www.cnbc.com/2020/04/10/who-sees-welcome-slowing-of-coronavirus-cases-in-hardest-hit-countries.html)** in some of the worst affected areas in Europe. In New York, there were also **glimmers of hope (https://www.npr.org/sections/coronavirus-live-**

updates/2020/04/10/832108164/in-new-york-number-of-covid-19-patients-in-icu-drops-for-first-time) as the number of ICU patients dropped for the first time since the crisis started. It appears that the social distancing measures may be helping.

Admiral Brett Giroir, Trumps reopening czar, said this weekend (https://www.bloomberg.com/news/articles/2020-04-11/u-s-testing-capacity-in-ballpark-for-may-reopening-czar-says) that the U.S. is working on the different types of necessary diagnostics that will allow us to reopen the economy. He said these advancements are weeks away but hasn't ruled out a May reopening. He said, "by May we'll have a lot more testing than we do now," and that "we certainly will be in the ballpark" in regards to the amount of testing necessary to determine when we'll be ready to reopen.

Dr. Fauci also says (https://www.bloomberg.com/news/articles/2020-04-11/u-s-leads-world-in-deaths-pentagon-funds-masks-virus-update) that parts of the U.S. may be ready in May to ease the emergency measures "but there's no universal 'light switch' to flip on." On Sunday, he also said about reopening that "it could probably start at least in some ways maybe next month."

While it is certainly nice to hear some positive news for a change, you still have to keep things in perspective. There is still no news of a treatment and we are still a few weeks from the amount of testing we need. Until then, it's hard to get too optimistic on things getting back to normal in the near-term. But, at least there may be a light at the end of the tunnel.

Corporate Earnings

Now that the first quarter has come to an end, this means that earnings season is set to begin. It should be an interesting one as we should start to get some sort of a barometer for where the economy is heading. Many companies are expected to cut guidance for the year.

Will investors look to give these companies a pass with the negative economic data? We should learn more when banks like JP Morgan and Wells Fargo, along with healthcare companies Johnson and Johnson and Abbott Labs, begin to report earnings this week.

Corporate Debt

As interest rates hit record low levels after the financial crisis, corporations borrowed aggressively 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.

Federal Reserve researchers are predicting bankruptcies could jump (https://nypost.com/2020/04/10/coronavirus-will-cause-bankruptcies-to-surge-experts-warn/) by 200,000, to over 1 million, unless government programs can stem the tide. Bankruptcy expert Edward Altman expects the dollar value of bankruptcies to set a new record because “there are much greater amounts of debt outstanding now than in any prior downturn.”

Federal Reserve

This past Thursday, the Federal Reserve said it could pump $2.3 trillion into the economy through new and expanded programs. This is a move to ramp up its efforts to help companies, as well as state and local governments, who are suffering. They also lived up to their word that they would do whatever it takes, as The Fed will now **start buying junk bonds (https://fortune.com/2020/04/09/fed-buying-junk-bonds-corporate-america-federal-reserve-coronavirus/)**. However, they aren’t buying just any junk bonds. To qualify, the corporation needed to have a BBB or better credit rating as of March 22 and a BB at the time of issuance. This reversal came only two weeks after it said it would only buy investment-grade corporate debt.

It should be noted that this move by the Fed far surpasses anything that they did in the financial crisis to calm markets and help soften the blow to businesses. Back then the Fed rolled out around $500 billion in emergency lending programs, so this move is more than four times the size.

Powell said in a speech Thursday (https://www.nytimes.com/2020/04/09/business/economy/fed-economic-rescue-coronavirus.html), “we are deploying these lending powers to an unprecedented extent, enabled in large part by the financial backing from Congress and the Treasury.” He pledged that they would continue to use those powers “forcefully, proactively, and aggressively until we are confident that we are solidly on the road to recovery.”

The Fed is clearly going “all in” to fight this economic headwind. There is a saying among investors that you don’t want to “fight the Fed.” This could very well be one of those times.

Infrastructure

President Trump recently tweeted (https://finance.yahoo.com/news/san-francisco-fed-mary-daly-central-bank-prepared-to-do-whatever-it-takes-181900177.html) "with interest rates for the United States being at ZERO, this is the time to do our decades long awaited infrastructure bill." He continued "it should be VERY BIG & BOLD. Two Trillion Dollars, and be focused solely on jobs and rebuilding the once great infrastructure of our Country! Phase 4."

Even Trump critic, **Nancy Pelosi, is cheering this idea (https://www.cnbc.com/2020/04/01/coronavirus-update-nancy-pelosi-proposes-infrastructure-bill.html)**. She said that an infrastructure proposal is "essential because of the nature of the health and economic emergency that we are confronting."

In an environment where demand destruction is rampant, a properly structured infrastructure bill could infuse cash back into rural communities in addition to population centers. For those who have studied the Great Depression, you know putting money in the hands of rural communities can drive decades of prosperity. We'll keep an eye on this.

Oil Price War

Members of OPEC, Russia, and a handful of other oil-producing nations **have agreed to a production cut (https://www.cnbc.com/2020/04/12/opec-and-allies-finalize-record-oil-production-cut-after-days-of-discussion.html)** for May and June that essentially puts an end to the price war. The agreement calls for the group to reduce oil production by 10 million barrels per day, which is about 10% of normal global consumption.

Some analysts argue that this probably won't make much of a difference (https://www.cnbc.com/2020/04/12/opec-and-allies-finalize-record-oil-production-cut-after-days-of-discussion.html), but I think everyone can agree that this is a positive psychological step in the right direction.

Last Week

Monday: S&P 500 closed up 175.03 (+7.0%) to 2663.68 on early signs that the virus may be slowing in the US and in Europe.

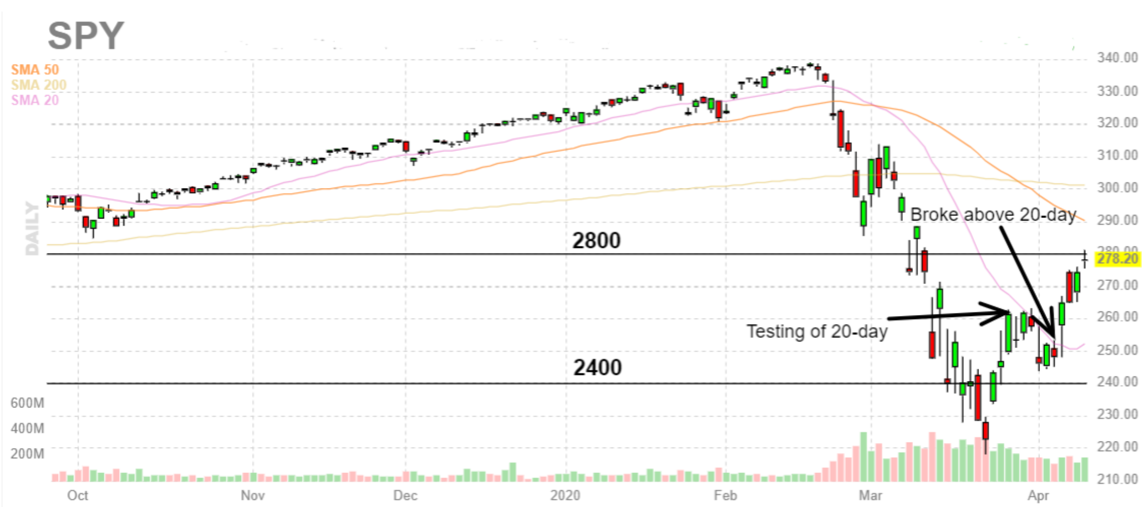
Tuesday: S&P 500 closed down 4.27 (-0.2%) to 2659.41. Markets experienced an early rally but rolled over into the close.

Wednesday: S&P 500 closed up 90.57 (+3.4%) to 2749.98. Markets moved higher ahead of Thursday's job numbers.

Thursday: S&P 500 closed up 39.84 (+1.5%) to 2789.82. Horrible unemployment number released. Fed announces major stimulus.

Friday: Markets closed for holiday.

Technical Look



Last week we tested the 20-day moving average and successfully broke above it. Now we find ourselves near 2800 on the S&P which has been very significant for the past couple years. If we can break above 2800 then we can start to look to the 50-day moving average for the next test. To the downside, I would look to the 20-day moving average again for support.

My Takeaway

The S&P 500 just posted its best week in 46 years after the Fed rode to the rescue with more stimulus. The market is now 25% above the lows. We have certainly gotten a nice relief rally on the back of some positive news. You certainly can't ignore the fact that there was positive health news indicating that social distancing measures may be helping. The Fed has also made it abundantly clear that they are truly going to do whatever it takes to prevent the economy from falling off a cliff. Additionally, the oil price war seems to have come to an end, at least for now.

But remember, **bear market rallies happen quite frequently after the market has gotten crushed (https://www.bloomberg.com/news/articles/2020-03-31/a-brief-history-of-s-p-500-bear-market-rallies-and-what-follows)**. So that is the major debate right now. Is this rally sustainable or is this just another bear market rally?

The bull case is that mass testing is a few weeks away, and some people may start getting back to work. There is also a chance that more people have already been exposed and developed antibodies. There is also some hope that government and corporations can work together to offer a bridge to smaller businesses and consumers so they can survive until we can reopen the economy.

Bears are betting that too much damage to the economy is already done, and the bear market will be much sharper and longer than people are expecting. If they are correct, we could see another leg down before we develop a true bottom.

One thing is for sure, we are in a truly unprecedented time. With that being the case, what you should do now really depends on your core strategy. If you are risky with a long-term horizon, the levels during this crisis should be attractive. However, if you are risk averse, it is probably smarter to wait.

If your position in a specific investment has decreased by 25% or more, it may be the perfect time to reevaluate it. If you still believe in the reason you made the investment, now is the time to buy more and lower your average cost. But if you no longer feel confident in the trade, you may want to sell it and take the tax loss – assuming it's a taxable account.

In the meantime, if you are looking for investing advice or comprehensive wealth management, **please reach out to DreamWork Financial Group (https://dreamwork.financial/contact/)** and let us help you develop your Investing Gameplan™.

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