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The economy is getting close to reopening. Corporate earnings are in full swing. Market is in rally mode. Are we setting ourselves up for disappointment?

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The Hot List

↑ HOT

Coronavirus

Last week, there was **optimism from a leaked study (https://www.marketwatch.com/story/rapid-recovery-seen-in-coronavirus-patients-taking-gilead-drug-according-to-a-report-2020-04-16)** showing that Gilead's Remdesivir drug could help patients recover quickly. Analysts remain skeptical as the **study was very small and the details were limited. (https://finance.yahoo.com/news/report-says-covid-19-patients-020755680.html)** While this drug could be the first approved drug for COVID-19, it is still only a treatment not a preventative.

Abbott Labs announced that they plan to launch 20 million antibody tests per month (https://www.reuters.com/article/us-health-coronavirus-abbott/abbott-launches-covid-19-antibody-test-plans-20-million-tests-per-month-by-june-idUSKCN21X21E) starting in June. These tests will identify those who already have antibodies from fighting it, including those who never knew they had it after showing only mild symptoms or none at all.

Antibody testing was conducted on residents of Santa Clara, CA (https://www.sfgate.com/news/editorspicks/article/Santa-Clara-antibody-test-coronavirus-results-case-15208216.php) and the study suggests that COVID-19 cases may be underreported by a factor of 50-85. While these are preliminary results, they could confirm suspicions that many more people have contracted the virus than previously thought.

President Trump also announced plans to reopen the economy in three phases. (https://www.bbc.com/news/world-us-canada-52314866) This move is praised by some and criticized by others. Obviously reopening too soon could set us back and undo a lot of the progress that has been made toward "flattening the curve." But perhaps those areas that haven't been as affected by the virus or the social distancing measures may be ready to start opening up.

Corporate Earnings

The market survived the first week of 1Q earnings season. Companies continued to withdraw guidance for the year but results haven't been horrible. However, it was mainly financials and healthcare that reported. This upcoming week will be highlighted by Netflix, KO and most of the airlines.

Corporate Debt

As we have stated, in a downturn like this the bankruptcies will be inevitable. Companies with strong balance sheets should thrive while those 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."

Last week, JC Penney was the first to announce that they were exploring bankruptcy opportunities. JCP was in a weak spot before the crisis therefore this news is not a surprise. However, this probably isn't the last we'll be hearing about bankruptcies as weak companies will continue to get weeded out. (https://www.businessinsider.com/experts-say-several-retailers-to-consider-bankruptcy-amid-coronavirus-2020-4)

Federal Reserve

The Federal Reserve has gone to unprecedented lengths to support this economy that has been rattled by the coronavirus. It has cut interest rates to near zero and has initiated trillions of dollars in programs. These moves were made with the intentions of keeping markets functioning while helping to get cash into the hands of those impacted by the shutdown.

And it sounds like there is more stimulus on the way. New York Fed President, John Williams said "our work is not done, (https://www.cnbc.com/2020/04/16/feds-williams-says-our-work-is-not-done-to-repair-damage-from-coronavirus.htmlhttps://www.cnbc.com/2020/04/16/feds-williams-says-our-work-is-not-done-to-repair-damage-from-coronavirus.htmlhttps://www.cnbc.com/2020/04/16/feds-williams-says-our-work-is-not-done-to-repair-damage-from-coronavirus.html)" as he spoke to the Economic Club of New York via webinar last week.

The SBA program ran out of money after just 14 days. That was quick work of $349 billion. Now the Senate is close to allocating another $370 billion (https://www.cnbc.com/2020/04/19/mnuchin-pelosi-say-very-close-to-a-deal-on-second-round-of-small-business-loans.html) into the program.

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 decade's 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. And looking at our current situation, we could not only use the jobs, but we could actually use better infrastructure.

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 9.7 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 down 28.19 (-1.0%) to 2761.63 after OPEC+ announced major production cut.

Tuesday: S&P 500 closed up 84.43 (+3.1%) to 2846.06 as earnings season kicks off.

Wednesday: S&P 500 closed down 62.7 (-2.2%) to 2783.36 after weak earnings and economic data.

Thursday: S&P 500 closed up 16.19 (+0.6%) to 2799.55 after 5.2 million new citizens file for unemployment.

Friday: S&P 500 closed up 75.01 (+2.7%) to 2874.56 after Trump announces plans to reopen and news on a possible COVID treatment.

Technical Look

After testing and breaking above the 20-day moving average, the S&P 500 has climbed all the way above 2800. It now sits right at the 50-day moving average which is the next hurdle. If we can successfully break above the 50-day, then our sights will be set on the 200-day to the upside. And to the downside, I would expect support back around the 20-day moving average.

My Takeaway

A slew of positive headlines has really given this market a nice boost off the lows. Hope around testing, treatment and a reopening of the economy has given bulls momentum here. However uncertainty continues to overshadow this rally. While there appears to be light at the end of the tunnel, we still have no idea how long the tunnel actually is.

It's hard to get too bullish when we have yet to see how much damage has really been done. But it's also hard to get too bearish when you have the Fed pumping trillions of dollars and even buying junk bonds.

I still contend that we need positive news on the medical front before we can know how long this will last. Currently, the only news is a leaked study for a treatment or an antibody study in a small town that hasn't been thoroughly reviewed yet. So is the market setting itself up for disappointment as it may have run too far, too fast? Or maybe our fears have been overblown all this time and the economy could reopen without adequate testing.

The bad news is that we know the dropoff will be bad and we haven't seen the worst of it yet. However the good news is that the market can typically look up to nine months ahead as it prices in events.

As we sit at the 50-day moving average, we are at a nice spot to review your portfolio. If there are any holdings that you no longer feel confident in, now is probably the time to make some moves. It's a good time to consider upgrading the quality of your portfolio as companies with stronger balance sheets are likely to be rewarded.

In the meantime, if you would like personal investment advice or help building your portfolio, please **contact DreamWork Financial Group (https://dreamwork.financial/contact/)** and let us set up your Investing Gameplan™.

Clint Kirby
Chief Financial Strategist
DreamWork Financial Group