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States start to reopen. More pain for US oil. Tech giants get ready to report earnings. What does this mean your investments?

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The Hot List

↑ HOT

Coronavirus

Gilead's Remdesivir drug showed disappointing results (https://www.forbes.com/sites/sergeiklebnikov/2020/04/23/stocks-cut-gains-despite-oil-rebound-after-gilead-trial-disappoints/?ss=retirement#551ea89a7892) for the treatment of COVID-19 in its first clinical study in China, according to a report. This followed optimism from a leaked study which hinted that it could help patients recover quickly. However, Gilead did take issue with the report saying "this study was terminated early due to low enrollment."

The FDA also warned against the use of hydroxychloroquine and chloroquine (https://www.npr.org/sections/coronavirus-live-updates/2020/04/24/844212806/fda-warns-against-wide-use-of-the-drugs-trump-hailed-as-game-changers), detailing "serious heart-related adverse events and death in patients with COVID-19." There had been optimism around these treatments too as President Trump had called them a "game changers."

New evidence is showing that far more may have had the coronavirus than what has been confirmed from lab tests. **A New York state survey of 3000 people showed (https://time.com/5826686/coronavirus-antibody-tests-new-york/)** that 14% had antibodies from being exposed to the virus. Gov. Cuomo cautioned that the sample was small and the data being preliminary.

Some states have announced various levels of reopening (https://www.usatoday.com/story/news/nation/2020/04/24/coronavirus-usa-states-reopen-plan-america/2998743001/) this past week. South Carolina announced that some stores and flea markets would reopen. Florida's beaches are open. And Minnesota opened areas such as golf courses and marinas. While citizens remain divided on reopening now, these "guinea pig" states will give investors a much better idea of whether the country as a whole is ready or not.

Corporate Earnings

The stock market continues to hold up as we get deeper into earnings season. Earnings haven't been terrible, but the trend across the board has been companies pulling their guidance. For the most part, investors appear to be giving companies a pass for now.

This week we are going to get earnings reports from the strength of the market, mega-cap tech. Companies such as Amazon, Microsoft, Google and Facebook are going to announce earnings in the coming days. These companies were leaders during the most recent bull market, but they could already be priced for perfection. This small group of companies makes up a large percentage of the major averages, so these earnings reports will be extremely impactful on the value of the overall market.

Oil Price War

The pandemic continues to destroy demand for oil. And while this is happening, producers continue to pump as if it's more expensive to stop. This has led to such an oversupply in crude that investors don't want anything to do with it.

Last Monday, the May contract actually went negative (https://www.cnbc.com/2020/04/25/scary-visceral-unprecedented-traders-describe-oils-wild-week-and-fall-to-negative-prices.html) because there was nowhere to put the oil. So, investors had to pay almost $40 per barrel to have it taken off their hands. If prices remain at this level, many producers could be forced to turn off their tap.

U.S. shale producers will be hit the hardest since it is the most expensive to produce. This is a problem because of the amount of debt these companies typically carry. Whiting Petroleum was the first to declare bankruptcy this month, and analysts warn that more are coming. As more bankruptcies start to materialize, banks with exposure to these companies could start to have problems.

Corporate Debt

As we have stated many times, a downturn like this will lead to bankruptcies. Companies with strong balance sheets should thrive, while those with havy debt may fold. In addition to the energy market, US retailers have been facing the pain as well.

JC Penney announced that it is exploring bankruptcy (https://www.forbes.com/sites/walterloeb/2020/04/17/pandemic-bankruptcies-threatens-jcpenney-neiman-marcus-and-many-others/#61b9c6564b10) as it elected not to make a $12 million interest payment that was due on April 15. Reports last week indicated that **Neiman Marcus was preparing to file for bankruptcy (https://www.reuters.com/article/us-neimanmarcus-bankruptcy-exclusive/exclusive-neiman-marcus-to-file-for-bankruptcy-as-soon-as-this-week-sources-idUSKBN2210CW)** protection, and that could happen as soon as this week. True Religion filed for bankruptcy on April 13. Nordstrom had interest on $5.6 billion in debt that came due and has indicated that it is working on restructuring alternatives. Macy's has been working with their suppliers to extend their terms of payables.

Federal Reserve

An additional $484 billion coronavirus relief package was signed into law (https://www.businessinsider.com/trump-signs-484-billion-stimulus-relief-package-into-law-2020-4) on Friday to provide aid to small businesses and healthcare companies. This bill provides more funding for the small business lending program that ran out of money so quickly earlier this month. It also includes more funding to ramp up COVID-19 testing.

There are still expectations of further economic relief, but as of now it appears that both parties are trying to determine what should be included.

Infrastructure

President Trump hinted at an infrastructure bill earlier this month. It was even supported by his major critic Nancy Pelosi (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. Considering present state of U.S. infrastructure, there should be little debate around the need for a major upgrade.

Last Week

Monday: S&P closed down 51.40 (-1.79%) to 2823.16. Oil price collapsed. May oil contracts went negative.

Tuesday: S&P closed down 86.60 (-3.07%) to 2736.56. Oil was crushed again.

Wednesday: S&P closed up 62.75 (+2.29%) to 2799.31. Oil rebounds. Earnings show strength.

Thursday: S&P closed down 1.51 (-0.05%) to 2797.80. Remdesivir results disappointed. Unemployment continued to climb.

Friday: S&P closed up 38.94(+1.39%) to 2836.74. More stimulus was signed into law.

Technical Look

After a volatile week, indices remain near their 50-day moving averages. The market seems to be taking a breather after such a strong run from the lows. A trading range seems the most likely outcome until we get further clarity on the battle against COVID-19. If we continue to move higher, I would expect some resistance around the 200-day moving average which is near the 3000 level on the S&P. To the downside I would expect some support around the 20-day moving average which is around 2700.

My Takeaway

When I look at market levels, we are pretty much halfway between the February all-time highs and the March lows. This seems like a fair level to take a breather as we did last week. With the damage done and massive uncertainty, I don't think we deserve to be going to the highs anytime soon. But with the unprecedented stimulus from the Fed and a potential reopening of the economy, I don't think we head back to the lows right here either.

The market is definitely due for some more disappointment with bankruptcies and the effects of job loss to start setting in. However, I don't want to discount the chance that the stock market could be disconnected from the main street economy.

There is also a chance the rich could be getting richer here unfortunately. The giants like Amazon and Google may be benefitting the most from us staying at home. So, they could be growing at a faster pace while smaller companies are going out of business. If you look at a market-weighted index like the S&P 500, the gains in these giant 4 or 5 companies could cancel out losses in a hundred others.

As we sit near the 50-day moving average, halfway between the highs and lows, this is a good time to revisit your investment strategy. If there are any holdings for which you no longer feel confident in their future, now may be a good time to make some moves. As we get further clarity from earnings and reopening of the economy, we will get a better idea of what kind of recovery to expect. In the meantime, I'd stick to your long-term strategy and remain somewhat neutral from a tactical standpoint.

If you would like personal investment advice or help building your portfolio, **contact DreamWork Financial Group (https://dreamwork.financial/contact/)**. We will work closely with you to understand your situation and develop your Investing Gameplan™.

Until next time,

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