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The U.S. is now epicenter of COVID-19. There is brief optimism in the oil market. Is there an infrastructure bill on the way? What should investors know?

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The Hot List

↑ HOT

Coronavirus

The U.S. has over 330,000 COVID-19 cases (https://gisanddata.maps.arcgis.com/apps/opsdashboard/index.html#/bda7594740fd40299423467b48e9ecf6), which is now the most in the world by a large margin. The country remains restricted in many areas, which is bringing the economy to a screeching halt. We are basically at war with this virus where the best way to currently fight it is to stay at home. Our best hope at the moment is that one of **the antiviral drugs (https://www.healthline.com/health-news/heres-exactly-where-were-at-with-vaccines-and-treatments-for-covid-19#Vaccine)**

used for another virus will prove to be effect against COVID-19. This would prevent lots of deaths until a vaccine is available, which **could be 12-18 months (https://www.healthline.com/health-news/heres-exactly-where-were-at-with-vaccines-and-treatments-for-covid-19#Vaccine)**. In the meantime, let's hope more testing becomes available where we can get ahead of this pandemic.

Oil Price War

Oil posted its biggest daily gain ever last Thursday after **President Trump tweeted (https://www.bbc.com/news/business-52115442)** "I expect & hope" the two countries will agree to cut supply by 10 million barrels "and maybe substantially more." He also said at a press conference earlier that "it's very bad for Russia, it's very bad for Saudi Arabia. I mean, it's very bad for both. I think they're going to make a deal." This gave markets some hopes that a deal may be on the horizon.

On the other hand, reports this past weekend indicated that **the two countries have delayed their meeting (https://www.reuters.com/article/us-global-oil/oil-falls-after-saudi-arabia-russia-delay-meeting-idUSKBN21O05S)**, so this may indicate another stalemate and more pain in the oil markets. There is clear demand destruction occurring in the oil markets due to the COVID-19 pandemic, and **worldwide storage capabilities are beginning to hit their maximums (https://www.cnbc.com/2020/04/06/oil-prices-could-plunge-below-20-a-barrel-in-q2-as-demand-craters-cnbc-survey.html)**. So, it would be unwise to call a bottom on oil until there is certainty around OPEC intervention and the long-term demand impacts of COVID-19.

Infrastructure

President Trump **tweeted last Tuesday (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. 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."

Many people think an infrastructure bill makes sense here. In an environment where demand destruction is rampant, a properly structured infrastructure bill could infuse cash back into rural communities as well as cities. 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.

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.

Federal Reserve

Federal Reserve Bank President Mary Daly said earlier this week (https://finance.yahoo.com/news/san-francisco-fed-mary-daly-central-bank-prepared-to-do-whatever-it-takes-181900177.html), “the Federal Reserve is prepared to do whatever it takes within our powers to ensure we are part of the solution of shoring up people over the virus, shoring up the American economy and putting us in the best position to grow again once the virus recedes.” She emphasized that the Fed is using unprecedented tools which include an “**alphabet soup of liquidity facilities (https://finance.yahoo.com/news/glossary-federal-reserves-emergency-measures-coronavirus-bazookas-120337473.html)**” targeting different liquidity strains in various markets.

There was also the passing of the **$2 trillion dollar (https://www.cnn.com/2020/03/25/politics/stimulus-senate-action-coronavirus/index.html)** CARES Act in late March. This included $250 billion in direct payments to individuals, $350 billion in small business loans, $250 billion in unemployment insurance benefits and $500 billion in loans to distressed companies. Will this be enough, or will they need more?

Last Week

Monday: S&P 500 closed up 85.18 (+3.4%) to 2626.65. End of quarter rebalancing.

Tuesday: S&P 500 closed down 42.06 (-1.6%) to 2584.59. End of quarter rebalancing.

Wednesday: S&P 500 closed down 114.09 (-4.4%) to 2470.50. Manufacturing falls, employment drops at quickest pace in over a decade.

Thursday: S&P 500 closed up 56.4 (+2.3%) to 2526.90. Oil posts its biggest one-day gain on record.

Friday: S&P 500 closed down 38.25 (-1.5%) to 2488.65. US employers cut 701,000 payrolls in March which was first monthly loss in a decade.

Technical Look

The market has found the tiniest bit of support here around the 2018 lows. To the downside, I would look for support around the March lows of 2200. To the upside, we will probably keep testing the 20-day moving average. However, with the destruction in the charts and the escalation in volatility, take the technical indicators with a grain of salt.

My Takeaway

It is becoming obvious that we are in a recession. Things are generally miserable as this virus has shown how unprepared the U.S. was for a pandemic. No one knows how long this will last or how bad this will get. Many companies have even stopped issuing guidance.

It seems like we would need to have a serious ramp up in testing or a discovery surrounding an existing antiviral for us to hit a definitive bottom. We will probably see pockets of selling exhaustion along the way, where we start to get numb to the bad headlines. This will help with the volatility but not necessarily what I would want to see as far as calling a bottom.

As an investor, 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, there should be pockets of the economy which could do better than others. For instance, grocery stores, consumer essentials and technologies that promote work from home could benefit from this current situation. On the other hand, areas such as airlines, cruise ships and hospitality are going to have a much tougher time. Also, it is imperative that you choose companies with a strong balance sheet as you have no idea how things will look on the other side of this. The companies with stronger balance sheets can not only survive but can also make purchases at a discount when competitors go belly up.

Keep in mind, things could change very quickly if we get a breakthrough discovery. So, don't get too pessimistic, but keep things rational. If you are looking for investing advice or comprehensive wealth management, **please reach out to DreamWork Financial Group (https://dreamwork.financial/contact/)**

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