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States continue to reopen. More China trade tensions? NASDAQ goes positive for the year. Are negative interest rates coming to the US?

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The Hot List

↑ HOT

Coronavirus

At least 31 states have partially reopened (https://www.npr.org/2020/05/09/853052174/public-health-experts-say-many-states-are-opening-too-soon-to-do-so-safely) despite public health experts warning that it may be too soon.

The first trial vaccine for COVID-19 has been cleared for phase 2 testing by the FDA (https://www.usatoday.com/story/news/health/2020/05/09/coronavirus-vaccine-race-us-testing/5179665002/). It is produced by Moderna and appears to be way ahead of schedule. **Pfizer started testing its own vaccine on humans**

(https://www.usatoday.com/story/news/health/2020/05/09/coronavirus-vaccine-race-us-testing/5179665002/). The vaccine is ahead of schedule but is currently still in phase 1. **Scientists at Oxford University are planning to test another candidate vaccine on over 6000 people (https://www.usatoday.com/story/news/health/2020/05/09/coronavirus-vaccine-race-us-testing/5179665002/)** before the end of May. They said if it is effective and safe, they could have millions of doses available this fall.

New York announced free expanded antibody testing (https://www.ny1.com/nyc/all-boroughs/news/2020/05/07/mayor-de-blasio-daily-coronavirus-update-antibody-testing-). It focused on first responders, healthcare employees, and those in hard hit parts of the city. The goal is to determine exactly how many residents have been infected with COVID-19. In addition, **The FDA approved the first at-home diagnostic test for COVID-19. (https://www.fda.gov/news-events/press-announcements/coronavirus-covid-19-update-fda-authorizes-first-test-patient-home-sample-collection)** This was an emergency use authorization for a LabCorp COVID-19 home collection kit.

China Trade War

(https://www.nytimes.com/reuters/2020/05/01/business/01reuters-health-coronavirus-usa-china.html)U.S. and Chinese trade negotiators pledged to create "favorable conditions" for carrying out a truce in their governments' tariff war. (https://abcnews.go.com/US/wireStory/us-china-trade-envoys-promise-favorable-conditions-70573378) This came after threats of tariffs made by President Trump over China's response to the pandemic. President Trump threatened to pull out of the trade deal if China doesn't buy more American goods in exchange for suspending planned tariff hikes.

Mega Cap Tech

As we mentioned last week, **the biggest five tech companies make up over 20% of the S&P 500. (https://markets.businessinsider.com/news/stocks/nasdaq-composite-erases-2020-losses-strong-tech-earnings-stock-market-2020-4-1029178443)** These companies are Facebook, Amazon, Apple, Microsoft and Alphabet. While this might seem crazy, those same companies currently make up a whopping 38% of the NASDAQ. Investors have been attracted to these companies since they are seen as critical to maintaining remote operations during shutdowns. This has provided a major boost to market averages.

However, having such a concentration of value in a handful of names isn't a great sign of a healthy market. When times are good, this situation makes market averages look great. And when times are bad, the impact on the indices can be even worse. This dynamic has actually helped the NASDAQ to go positive for the year. Just watch out. Because if these fall, the market could feel some serious pain.

Federal Reserve

(https://www.investors.com/news/economy/federal-reserve-meeting-wall-street-expects-yield-curve-control/)Fed Chairman Powell has used the tools of the Federal Reserve at unprecedented levels (https://www.cnbc.com/2020/04/28/fed-could-give-more-insight-into-its-string-of-unprecedented-actions.html) to combat this crisis. One tool he doesn't want to use is negative rates. But **(https://www.investors.com/news/economy/federal-reserve-meeting-wall-street-expects-yield-curve-control/)last Thursday, traders priced in a negative federal funds rate by December 2020. (https://www.cnbc.com/2020/05/07/feds-harkin-doubts-likelihood-of-negative-rates-even-though-the-market-is-pricing-them-in.html)** This was amid expectations that the Fed would have to keep its rate for overnight lending around zero, like it is now. Richmond Fed President Barkin told CNBC that he doesn't expect negative interest rates to become official, even though markets are trying to pull the Fed that way.

Corporate Debt

Neiman Marcus officially declared bankruptcy last Thursday (\www.cbsnews.com\news\neiman-marcus-chapter-11-bankruptcy-department-store\). This made it the largest U.S. retailer to go under since the start of the pandemic. There are reportedly numerous other companies that are contemplating bankruptcy.

We'll continue to monitor these at-risk companies and the impact they may have on the overall market.

Last Week

Monday: S&P closed up 12.03 (0.42%) to 2842.74. More states start to reopen.

Tuesday: S&P closed up 25.70 (0.90%) to 2868.44. Markets appear optimistic about reopening.

Wednesday: S&P closed down 20.02 (-0.70%) to 2848.42. Markets worry over Chinese tariff threats.

Thursday: S&P closed up 32.77 (+1.15%) to 2881.19. First vaccine approved for phase 2 trials. Another massive weekly unemployment number announced.

Friday: S&P closed up 48.61 (+1.69%) to 2929.80. Monthly jobs number was reported.

Technical Look

The market has leveled off at a very familiar place. The range from 2750 to 3000 has been significant. The arrows on the chart show just a few of the support and resistance levels over this time frame. I'd expect us to stay in this range until we get further clarity on how the reopening of the economy is going.

My Takeaway

The market continues to flatten out for the fourth straight week as we try to determine whether the economy is ready to reopen. The issue on how to handle reopening continues to divide the country and the market appears to be divided as well.

Equities are presenting a “tale of two markets” where the gains from mega-cap tech have overshadowed much of the losses from the smaller, harder hit companies.

To me, it seems like the range from 2750 to 2950 on the S&P is the barometer. At the upper end of the range, it appears that investors are betting the worst is behind us and reopening will go smoothly. And when headlines turn negative around the reopening, we drift to the lower end. But I don’t expect the market to break from this trading range without any substantial news.

With states reopening a week ago and symptoms not showing for up to 14 days, it seems like we should learn a lot about the spread over the next two weeks.

In the meantime, investors continue to get the opportunity to reposition their portfolios ahead of the next market move. If you are optimistic about the reopening, you may want to add a little risk here and vice versa if you are not as confident. Otherwise, stay committed to your long-term strategy with your core holdings while being neutral with your tactical allocations.

If you would like help building your custom portfolio, **contact DreamWork Financial Group (https://dreamwork.financial/contact/)**, and let us help you develop your Investing Gameplan™. We will work closely with you to understand your situation and create a unique strategy that works for you.

Until next time,

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