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States continue reopening. China trade tensions escalate. Mega-cap tech dominates indices. More stimulus checks? What does this mean for your investments?

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The Hot List

↑ **HOT**

Coronavirus

States continue to reopen ahead of the White House guidelines. (https://www.bbc.com/news/world-us-canada-52654708) This issue is dividing the country as there is no easy solution. U.S. cases are nearing 1.5 million as deaths approach 100,000.

Moderna reported positive data on its closely watched early-stage trial for a coronavirus vaccine (https://www.forbes.com/sites/lisettevoytko/2020/05/18/moderna-reveals-positive-data-in-coronavirus-vaccine-trial-markets-

spike/#6fce69982808https://www.forbes.com/sites/lisettevoytko/2020/05/18/moderna-reveals-positive-data-in-coronavirus-vaccine-trial-markets-spike/#6fce69982808).
(https://www.forbes.com/sites/lisettevoytko/2020/05/18/moderna-reveals-positive-data-in-coronavirus-vaccine-trial-markets-spike/#6fce69982808) It said the trial produced antibodies in all 45 participants.

FDA granted emergency use authorization to Abbott Labs for a new COVID-19 antibody test (https://abbott.mediaroom.com/2020-05-12-Abbott-Receives-FDA-Emergency-Use-Authorization-for-COVID-19-Molecular-Test-on-New-Alinity-TM-m-System). These tests report to show whether someone was asymptomatic or has already recovered. Abbott plans to ship 30 million tests this month and 60 million tests in June.

China Trade War (https://www.nytimes.com/reuters/2020/05/01/business/01reuters-health-coronavirus-usa-china.html)

The Trump administration has moved to block shipments of semiconductors to Huawei (https://www.cnbc.com/2020/05/15/us-china-tensions-rise-as-trump-administration-moves-to-cut-huawei-off-from-global-chip-suppliers.html) as political tensions heighten. After a Chinese newspaper reported that Beijing was urging fresh talks around Phase 1, **President Trump said he was “not interested” (https://www.reuters.com/article/us-usa-china-trade-trump/trump-not-interested-in-reopening-us-china-trade-deal-after-report-of-beijing-discontent-idUSKBN22N2UY)** in renegotiating.

In addition, **President Trump has made assertions that SARS-CoV-2 came from a Wuhan, China laboratory (https://www.reuters.com/article/us-usa-china-trade-trump/trump-says-not-in-favor-of-reopening-china-trade-deal-idUSKBN22N2UY)**. This has led to increased anger on both sides. It’s becoming clear that the U.S. is taking a harder line with China. Unfortunately, this is not a great time for extra trade tensions. If this becomes a bigger issue, expect the market to respond negatively.

Mega Cap Tech

As we mentioned last week, **the biggest five tech companies make up over 20% of the S&P 500 (https://dreamwork.financial/wp-content/uploads/Investing-Hot-Sheet-5-11-20_-Dreamwork-Financial-Group.pdf)**. 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.

Federal Reserve (https://www.investors.com/news/economy/federal-reserve-meeting-wall-street-expects-yield-curve-control/)

The Federal Reserve began buying corporate bond ETFs (https://www.barrons.com/articles/federal-reserve-etfs-corporate-bond-markets-51589288437) last week, which was an unprecedented move. This was one of the first steps in their broad plan of providing U.S. companies with a financing backstop.

The House passed a $3 trillion aid bill (https://www.nytimes.com/2020/05/15/us/politics/house-simulus-vote.html) as they negotiate a phase 4 stimulus package. This offering included another check to households, hazard pay, student loan reduction and more, but McConnell seems unlikely to bring this bill up for a vote in the Senate anytime soon.

Corporate Debt

JC Penney became the latest retail giant to file for bankruptcy (https://www.bbc.com/news/world-us-canada-52691160) last week. The company was in bad shape before the crisis, and the shutdowns finally pushed them over the edge. **Hertz also expressed concerns (https://www.reuters.com/article/us-hertz-glo-hldg-results/car-rental-firm-hertz-raises-going-concern-doubts-as-debt-default-looms-idUSKBN22N31S)** due to the amount of debt they must manage during this pandemic. Retailers and travel related companies are being hit hard, as expected, and these are just a couple of the latest victims.

The American Bankruptcy Institute reported 560 commercial Chapter 11 filings during April which represented a 26% increase from April of last year. Given the circumstances, a 26% increase doesn't seem that bad. However, the economy needs to turn around quickly before the bankruptcies begin to spill into other sectors and create lasting damage.

Infrastructure

Unfortunately for investors, talk of an infrastructure bill has died down over the last couple of weeks. However, there is still a chance that infrastructure could move back to the forefront as leaders grapple with ways to support the economy during this crisis.

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. There should be little debate around the need for a major upgrade considering the present state of U.S. infrastructure.

Last Week

Monday: S&P closed up 0.39 (0.01%) to.2930.19. Markets were flat with no major headlines.

Tuesday: S&P closed down 60.20 (-2.05%) to 2870.12. Tech-driven selloff caused markets to fall late in the day.

Wednesday: S&P closed down 50.12 (-1.75%) to 2820.00. Markets fell again. Powell indicates potential for "significant downside risks".

Thursday: S&P closed up 32.50 (+1.15%) to 2852.50. Markets rallied after two big down days. Weekly unemployment claims released.

Friday: S&P closed up 11.20 (+0.39%) to 2863.70. Record retail sales drop for April. Increased China worries. Markets rallied to close higher.

Technical Look

The market remained in the same range **we have referenced over the past 4 or 5 weeks (https://dreamwork.financial/wp-content/uploads/Investing-Hot-Sheet-5-11-20_-Dreamwork-Financial-Group.pdf)**. This range is closely defined by the 20-day and 50-day moving averages in the neighborhood of 2800. If we break higher I'd look for resistance at the 200-day near the 3000 level on the S&P 500. To the downside I'd look for support around 2700-2750.

My Takeaway

In the short term, the S&P appears content in the neighborhood of 2800 as it has remained here for a month or so. With the amount of uncertainty in the market, think of this as a neutral spot. Any new positive news around reopening could warrant a move out of the range to the upside. While any new negative news that dampens optimism around reopening should drive us lower. With states getting closer to reopening at full capacity, we will start to get clarity on which way it's going to move.

Overall, it still seems like there is more downside than upside. If people remain scared to go out and unemployment remains high, it will be hard to justify a move higher. However, don't underestimate the U.S. consumer and what this Fed is willing to do. With that being said, this doesn't mean it's necessarily a bad time to start nibbling if you're looking to put new money to work.

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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