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*China tensions take the top spot. Protests erupt nationwide. States continue to reopen. S&P above 3000. Can this rally continue?*

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## The Hot List

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### **China Trade War (+1)**

**(<https://www.nytimes.com/reuters/2020/05/01/business/01reuters-health-coronavirus-usa-china.html>)**

Tensions with China appear to have ramped up after **China passed a new law** (<https://www.npr.org/2020/05/29/863770112/4-takeaways-from-beijings-hong-kong-power-grab>) which many say would end Hong Kong's autonomy. **Secretary of State Mike Pompeo made comments**

(<https://www.usatoday.com/story/news/world/2020/05/27/us-china-tensions-pompeo-declares-hong-kong-no-longer-autonomous/5264818002/>) that Hong Kong was no longer autonomous from China.

On Friday, President Trump held a news conference where he announced that he would be **revoking many of the special privileges for Hong Kong** (<https://www.npr.org/2020/05/29/864538684/trump-set-to-discuss-response-to-chinas-grab-of-hong-kong>). This was retaliation for what Washington has called a naked power grab by China's central government. In response, China told state-run companies to stop buying pork and soybean from the U.S.

In addition, the **House of Representatives passed legislation** (<https://www.cnbc.com/2020/05/27/house-sends-china-sanctions-bill-to-trumps-desk-as-tensions-escalate.html>) that would allow sanctions on Chinese officials for the treatment of Uighur Muslims. However, China says it would retaliate and denies the allegations of abuse.

While things are certainly tense between the two countries, the market rallied following Friday's press conference. Investors appeared to see a hint of optimism as President Trump refrained from the harshest actions that some expected him to take.

## **Coronavirus (-1)**

All 50 states continue with some form of reopening. **Gov. Cuomo announced that New York city, the epicenter, set to enter phase one reopening on June 8<sup>th</sup>** (<https://www.governor.ny.gov/news/governor-cuomo-announces-new-york-city-enter-phase-1-reopening-june-8-and-five-regions-enter>). Before we get too far ahead of ourselves with the lockdown being lifted, **data suggests that new hot spots are emerging.** (<https://money.yahoo.com/new-hotspots-emerge-across-us-coronavirus-192302516.html>) Two weeks after reopening, six states have started showing sharp increases in cases.

We continue to get optimism on the treatment front. **Novavax announced that they are ahead of schedule with their vaccine** (<https://fortune.com/2020/05/25/novavax-coronavirus-vaccine-human-trial-results/>) and expect results from new human trial coronavirus test in July.

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

**Fed Chairman Powell stated** (<https://finance.yahoo.com/news/fed-jerome-powell-comfortable-with-crisis-response-tools-7-t-balance-sheet-164450654.html>), "I am comfortable with where we are now and the path we're on and don't see risks based on what we're doing right now to inflation or to financial stability." This comes as the Fed still

has yet to begin some of the pre-announced facilities such as direct corporate bond and muni bond purchases. He said they are also a few days away from opening up the hallmark, Main Street Lending Program that will offer cheap loans to businesses.

We are still unsure about the status of a phase 4 stimulus bill. If we do get a stimulus bill, **Sen. Majority Leader McConnell says (<https://www.businessinsider.com/mitch-mcconnell-fourth-final-coronavirus-economic-aid-bill-senate-republicans-2020-5>)** the next one would be the final one.

## **Unemployment (New)**

Weekly unemployment claims remain very high. This past week another 2.1 million Americans filed for unemployment benefits. If unemployment stays elevated, this could have a prolonged effect on the economy and recovery hopes.

**The latest Fed minutes echoed the board's concerns (<https://www.forbes.com/sites/greatspeculations/2020/05/24/if-the-fed-is-worrying-shouldnt-you-worry-too/#3e3663c771f7>)** around unemployment. They expressed worries "that temporary layoffs could become permanent."

## **Corporate Debt (-1)**

In May, 27 companies with minimum \$50 million in liabilities **sought bankruptcy protection from creditors (<https://finance.yahoo.com/news/big-bankruptcies-sweep-u-fastest-100000110.html>)**. This was the highest count since the Great Recession. The number of insolvencies seems to be at odds with credit markets, which are busier than ever. The Fed's actions explain some of this, but bankruptcies at this level do not instill confidence in the overall market.

## **Infrastructure (+1)**

This past week **Gov. Cuomo met with Trump to discuss how to "supercharge" the economy (<https://www.reuters.com/article/us-health-coronavirus-usa/new-york-governor-meets-with-trump-to-push-for-infrastructure-investment-idUSKBN233102>)** by investing in infrastructure. He has been an open critic of Trump. However, he explained to reporters that he would discuss a federal role in investments into the nation's roads, bridges and rail systems.

Talk of infrastructure spending was dying down in early May. However, with more Republicans expressing their support for infrastructure spending lately, there is still hope that some additional funds could be deployed.

## **Protests (New)**

Protests have erupted all over the country in response to the George Floyd incident in Minneapolis. Social unrest is an unpredictable situation that can have a negative impact on markets when prolonged. It is important to keep a close eye on this situation as it unfolds.

## Last Week



**Monday:** Markets closed.

**Tuesday:** S&P 500 closed up 36.32 (+1.23%) to 2991.77. Markets gain steam on reopening optimism. More positive vaccine results.

**Wednesday:** S&P 500 closed up 44.36 (+1.48%) to 3036.13. Market closed above 200-day moving average, a significant technical level.

**Thursday:** S&P 500 closed down 6.40 (-0.21%) to 3029.73. Anxiety mounts ahead of Trump press conference.

**Friday:** S&P 500 closed up 14.58 (+0.48%) to 3044.31. Markets turn positive following press conference on China.

## Technical Look



From last week's Investing Hotsheet ([https://dreamwork.financial/wp-content/uploads/Investing-Hot-Sheet-5-26-20\\_-Dreamwork-Financial-Group.pdf](https://dreamwork.financial/wp-content/uploads/Investing-Hot-Sheet-5-26-20_-Dreamwork-Financial-Group.pdf)): "If the S&P breaks out to the upside, it would be getting into pre-pandemic levels – which would make me a little skeptical until we get more certainty in the economy." Well, the S&P broke above 3000, so be skeptical about how long this can last. Expect resistance on any significant move higher from here.

To the downside, expect some support at S&P 2900. If there is a break below that mark, look for additional support around 2800 and the 50-day moving average.

## My Takeaway

Markets have continued to move higher in spite of the negative economic data. There is no denying that the Fed has been a huge driver of this rally, but it's difficult to say how much longer the market can run based on stimulus alone. And, what will happen when the Fed runs out of effective ammunition?

We are getting close to pre-pandemic levels in the markets. Does that make sense? I agree that the recession was self-imposed and different, but it seems like the market is pricing in a flawless recovery.

Think about what has to happen for employment to get back to normal. Think about the number of bankruptcies. What are the odds that things go smoothly with China? And, we still have to get past the coronavirus.

I think that low rates and an aggressive Fed can offset some of the difference. But it can't offset it all. There has to be more data that indicates a quick recovery to justify this rally. I mentioned last week that the stock market may no longer be reflective of the overall "Main Street" economy. After all, most of the companies in the S&P 500 are giant, international companies and have access to leading edge technology that can dampen the effects of the coronavirus shutdowns.

There is a chance the markets continue to run higher, but I think that there is more downside than upside here. I think the positive headlines could be running out which would put more emphasis on fundamentals.

It may be a good time to get more conservative with your long-term positions. For your short-term, tactical holdings, I would remain neutral while having a little exposure to tech in case we are seeing a secular trend with tech adoption rapidly accelerating.

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Until next time,

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