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Worries over a second wave of COVID-19 sting the market. The Fed released their most recent statement. Protests continue throughout the country.

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The Hot List

↑ H O T

Coronavirus (+1)

Cases have started spiking in pockets across the county. Arizona, for example, is **back to experiencing record high cases (https://www.azcentral.com/story/news/local/arizona-health/2020/06/09/coronavirus-arizona-update-june-9-28-296-cases-1-070-known-deaths/5322756002/)** and hospitalizations. **Other states (https://www.usatoday.com/story/news/health/2020/06/11/coronavirus-experts-explain-why-covid-19-cases-spike-these-states/5333309002/)** seeing a sudden spike in COVID-19 cases include South Carolina, Florida, Alaska, Arkansas, California, Kentucky, New Mexico, North Carolina, Mississippi, Oregon, Tennessee, Texas, Utah and Puerto Rico.

Experts have several reasons (https://www.usatoday.com/story/news/health/2020/06/11/coronavirus-experts-explain-why-covid-19-cases-spike-these-states/5333309002/) why they think those states are seeing a rise in cases. Factors that may play a role in the recent spikes include loosening lockdown restrictions, isolated outbreaks and the virus catching up to communities previously not impacted. "This virus is much more spotty," said Arnold Monto, professor of epidemiology at the University of Michigan School for Public Health. He continued, "it is so complicated that when people give you a simple answer to this, it's probably not right."

Good news continues to surface regarding treatments. **Eli Lilly could have a drug approved for use as early as September (https://www.reuters.com/article/us-health-coronavirus-lilly-exclusive/exclusive-lilly-covid-19-treatment-could-be-authorized-for-use-as-soon-as-september-chief-scientist-idUSKBN23H35S)** if all goes well with at least one of their two antibody therapies.

China Trade War (-1) (https://www.nytimes.com/reuters/2020/05/01/business/01reuters-health-coronavirus-usa-china.html)

Trade tensions with China are impacting equity markets. Recently, **China passed a law (https://www.npr.org/2020/05/29/863770112/4-takeaways-from-beijings-hong-kong-power-grab)** which many believe would end Hong Kong's autonomy. After that, **President Trump held a news conference (https://www.npr.org/2020/05/29/864538684/trump-set-to-discuss-response-to-chinas-grab-of-hong-kong)** where he announced that he would be revoking many of the special privileges for Hong Kong.

Escalation of trade tensions between US and China could further damage the already weakening trade deal. If their deal starts to fall apart, markets and the world economy could suffer.

Federal Reserve (+1) (https://www.investors.com/news/economy/federal-reserve-meeting-wall-street-expects-yield-curve-control/)

The Federal Reserve completed their meeting last week. **They released their official statement (https://ca.finance.yahoo.com/news/fed-fomc-monetary-policy-decision-june-2020-133528214.html)** and noted that "financial conditions have improved." They left the fed funds rate at near zero and committed to increasing asset purchases over "coming months."

In addition, most of the 17 FOMC members **voted to keep the fed funds rate near zero (https://ca.finance.yahoo.com/news/fed-fomc-monetary-policy-decision-june-2020-133528214.html)** through the end of 2022. They believe keeping rates low can return the economy to pre-pandemic levels of activity.

The Fed's balance sheet continues to grow to an all-time high. Its asset holdings are now over 7 trillion dollars. The Fed's Main Street Lending Program has yet to open, which plans on offering five-year loans to small and medium-sized companies who are looking for a lifeline. The Fed recently lowered the minimum requirements to apply in an effort to serve more businesses.

Unemployment (-1)

After a **gain of 2.5 million jobs in the May jobs report (https://www.businessinsider.com/may-jobs-report-unemployment-rate-declines-nonfarm-payrolls-surprise-increase-2020-6)**, unemployment still remains high. Market participants are beginning to worry how many layoffs will become permanent. Prolonged unemployment could have a large negative impact on the economy. On the other hand, a significant improvement in employment over the coming months could signal a faster recovery.

Infrastructure (Unchanged)

Congress has been discussing an infrastructure bill for several months, and it seems to have some bipartisan support. Many believe an investment in infrastructure would lead to a stronger recovery. A large investment in infrastructure, after all, would be a boon for jobs and economic activity overall.

With congress discussing a Phase 4 stimulus bill, there is a good chance that infrastructure could be included if a bill is passed.

Corporate Debt (Unchanged)

In May, there were 27 companies with minimum $50 million in liabilities that **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.

If the economy has a sharp recovery, some of these highly indebted companies could have a fighting chance. In the absence of a swift recovery, expect more damage in this area.

Protests (Unchanged)

Protests continue 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. This could start to impact the overall market, but more importantly, it could have a major impact on individual companies branding. In times like this, funds that focus on Environment, Social, and Governance issues [ESG funds] tend to become more popular.

Last Week

Monday: S&P 500 closed up 38.46 (+1.20%) to 3232.39. No major headlines. Protests continue.

Tuesday: S&P 500 closed down 25.21 (-0.78%) to 3207.18. Fed meeting kicks off. Market awaits Fed announcement.

Wednesday: S&P 500 closed down 17.04 (-0.53%) to 3190.14. Fed decision announced. Fed Chairman Powell holds press conference.

Thursday: S&P 500 closed down 188.04 (-5.89%) to 3002.1. Covid-19 cases rise causing reopening pessimism.

Friday: S&P 500 closed up 39.21 (+1.31) to 3041.31. No major headlines.

Technical Look

The S&P 500 hit a wall trying to get past the 3200 level and has now fallen back to just above 3000. With the market holding 3000 last week, that was a good sign. However, it was only for a day.

Expect volatility to ramp up again. If the S&P 500 holds 3000, then look for resistance again back at 3200, to the upside. To the downside, look to the 2900 level for support near the 50-day moving average.

My Takeaway

For the last few weeks, I have been skeptical of a breakout much higher than 3000 on the S&P 500, since that would mean markets were back to pre-pandemic levels without any data to back it up. Since then, the markets did get a positive jobs report for May, giving at least some credence to this massive run.

It would be difficult for me to sum up **my perspective on the equity markets better than I did in last week's Investing Hot Sheet (https://dreamwork.financial/wp-content/uploads/Investing-Hot-Sheet-6-8-20_-Dreamwork-Financial-Group.pdf)**:

"This rally in equities has been quite a head-scratcher. We have acknowledged that there has been a disparity between the recovery in the stock market and the recovery in the economy. This most recent jobs report may help justify some of this rally. However I still contend that some of this seems like complacency. When markets are complacent, they are more susceptible to moves that catch investors off-guard. This happens to the upside and to the downside.

While I remain skeptical of this recent breakout, I can make a case for why it could continue. This can be the rich getting richer where the stock market is an indicator of "the rich" or companies with big balance sheets and access to capital.

This could be 5 years of tech adoption trends being pulled forward into a couple months. Once your grandmother starts buying groceries on the internet she may not be going back to the store. The companies benefiting from this are the giant public companies represented in the stock market, not mom and pops.

The economy could be getting back to normal sooner than expected. In addition to that, we have low interest rates and trillions of dollars in stimulus which could act as a giant tailwind.

While there are certainly reasons that this run can continue, there are many to remain skeptical. Investors seem confident that we are going to have a full recovery, but think about what has to happen to get there. Do you think people are just going to hop back on planes or pour into stadiums and restaurants? Think about it and then think about what the market is telling us.

What you should do now has a lot to do with your personal scenario. If you are older, retired (or close), or less risky, I would start to get a little more conservative if we go higher from here. However, if you are younger, riskier, or have a longer time horizon, it may be smart to continue to ride this momentum and see if the breakout continues.

From a tactical standpoint, I think you still have to have exposure to tech as this could be the moment in history where tech really starts to flex its muscle. Those with tech will flourish and those without it will be left behind. Just watch out for any pullback in the overall market as this area will be probably the hardest hit."

In the meantime, 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 in these challenging economic times.

Until next time,

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