Published
June 22, 2020

The U.S. is seeing a second wave of Covid-19. The Fed started buying individual corporate bonds. An infrastructure bill is gaining steam. Are China/US relations improving?

If you're looking for past Investing Hot Sheets please visit our Newsletter Archive (/newsletter-archive/).

The Hot List

↑ HOT

Coronavirus (Unchanged)

Worries over a second wave have picked up as **Florida, Arizona and Texas set new records for cases (https://www.nbcnews.com/news/us-news/florida-arizona-texas-set-records-new-covid-19-cases-n1231326)**. There has been a **spike here in my home state of Alabama (https://www.cnbc.com/2020/06/21/coronavirus-cases-spike-in-alabama-we-are-extremely-concerned-about-these-numbers.html)** that is gaining national attention as well.

Last week, Apple had to close 11 stores in 4 states (https://www.usatoday.com/story/money/2020/06/19/apple-coronavirus-closings-some-locations-temporarily-closing-covid-19/3222653001/) across the country. This is fueling some speculation that there may be a second shutdown. However, President Trump and numerous Governors say (https://www.cnbc.com/2020/05/21/trump-says-he-wont-close-the-country-if-second-wave-of-coronavirus-hits.html) that will not happen.

Optimism around an effective treatment surged last week. A widely available steroid called dexamethasone reportedly reduced deaths by a third (https://www.cnn.com/2020/06/16/health/dexamethasone-covid-drug-recovery-trial-bn/index.html) in the most critical cases.

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

Last Thursday, Trump threatened "complete decoupling" from China (https://fortune.com/2020/06/18/trump-china-complete-decoupling/) as tensions between the two countries continued. Then, on Friday, China announced (https://www.bloomberg.com/news/articles/2020-06-19/china-plans-to-accelerate-u-s-farm-purchases-after-hawaii-talks) they would be accelerating agricultural purchases from the U.S. to comply with the phase one trade deal.

At a minimum, this plan offers some relief at a time when trade anxiety was growing between these two superpowers. Analysts will be watching this situation closely in the coming weeks.

Unemployment (+1)

Unemployment seems increasingly likely to become a prolonged issue. Powell mentioned (https://www.reuters.com/article/us-usa-fed-powell-nevada/as-ground-zero-for-crisis-nevada-shows-need-for-fiscal-aid-feds-powell-idUSKBN23N30U) Nevada as ground zero for why the economic recovery may take a while. Sadly, a lot of these temporary layoffs may become permanent if the trend of small business closures (https://www.washingtonpost.com/business/2020/05/12/small-business-used-define-americas-economy-pandemic-could-end-that-forever/) continues.

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

The Fed announced (https://www.cnbc.com/2020/06/15/the-fed-says-it-is-going-to-start-buying-individual-corporate-bonds.html) that it will start buying individual corporate bonds. This wasn't a complete shock but they had only been buying ETFs previously. Chairman Powell answered questions before congress on Tuesday and Wednesday of last week. These hearings gave investors an idea of where the Fed is heading, and equity markets were flat in response

Infrastructure (Unchanged)

An infrastructure bill is really starting to pick up steam. A $1 trillion infrastructure bill was tossed around by the Trump administration on Tuesday. Then on Wednesday, **House democrats proposed a $1.5 trillion dollar bill (https://www.forbes.com/sites/mattperez/2020/06/18/house-democrats-introduce-15-trillion-infrastructure-bill/#7a4c3d506dff)** of their own.

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.

Last Week

Monday: S&P 500 closed up 25.28 (0.83%) to 3066.59. Markets were initially down on COVID-19 worries but rallied after the Fed announced the start of individual corporate bond purchases.

Tuesday: S&P 500 closed up 58.15 (1.90%) to 3124.74. Retail sales jump. Positive news announced for a COVID-19 treatment. Infrastructure bill mentioned. Powell spoke to Senate Banking Committee.

Wednesday: S&P 500 closed down 11.33 (0.36%) to 3113.41. Powell spoke to House Financial Services Committee. House Democrats introduce infrastructure bill.

Thursday: S&P 500 closed up 1.85 (0.06%) to 3115.34. Disappointing weekly unemployment number announced.

Friday: S&P 500 closed down 17.39 (0.56%) to 3097.95. Quarterly and Monthly futures expiration (quadruple witching). Apple closed stores in 4 states.

Technical Look

Last week, the S&P closed right at 3000 which was very significant. When the index held above 3000 and closed higher, it gave more credence to that level serving as future support. Since then, the S&P has traded in a range between 3000 and 3200.

To the downside, look for support around 3000, which is also the 200-day moving average. To the upside, expect resistance at the recent highs of 3200.

My Takeaway

This market continues to be resilient. The indices continue to rise in spite of poor economic data, poor health data and no immediate treatment available for COVID-19. There are clearly two stories being told right now in the market, and I can make a case for each one.

Companies that are in the S&P 500 are generally thought of as the biggest and best run companies, not only in the US, but in the entire world. They have balance sheets large enough to survive, better access to capital, better technology and more data. Some of these companies may even benefit from what is happening with the pandemic.

As we've mentioned for weeks, the recent market moves could be years of tech adoption pulled forward. When this happens it's not the small "mom and pop" companies that benefit. It's the giant publicly traded companies. We could possibly be watching one of the most hated stock rallies of all time. The rich may just be getting richer.

However on the flip side, this market is showing all the classic signs of a bubble. Watching bankrupt Hertz go to $6/ share and hearing a day trader call Warren Buffett a moron are typically signs of a top.

As an example, newly traded Nickola Motors has the same market cap as Ford and has never sold a single unit. By comparison, Ford sold 2.4 million units in 2019. This reminds me, in a way, of the internet stock frenzy at the end of the 90's. Those aren't exactly the things that make me feel bullish about things in the short-term.

So, with all that said. This is why it's important to stick to your long-term strategy and to have a tactical portion of your portfolio that is flexible in the short term. It may be smart to get a little more conservative with your long-term strategy here as the fundamentals appear stretched. However, I would still want exposure to tech to take advantage of the mass new adoption that is taking place. I would also want some gold or gold miners here to position for possible inflation to come on the back of all the cheap money out there.

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,

Clint