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The market breakout continues. China tensions are heating up. Jobs were added in May. Could there still be a second wave of COVID-19?

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The Hot List

↑ HOT

China Trade War (Unchanged) (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. After that, 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.

This past Wednesday, President Trump announced that he would ban Chinese passenger air carriers from entering the US. Then China announced that they would allow US carriers to resume flying into their country. Once this happened, President Trump decided against the previous ban. The important point is that the Phase One deal needs to stay intact.

Coronavirus (Unchanged)

All 50 states have started reopening. The CDC worries that the public isn't taking its advice. The number of cases are continuing to rise. Now with protests going nationwide, there have been giant superclusters of people with the potential for massive spreading.

However, this could actually start to become a positive. If we can make it through two more weeks without a massive second wave, then people may start to feel more confident about going out. And just this past week, **Dr. Fauci said there doesn't necessarily have to be a second wave (https://www.cnbc.com/2020/05/27/dr-anthony-fauci-says-a-second-wave-of-coronavirus-is-not-inevitable.html)**.

It seems like we are coming to a fork in the road on this.

Unemployment (+1)

The May jobs report reported a surprising gain of 2.5 million jobs (https://www.businessinsider.com/may-jobs-report-unemployment-rate-declines-nonfarm-payrolls-surprise-increase-2020-6). Most economists were expecting a loss of 7.5 million jobs. This caused the unemployment rate to decline to 13.3 %.

However, this weekend it is being reported **that a "miscalculation error" actually results in the unemployment rate being around 16%. (https://www.pbs.org/newshour/show/the-may-jobs-report-misclassification-error-explained)**

So whether, the unemployment rate 13% or 16%, it is still one of the highest levels since the Great Depression. If a lot of these temporary layoffs become permanent, the economy is going to feel their impact.

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

The status of a Phase 4 stimulus bill has been up in the air for a while now. The latest positive jobs report may have hurt its chances even more. However 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.

Infrastructure (+1)

Recently, **Gov. Cuomo met with Trump to discuss how to "supercharge" the economy by investing in infrastructure (https://www.reuters.com/article/us-health-coronavirus-usa/new-york-governor-meets-with-trump-to-push-for-infrastructure-investment-idUSKBN2331O2)**. 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.

Corporate Debt (-1)

In May, there were 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.

If the economy could have a sharp recovery, some of these highly indebted companies could have a fighting chance. But anything short of that and I would expect some more damage to come in this area.

Protests (Unchanged)

Protests have continued 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 a little, but could have a major impact on individual companies from a branding aspect. ESG funds could start to get more attention too.

Last Week

Monday: S&P 500 closed up 11.42 (0.38%) to 3055.73. Market shrugs off protests.

Tuesday: S&P 500 closed up 25.09 (0.82%) to 3080.82. Momentum continues. No major headlines.

Wednesday: S&P 500 closed up 42.05 (1.36%) to 3122.87. May ADP report is released.

Thursday: S&P 500 closed down 10.52 (0.34%) to 3112.35. Weekly unemployment claims are announced.

Friday: S&P 500 closed up 81.58 (2.62%) to 3193.93. Official jobs report showed economy added 2.5 million jobs versus an expected loss of 7.5 million jobs.

Technical Look

The S&P 500 has continued the breakout from two weeks ago where we breached the 3000 level. That was also the 200-day moving average so we knew breaking it would be significant. I'd look to this spot for support if/when we get a major pullback. To the upside, I don't see much resistance until we get near the all-time highs of 3400.

My Takeaway

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 pull 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 benefitting from this are the giant public companies represented in the stock market, not mom and pops.

The economy could 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.

Value stocks have also started coming into favor for the first time (in years it seems) as the reopening theme is gaining steam. As the market gets a little "frothy", investors may start looking to fundamentals (like cash flow) again. This would be healthy for the market so it's certainly something to watch.

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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