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The U.S. is seeing record numbers of COVID-19 infections. Tensions with China are escalating again. The S&P is nearing an important technical level.

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The Hot List

↑ HOT

Coronavirus (Unchanged)

We are now seeing **record case numbers for COVID-19 (https://www.cidrap.umn.edu/news-perspective/2020/07/us-notes-62000-covid-cases-another-record-breaking-day)** in the U.S. Now, after months of decline, we are seeing **the death rate tick up again (https://www.washingtonpost.com/politics/after-months-of-decline-americas-coronavirus-death-rate-begins-to-rise/2020/07/10/261fb24a-c2cd-11ea-864a-0dd31b9d6917_story.html)**. And while this is happening, **President Trump has** slammed the CDC (https://www.npr.org/2020/07/08/888898194/trump-blasts-expensive-cdc-guidelines-for-reopening-schools) and its guidelines for reopening schools.

Gilead announced that its treatment, Remdesivir, considerably reduced COVID-19 deaths (https://time.com/5865491/remdesivir-covid-study/). Dr. Fauci said that Moderna's vaccine is very likely to enter phase 3 (https://www.reuters.com/article/brief-nihs-fauci-says-modernas-vaccine-v/brief-nihs-fauci-says-modernas-vaccine-very-likely-in-phase-three-by-end-of-month-idUSL1N2EG19G) by the end of the month. He also reiterated his optimism that a vaccine will be ready by the end of the year.

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

President Trump made comments last week (https://www.newsbreak.com/news/0PZcLm6I/2nd-phase-of-china-deal-in-doubt) that suggested Phase 2 of the trade deal with China is a low priority. The relationship between the two economic superpowers has become "severely damaged" after the passing of the controversial Hong Kong security law (https://www.bbc.com/news/world-asia-china-53230391). The White House has also criticized Beijing for the handling of the coronavirus pandemic.

The U.S. is looking at banning Chinese apps (https://www.cnn.com/2020/07/07/tech/us-tiktok-ban/index.html) such as TikTok according to Secretary of State Pompeo. There is also increased scrutiny of Chinese companies that are listed on U.S. exchanges. The Senate passed a bill (https://www.forbes.com/sites/sergeiklebnikov/2020/05/20/chinese-companies-must-play-by-american-rules-or-be-banned-from-us-exchanges-senate-rules/#60b0b94c55cb) that would force Chinese companies to play by American rules or be banned.

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

There was a disagreement between the Treasury and the Federal Reserve (https://theweek.com/speedreads/925097/treasury-fed-reportedly-disagree-over-how-much-risk-government-should-take-part-lending-program) on how much risk the government should take as it rolls out the $600 billion Main Street Lending

Program. A phase 4 stimulus bill seems like a guarantee, but the details are still up in the air. President Trump said it should be "generous" but there are few other details at this time.

Corporate Debt (+1)

Brooks Brothers and Sur La Table **filed for bankruptcy (https://www.wbur.org/hereandnow/2020/07/10/bankruptcy-covid-19-muji-aldo)** last week. These companies represent the latest in a long list of casualties resulting from the COVID-19 pandemic. A Fed official **recently mentioned (https://www.theglobeandmail.com/business/economy/article-fed-official-warns-covid-19-bankruptcies-could-trigger-a-financial/)** that ongoing bankruptcies could potentially spark another financial crisis.

Election (-1)

Many polls are now projecting Biden to win in November. Former VP Biden **says he will end most of Trump's tax cuts. (https://thehill.com/homenews/campaign/505170-biden-tells-potential-donors-he-would-end-trump-tax-cuts-even-though-manyhttps:/www.cnbc.com/2020/06/29/biden-tells-donors-he-will-end-most-of-trumps-tax-cuts.html)** He wants to end **"shareholder capitalism" (\My%20Drive\WSS%20Desktop%20Folder\Dreamwork%20Financial\Content%20-%20DW\2020-07\2020-07-13-hotsheet\Biden%20calls%20for%20the%20end%20of)** by closing loopholes such as capital gains and stepped-up basis. He also mentions he could hike the corporate tax rate to 28%.

However, Biden could have much better trade relations with China, which would be a welcome changed for the markets.

Unemployment (Unchanged)

Unemployment is becoming a prolonged issue. The weekly claims continue to exceed expectations. Sadly, a lot of the 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.

Infrastructure (Unchanged)

The House **passed another infrastructure bill (https://www.politico.com/news/2020/07/01/house-infrastructure-bill-347355)** last month. Infrastructure spending continues to make sense here. However, the big question is whether our government is too divided to agree on a bill that President Trump will sign.

Last Week

Monday: S&P 500 closed up 49.71 (+1.59%) to 3179.72. Berkshire Hathaway buys Dominion Energy. Uber buys Postmates.

Tuesday: S&P 500 closed down 34.40 (-1.08%) to 3145.32. COVID-19 cases surge.

Wednesday: S&P 500 closed up 24.62 (+0.78%) to 3169.94. COVID-19 cases continue to rise.

Thursday: S&P500 closed down 17.89 (-0.56%) to 3152.05. U.S. sets record for COVID-19 daily cases.

Friday: S&P 500 closed up 32.99 (+1.05%) to 3185.04. U.S sets record for COVID-19 daily cases. COVID-19 treatment data is encouraging.

Technical Look

The S&P 500 bounced off 3000 two weeks ago and settled firmly back into the middle of the latest trading range of 3000 – 3200. The last time the index climbed to near 3200, it dropped from 3190 to 3000 in one trading day.

So, the 3200 level remains as very significant as resistance to the upside. If the S&P 500 breaks through that level, then it could continue to break out higher. To the downside, continue to monitor the 3000 level which has held as support three separate times in recent months.

My Takeaway

The last few Investing Hot Sheets probably sound like a broken record. The market indexes continue to rise in the face of a terrible economy. But it seems the Fed is ready and willing to do whatever it takes to support the stock market. As the Fed stimulates the economy, publicly traded companies are best positioned to benefit due to their access to technology and economies of scale.

The recent surge in COVID-19 cases is further prolonging the economic recovery. If cases continue to rise at this rate, we may see states reverse course on their re-opening plans or enforce harsher lockdown measures. This would not be good news for companies on the brink of bankruptcy or the unemployed.

Right now, it seems like stocks are shrugging off the fundamentals and focusing on the headlines. There seems to be just enough optimism on the vaccine and treatment front combined with the aggressive Fed to keep the rally intact, in the short run. However, I can only wonder how long this trend will last. Eventually, fundamentals will matter.

I still believe it's smart to be conservative with your core portfolio at these levels, simply because valuations are historically high. But with low interest rates limiting our investing alternatives, some investors may see the need to deploy a portion of their funds toward more tactical investments.

The technology sector continues to have its moment as more people adapt to working and shopping from home. I expect many of those trends will continue after the pandemic is behind us.

I also think gold is an attractive investment here, with near-zero interest rates and massive worldwide stimulus taking place. Historically, an "easy-money" environment has been a recipe for inflation, and gold is widely seen as one of the most effective hedges against the devaluation of paper currency.

If you think the economy will recover more quickly that others expect, then it may be time to start a position in the hospitality or travel names. But if you think the economy will get worse before it gets better, then look to defensive plays such as healthcare, utilities, or consumer staples.

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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