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*The S&P 500 is at the top end of the range. The U.S. sets a daily record for COVID. China relations are deteriorating. Big week of earnings on the horizon.*

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## The Hot List

### ↑ Coronavirus (Unchanged)

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The U.S. set another daily record for COVID-19 (<https://www.cidrap.umn.edu/news-perspective/2020/07/us-sets-daily-covid-19-record-75000-new-cases>) cases last week with over 77,000 new cases. States such as Georgia and Arizona are having to look to neighboring states to take on overflow hospital patients. Florida, Texas and California now account for nearly one-fifth of the world's new cases (<https://www.nbcnews.com/news/us-news/florida-texas->

california-account-about-one-fifth-world-s-new-n1233793). As these cases continue to surge, states may have to stop with their reopening plans and may be forced to shut down again.

Moderna provided more optimistic vaccine news. Their most recent trial showed that the vaccine produced a “robust” immune response (<https://www.bloomberg.com/news/articles/2020-07-14/moderna-vaccine-produced-antibodies-in-all-patients-tested>) from all people tested in the trial. The vaccine created antibodies in each person tested in its initial safety trial.

## **China Trade War (Unchanged)**

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

President Trump announced last Tuesday that he signed legislation sanctioning China (<https://www.cbsnews.com/news/donald-trump-covid-19-press-conference-white-house-rose-garden-watch-live-stream-today-2020-07-14/>) for suppressing freedoms in Hong Kong. He also signed an order ending U.S. preferential treatment for Hong Kong. He said that Hong Kong will now be “treated the same as mainland China.”

Also during the announcement he stated that “we hold China fully responsible for concealing the virus and unleashing it upon the world.” President Trump also reiterated that he has no plan to speak to President Xi Jinping in the near future.

Secretary of State Pompeo announced that most of China’s maritime claims in the South China Sea were “completely unlawful” (<https://www.nytimes.com/2020/07/13/world/asia/south-china-sea-pompeo.html>), which could set up more sanctions or possible military confrontations in the future.

## **Federal Reserve (Unchanged)**

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

Fed Governor Lael Brainard said that this economic recovery from the pandemic will likely have a hard time gaining traction. She mentioned that **more tools will be needed** (<https://www.marketwatch.com/story/feds-brainard-eyeing-weak-recovery-says-new-policy-tools-may-be-needed-2020-07-14>), specifically a new policy tool known as yield curve control. Brainard felt this tool could boost economic growth while the economy is likely to face headwinds.

## Earnings (New)

This is an important week for earnings with companies such as Microsoft and Tesla set to report. Many companies have had big runs coming into these announcements so expectations will be pretty high.

## 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-many><https://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 change for the markets.

## Unemployment (+1)

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.

## Corporate Debt (-2)

Here is a running list of the retail casualties

(<https://www.retaildive.com/news/the-running-list-of-2020-retail-bankruptcies/571159/>) that occurred during the 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.

## 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 down 29.82 (-0.94%) to 3155.22. S&P hits technical resistance. California rolls back reopening.

**Tuesday:** S&P 500 closed up 42.30 (+1.34%) to 3107.52. Earnings season kicks off.

**Wednesday:** S&P 500 closed up 29.04 (+0.91%) to 3226.56. Moderna vaccine provides optimism. Goldman earnings announced.

**Thursday:** S&P 500 closed down 10.99 (-0.34%) to 3215.57. Worse-than-expected jobless claims.

**Friday:** S&P 500 closed up 9.16 (+0.28%) to 3224.73. No major news.

## Technical Look

The S&P 500 began the week near highs which have defined the upper end of the trading range. Once the S&P touched those highs Monday, the index retreated back into the middle of the range. However, by the middle of the week it was back near the highs where it stayed until Friday's close.

The S&P 500 appears poised for a big technical move from here. If it breaks above the resistance of 3235, it will be in uncharted territory. But if the index fails to break the resistance, expect another very sharp pullback with 3000 as potential support to the downside.

## My Takeaway

Wall Street and Main Street are telling two different stories. The S&P is on the verge of hitting new highs while unemployment still remains in double digits. The pandemic is really making it hard to see a v-shaped recovery in the economy, yet equities are already there.

The economy is so uncertain that I've said for weeks that I can make a case for the market going up or down here. On the bull side, near-zero rates and an aggressive Fed are giving investors few other alternatives to get a decent return on their money. After all, many of the companies in the S&P don't reflect Main Street, as they are massive, global, technologically advanced corporations. They are exactly the type of companies that stand to benefit from the current social distancing trends.

On the bear side, I can see signs of bubbly conditions that are a result of the same low rates and aggressive Fed that I mentioned in the bull case. With so much money getting pumped into financial markets, investors could be losing sight of fundamentals and chasing the growth names. At some point valuations will start to matter again, and that could be a big problem for stocks.

A big week for earnings is coming up with many of the “high flyers” reporting. I think it’s very important to keep an eye on the 3235 technical level to see which way the index is heading. The last two times we have hit this level, the market has retreated. If the index can break through the resistance this time, it would be very significant.

Right now, I still recommend staying conservative with your core portfolio as valuations are historically high. But this is also still a good spot to stay active with the tactical portion of your portfolio.

Technology appears to be having its moment. I believe it will continue to benefit from the “working from home” trend, especially if these trends continue after the pandemic is over.

Gold also remains attractive with near-zero interest rates and massive worldwide stimulus. Gold is usually a beneficiary from “easy money” policies.

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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