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Tech stock earnings are on the rise. The COVID-19 pandemic hits a new "phase." Tensions with China shift focus to technology. Stimulus talks hit a snag.

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The Hot List

↑ HOT

Coronavirus (Unchanged)

Deborah Birx, the physician overseeing the White House coronavirus response, **warned that the U.S. has entered a new phase (https://www.washingtonpost.com/nation/2020/08/02/coronavirus-covid-updates/)** of the pandemic with a sharp increase in infections and rising death tolls. She stated, "what we're seeing today is different from March and April. It is extremely widespread."

July saw record numbers regarding COVID-19. The U.S. recorded 42% of all cases last month. Also, **over 25,000 deaths (https://thehill.com/policy/healthcare/510103-us-posts-more-than-25000-covid-19-deaths-in-july)** were reported. On a positive note, scientists are getting closer to a creating a vaccine. Many predict a vaccine could be ready by the end of the year. **A coronavirus vaccine (https://www.theguardian.com/world/ng-interactive/2020/aug/02/coronavirus-vaccine-tracker-how-close-are-we-to-a-vaccine)** tracker is available online for those who want to keep track of the progress.

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

Tensions with China are growing. The U.S. has recently shifted its focus to Chinese software. Last week, President Trump **threatened to ban TikTok (https://www.nytimes.com/2020/08/01/technology/tiktok-trump-microsoft-bytedance-china-ban.html)** via an executive order. Then on Sunday, Secretary of State **Pompeo indicated (https://www.bloomberg.com/news/articles/2020-08-02/u-s-to-act-against-array-of-china-software-risks-pompeo-says)** that the Trump administration plans to announce measures shortly against “a broad array” of Chinese-owned software. This seems to imply that future bans may affect more than just TikTok.

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

It seemed last week that a bipartisan agreement would be reached regarding a coronavirus stimulus package. However, Sunday it sounded like they were far apart as House Speaker Pelosi and Treasury Secretary Mnuchin **appear to have dug in (https://www.cnn.com/2020/08/02/politics/stimulus-negotiations-pelosi-mnuchin-coronavirus/index.html)** on their positions.

The Fed met last week for their 2-day July meeting. Rates were held near zero as expected. They said economic growth is “well below” pre-pandemic levels but employment is starting to tick up. They also reiterated that they would keep rates near zero for as long as it takes.

Earnings (-1)

Last week, a majority of the major, mega-cap tech companies reported earnings. These included Apple, Amazon, Alphabet, and Facebook. The bar was already set high for these companies, but they still managed to beat expectations, even topping the highest analyst's estimates.

Election (Unchanged)

Many polls are projecting Biden to win in November. This could cause a disruption for the stock market. 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" 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 should have much better trade relations with China, which would be a welcome change for the markets.

Corporate Debt (Unchanged)

To date in 2020, twenty-one different public and private retailers have filed for bankruptcy. This is more than double the number seen by this time last year. Here is a **running list (https://www.retaildive.com/news/the-running-list-of-2020-retail-bankruptcies/571159/https:/www.retaildive.com/news/the-running-list-of-2020-retail-bankruptcies/571159/)** of retail bankruptcies that occurred during the pandemic. A Fed official **mentioned recently (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.

Unemployment (Unchanged)

Unemployment remains a major issue. There are increasing signs that many of these "temporary" layoffs will become permanent if there is a continued rise in **small business closures (https://www.washingtonpost.com/business/2020/05/12/small-business-used-define-americas-economy-pandemic-could-end-that-forever/)**.

Infrastructure (Unchanged)

With the economic destruction that has taken place, an infrastructure bill makes sense here. Both parties keep mentioning infrastructure, but it appears the subject has gotten swept to the side at the moment. We'll continue to keep an eye on this going forward.

Last Week

Monday: S&P 500 closed up 23.78 (+0.74%) to 3239.41. Tech stocks rallied ahead of earnings.

Tuesday: S&P 500 closed down 20.87 (-0.64%) to 3218.54. Stimulus talks hit a snag.

Wednesday: S&P 500 closed up 40.17 (+1.25%) to 3258.71. Tech CEOs testified in antitrust hearing. Fed makes July announcement.

Thursday: S&P 500 closed down 12.22 (-0.38%) to 3246.22. U.S. suffered record quarterly GDP decline.

Friday: S&P 500 closed up 24.90 (+0.77%) to 3271.12. Tech giants blow out earnings estimates.

Technical Look

The 3200 level on the S&P 500 has served as resistance, marking the top end of the range. Recently, it broke out of this range and is now showing signs of support at 3200. This support has only lasted a few days, so more data is needed to confirm it. This could be significant going forward.

My Takeaway

In the **last Investing Hot Sheet (https://dreamwork.financial/wp-content/uploads/Investing-Hot-Sheet-7-27-20-_-Dreamwork-Financial-Group.pdf)**, I mentioned that it felt like the S&P 500 was getting ready to make another big move. The index had been pushing into resistance at the upper end of the trading range for a couple weeks. Now that we've made it through this big week of headlines, there is a decent chance the move could be higher.

So, if the S&P 500 holds 3200, the index could be ready to test the all-time high. If it drops below 3200, it will probably drop in a big way, heading back toward 3000.

For months I've said that it seemed like there are two different economies, Wall Street and Main Street. After seeing the blow out earnings from the tech giants last week, we can break it down much more clearly. There is the digital economy, which was made for this moment. And there is brick and mortar, which is on life support.

Investors are currently faced with a few scenarios. They can invest in the tech companies which are dominating but priced at high valuations. They could sit on the sidelines and potentially lose to inflation that may be coming. Or, they can invest in stocks that are tied to the traditional economy, in a time where things probably won't look the same on the other side of the recovery.

As investors, you should prepare yourself based on your individual circumstances. If you are older, or have a low tolerance for risk, then you may want to get a bit more conservative with your core holdings. However, if you are younger, or have a larger appetite for risk, then you may want to stay aggressive. Those with longer time horizons generally have more time to recover from a sharp decline.

I still contend that gold remains attractive as a tactical position, due to weakening of currencies around the globe. Overseas markets also look good with many of the U.S. trades getting crowded at the moment. However, you may want to start nibbling back into tech as those companies were made for this moment. Just be careful as they will probably sell off the worst in the event of another sharp pullback.

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

Investments involve risk and, unless otherwise stated, are not guaranteed. Be sure to first consult with a qualified financial adviser and/or tax professional before implementing any strategy discussed herein. Past performance is not indicative of future performance.