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Mega cap tech got a little too hot. CDC tells states to prepare for vaccine in October. Stimulus hits an "impasse." China takes aggressive steps to protect its tech industry.

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The Hot List

↑ HOT

Mega Cap Tech (Unchanged)

Mega cap tech stocks led a major selloff late last week. Positive sentiment **reached levels (https://www.bloomberg.com/news/articles/2020-09-03/bears-roar-back-sending-tech-shares-tumbling-by-most-since-june)** previously seen in the dot-com bubble which was a major cause for concern.

Apple had gotten larger than the entire Russell 2000 and had gained an entire Wa Mart in market cap with no new announcements to justify it.

There was word of a potential "Nasdaq Whale" which could have something to do with the run up in these mega cap tech stocks. The **Financial Times reported (https://www.ft.com/content/75587aa6-1f1f-4e9d-b334-3ff866753fa2)** SoftBank has spent over $4 billion the last few months buying options on the tech giants.

Coronavirus (Unchanged)

CDC tells states they **should prepare to distribute (https://www.cnn.com/2020/09/02/health/cdc-covid-19-vaccine-distribution/index.html)** Covid-19 vaccines as soon as late October. It also provided planning scenarios to help states prepare and advised on who should get vaccinated first.

The FDA Commissioner **recently said (https://www.cnn.com/2020/09/02/health/cdc-covid-19-vaccine-distribution/index.html)** it's possible the FDA could authorize an experimental vaccine before large Phase 3 trials are complete.

Election (+2)

This year's election looks likely to be "the most litigated in history," **according to Thomas McLoughlin (https://www.marketwatch.com/story/stock-market-investors-biggest-election-fear-a-contested-outcome-11597785560)** at UBS. Plaintiffs have already filed lawsuits in 41 states over voting procedures in the wake of the pandemic. Combined with fears over voter suppression, fraud, and confusion over mail-in voting, the election could be contested regardless of the outcome. In that scenario uncertainty could likely wreak havoc on the stock market.

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

Congress is at a "tragic impasse" when it comes to the **next round of stimulus (https://www.forbes.com/sites/zackfriedman/2020/08/29/stimulus-package-update/#cf99e8677e96)**, says Sen. Pelosi. She recently told Republicans there would be no further discussions until they agreed to double the size of their proposal to $2.2 trillion.

China Trade War (-1) (https://www.nytimes.com/reuters/2020/05/01/business/01reuters-health-coronavirus-usa-china.html)

China has taken **aggressive steps (https://nypost.com/2020/09/03/china-asserts-right-to-veto-tech-deals-in-threat-to-tiktok-sale/)** to protect its technology industry. These measures have come in response to moves by the Trump administration toward forcing a sell of TikTok's U.S. business. China added 23 items to a list of technologies that would require Beijing's approval, including algorithms and A.I. that are crucial to TikTok's operations.

Unemployment (Unchanged)

The unemployment rate **dropped last month (\Users\clint\OneDrive\Desktop\However,%20this%20number%20may%20be%20a%20little%20inflate)** from 10.2% in July to 8.4%. This number may be a little inflated as job growth was buoyed by the hiring of 240,000 census workers, most of whom will be laid off when canvassing ends in late September. While 8.4% unemployment is still very high, this is a nice drop from the 15% peak in April.

Corporate Debt (Unchanged)

Small business is closing at **twice the rate (https://www.cnbc.com/video/2020/08/20/small-businesses-fewer-than-500-employees-are-closing-at-rates-twice-of-bigger-companies.html#:~:text=A%20new%20study%20by%20Kronos,as%20PPP%20loans%20run%20out.)** of bigger companies during the pandemic, according to a study by Kronos.

Infrastructure (Unchanged)

Infrastructure Should become a topic in the election too. Both sides agree that they want an infrastructure bill, but what it looks like could be different.

Here's (https://www.bloomberg.com/news/articles/2020-06-16/trump-team-weighs-1-trillion-for-infrastructure-to-spur-economy) a look at Trump's infrastructure plan. **Here's (http://:%20https:/www.cnbc.com/2020/07/14/joe-biden-unveils-green-jobs-and-infrastructure-plan-during-2020-election.html)** a look at Biden's infrastructure plan.

Last Week

Monday: S&P 500 fell 7.70 (-0.22%) to 3500.31. No major headlines.

Tuesday: S&P 500 rose 26.34 (+0.75%) to 3526.65. U.S. factory orders jump to 16-year high.

Wednesday: S&P 500 jumped 54.19 (+1.54%) to 3580.84. ADP report shows private payrolls grew but below expectations.

Thursday: S&P 500 dropped 125.78 (-3.51%) to 3455.06. Major selloff led by mega cap tech crash. Weekly jobless numbers reported.

Friday: S&P 500 fell 28.10 (-0.81%) to 3426.96. Jobs report shows August unemployment dropped sharply.

Technical Look

After breaking out to new highs, the S&P 500 finally ran out of steam around the 3580 level. It sharply corrected late last week which briefly brought it below the prior support of 3400. The S&P did close above 3400 so that level could still be supportive if there is a move to the downside. If it breaches 3400, it could take us back toward the 3200 level, which was previous support.

My Takeaway

To those who read **last week's Hot Sheet, (https://dreamwork.financial/wp-content/uploads/Investing-Hot-Sheet-8-31-20-_-Dreamwork-Financial-Group.pdf)** the selloff last week shouldn't have been a surprise. Mega cap tech had just taken the top spot of the Hot Sheet as tech valuations became very difficult to justify. U.S. tech stocks had become bigger than the entire European stock market and Apple had gained an entire Wal-Mart in market cap since the beginning of August. Things were definitely a little crazy.

I **wrote (https://dreamwork.financial/wp-content/uploads/Investing-Hot-Sheet-8-31-20-_-Dreamwork-Financial-Group.pdf)** "there is a saying in bull markets, stocks 'take the stairs up and the elevator down' and that's what I'm expecting." Well, that's just what we got as stocks "took the elevator down late last week," led by the selling in darlings like Apple and Tesla.

While there is definitely "froth" in these markets, I feel like we are overdue for a rotation into the value and cyclical stocks, which are largely tied to the traditional economy. If there is any hope to this rally sustaining, that is what investors will want to see going forward from here. If it is strictly unwinding the Covid winners, then this correction could have a good bit more to go.

However, we continue to receive positive news on the reopening front as we are getting closer to having a vaccine and widespread, rapid testing available. As the market is forward-looking, anything that can provide a light at the end of the tunnel would be fuel for the bulls. This was confirmed as there was a definite trend toward the reopening trades such as cruise ships and airlines were among the best performers.

It will be key to watch the technical levels early this week to see how markets respond to the selling last week. 3400 on the S&P had been a very important level as it was the most recent resistance-turned-support level. The selling Friday caused the S&P to dip below 3400 only to close higher at 3426. If it breaks below 3400, this would be significant and would probably bring out more sellers to force it back into the trading range from previous months (3200-3400). However, if it holds, there is a good chance that it races back toward last week's highs of 3500+.

The "easy money" policies are certainly making it more difficult to determine the fair value of stocks. There is actually a decent chance that it could fuel a bubble that could continue for a while. The stock market could just be getting "inflated" at the expense of the Fed. This can happen when you combine low rates, lack of alternatives and added speculators.

Due to these conditions, I'd recommend trimming your tech winners and rotating into some value names with stronger fundamentals. I also still like physical assets like timber and precious metals as well as some overseas markets like Japan and India, which lagged mu of the U.S. rally.

Just remember all investors have different goals and risk tolerances. What may be right for you may be different than others. If you need help finding your own personal strategy during these turbulent times, **contact DreamWork Financial Group (https://dreamwork.financial/contact/)** and get set up with an Investing Gameplan™ today.

Until next time,

Clint Kirby

Chief Financial Strategist

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