What's Up with the Market – January 2020

Market News (https://dreamwork.financial/category/market-news/)

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Since last month:

Last month (https://dreamwork.financial/2019-12-whats-up-market/), I left off starting to feel a little nervous about the market. I thought it was very interesting how this time last year you could hardly find anyone to say something positive about the market and this year it's quite the opposite. Last year, investors were expecting the Fed to raise rates multiple times and instead they cut rates, while the market went on to have one of its best years ever.

Now, everyone seems bullish, but why would we think they've got it right this time.

Cheap rates and lots of liquidity have done a lot to boost asset prices, including stocks, but eventually the real economy will start to show through. And that's what matters. With earnings season getting started we should soon have an idea how our economy looks.

Here's what could impact the current stock market rally.

Election:

One topic which will start to drive market headlines is the upcoming election. As we get closer to the Iowa caucus, it will be all we hear about. The market may seem scared of certain candidates because of their stance on Wall Street. If it starts looking like one of them has a real shot, expect the market to start reflecting the worry.

Impeachment

Speaking of uncertainty surrounding the White House, the Senate impeachment trial has begun. The market seems convinced that President Trump will remain in office, but if things start to change, expect a major selloff.

Coronavirus:

A new worry has arisen since the US had its first confirmed case of coronavirus. It has killed 18 and infected over 600 abroad. This could have major ramifications for the travel industry and the overall market, if things continue to escalate.

Iran:

The major news earlier this month was the announcement that a top Iranian general, Suleimani, was killed via drone strike ordered by President Trump. Iran retaliated and accidentally downed an airliner. Things have cooled down a bit since then but that could change at any moment. This situation is still something to keep an eye on.

Trade War:

US and China officially signed "Phase One" trade deal on Jan 15. China agreed to buy more from the US but the tariffs still remain in place. However, their status as a currency manipulator was lifted. "Phase Two" negotiations were said to start immediately and should hold much more substance than "Phase One" as they will deal with copyrights, privacy and security issues. I think the positives around the trade deal had more to do with removing the negative cloud. I think the markets would like to see China come to the table on those issues, but I don't see a great deal of optimism in the markets at this time.

Federal Reserve:

The Fed remains in a "wait and see" approach, sitting on their hands until data forces a move. Inflation is the main culprit that could cause them to adjust rates, but right now it doesn't seem to be an issue. If you start to see significant signs of inflation where the Fed has to act, I would start to seriously worry about the rally coming to an end. Low rates and a growing Fed balance sheet have been responsible for a large portion of the current rally. If those start to reverse, I'd expect the market to reverse as well.

Technicals:

Technical levels remain in uncharted territory as we are hitting all-time highs with the Dow at 29,000, the S&P at 3300 and the Nasdaq at 9000. Breaking above all previous resistance has certainly given more fuel to this melt up. We have risen a good deal above the major support levels like the 50 day and 200 day moving averages so any pullback could be quite sharp.

Earnings season:

Earnings season is just kicking off. Analysts are expecting earnings to decrease around .3% for the fourth quarter, but they seem optimistic that we could see a rebound in earnings growth for 2020. If the forecasts don't match up with growth expectations, the market could be over its skis.

Tech Sector:

Another point that could be of concern is the size of some of these mega-cap tech companies. Apple and Microsoft alone are each over a trillion dollars in market cap and make up roughly 10% of the overall S&P 500. Considering that the S&P 500 is the index that most passive managers use to invest retirement such as 401ks, there appears to be a lot of public exposure to these companies. While the current multiples are not screaming out as crazy expensive, it makes me wonder what could happen to the market if something were to disrupt the tech sector and cause a downtrend.

Conclusion:

As you can see there is a minefield of catalysts out there, some positive and even more of them negative. There are a lot of reasons to be nervous but you'd have to be crazy to think that President Trump doesn't have a few more tricks up his sleeve, like tax cuts, intended to preserve re-election.

Also, be very cautious of any signs of inflation which could cause the Fed to start tightening. Also stay alert to anything that could cause a downtrend in the mega-cap technology stocks. However, if all remains stable and rates stay low, this rally could have plenty of time left.

Please stay tuned for additional newsletters, interesting content and other exciting news coming in 2020. In the meantime, **contact DreamWork Financial Group (/contact/)** if you'd like a custom investment portfolio designed to meet your financial goals.

Until next time,

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