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The S&P shows signs of life after a 10% correction from the peak. Europe facing second wave of Covid-19. Trump nominated RBC's replacement.

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The Hot List

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Coronavirus (Unchanged)

A second wave of Covid-19 cases has surged (<https://www.cbsnews.com/news/covid-cases-in-uk-surge-as-britain-and-other-european-nations-face-possible-second-lockdowns/>) in Europe. The spikes in cases in the U.K., France and Spain are sparking fears of another shutdown. Israel was the first country to impose a second nationwide lockdown (<https://www.cbsnews.com/news/covid-cases-in-uk-surge-as-britain-and-other-european-nations-face-possible-second-lockdowns/>).

A Johnson & Johnson vaccine entered phase 3 (<https://www.jnj.com/johnson-johnson-initiates-pivotal-global-phase-3-clinical-trial-of-janssens-covid-19-vaccine-candidate>) trials with plans for 60,000 participants worldwide.

Election (Unchanged)

President Trump said he is nominating (<https://www.cnn.com/2020/09/26/politics/amy-coney-barrett-supreme-court-nominee/index.html>) Amy Coney

Court. The first of 3 presidential debates
(<https://www.bbc.com/news/election-us-2020-54003441>)
kicks off on Tuesday.

A contested election is becoming a very possible scenario. Hackers are targeting both campaigns. Issues have arisen over post office funding and confusion around mail-in ballots. Combine that with fears of voter suppression, and a contested election is seeming like a very possible outcome. If that were to happen, the uncertainty would wreak havoc on the stock market.

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

As Powell and Mnuchin testified before the House, they called for more targeted fiscal stimulus
(<https://www.barrons.com/articles/powell-and-mnuchin-tell-congress-send-more-fiscal-stimulus-to-stabilize-recovery-51600802997>) to stabilize the economic recovery. Both the Fed, and Treasury back more aid for small businesses (<https://www.reuters.com/article/us-health-coronavirus-usa-fed/fed-treasury-chiefs-back-more-aid-for-small-business-but-leave-details-fuzzy-idUSKCN26D0GD>) but fail to mention details.

Boston Fed President Rosengren said further QE could help the economy but not as much as fiscal policy.
(<https://finance.yahoo.com/news/boston-feds-rosengren-further-qe-could-help-economy-but-not-as-much-as-fiscal-policy-140251491.html>) As Democrats propose a new bill, Pelosi believes a new stimulus deal is still possible
(<https://www.cnn.com/2020/09/24/politics/stimulus-negotiations-house-democrats-consider-options/index.html>).

China Trade War (Unchanged) (<https://www.nytimes.com/reuters/2020/09/24/health-coronavirus-usa-china.html>)

As the drama continues to unfold around the TikTok-Oracle deal, China could start retaliating against U.S. companies. Beijing moved to create a blacklist
(<https://www.nytimes.com/2020/09/19/technology/china-tiktok-wechat-blacklist.html#:~:text=The%20plan%20for%20a%20blacklist,starting%20at%20midnight%20on%20Sunday.>) of foreign companies that could potentially be acting against Chinese best interests.

Unemployment (Unchanged)

The economy has improved, but unemployment remains at historic highs. The unemployment rate has dropped from 15% to 8.4%, but few realize this rate is still higher
(<https://www.marketwatch.com/story/us-september-unemployment-rate-drops-to-8-4-but-is-still-higher>)

job-report-is-going-to-show-economy-entering-a-weaker-phase-2020-09-26) than peak unemployment from prior recessions.

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.whitehouse.gov/briefings-statements/building-stronger-america-president-donald-j-trumps-american-infrastructure-initiative/>) a look at Trump's infrastructure plan. Here's (<https://joebiden.com/clean-energy/#>) a look at Biden's infrastructure plan.

Last Week



Monday: S&P 500 dropped 38.37 (-1.16%) to 3281.10. Second wave of Covid-19 hits Europe. The UK threatens a shutdown.

Tuesday S&P 500 rose 34.51 (+1.05%) to 3315.57. Powell and Mnuchin testified before House committee. Existing home sales numbers were released.

Wednesday S&P 500 fell 78.65 (-2.37%) to 3236.92. Tech selloff resumed.

Thursday S&P 500 closed up 9.67 (+0.30) to 3246.59. Weekly unemployment claims were announced.

Friday S&P 500 jumped 51.87 (+1.60%) to 3298.46. Tech stocks lead a rebound in stocks.

Technical Look



The S&P-500 closed squarely in the middle of the trading range of 3200-3400. It showed support last week, dropping to near 3200. Then the index bounced to 3300 by Friday. Going forward, 3200 should remain as support to the downside. Look to the 50-day moving average as the next resistance level to the upside.

My Takeaway

Last week was another rollercoaster ride in the market. The S&P-500 started bottoming around the 3200 level after falling 10% from the peaks. The combination of having an official correction and hitting a major support level brought in some buying and could be significant going forward.

The mega cap tech stocks have given back much of the gains from the parabolic price activity in August. That was healthy for markets, and some of those names may be worth a nibble here.

There is a good chance that we churn in this range of 3200-3400 going forward. It's hard to get too bearish on stocks when the Fed is pulling out all the stops to stimulate the economy. However, it's hard to get too bullish when no one has any idea about COVID-19 or the potential chaos around an election.

It is still very much a "have versus have nots" economy where the companies with a digital presence and a big balance sheet will come away big winners, while those that do not won't be so lucky. The "haves" are reflected in the stock market and the regular mom and pop businesses are not.

The unemployment rate remaining elevated is worrisome and there does not appear to be any clear sign of it coming down. This will be a major overhang on the economy and needs to come down before I get too optimistic on the future of the economy.

Expect the election to bring more volatility. The first debate is Tuesday so expect election headlines to start impacting markets. Any news that hints at a contested election will surely start to scare investors. However, don't fret but use those events to your advantage as they should present buying opportunities.

Let's face it, no one knows what's going to happen with Covid-19 at the moment. Europe is looking at potential lockdowns while parts of the U.S. are trying to fully reopen. If you are optimistic about how things are looking, add cyclicals stocks tied to the traditional economy. If you are pessimistic, you may want to add non-bubbly social distancing trades.

My favorite areas at the moment are secular tech and infrastructure names. It is also smart to have exposure to physical assets, which benefit from inflation, and overseas markets that appear better equipped to handle a potential second wave of Covid-19.

Just remember, investors have different goals and risk tolerances. What may be right for you, may not work for others. If you need help finding your own personal strategy during these turbulent times, contact DreamWork Financial Group (<https://dreamwork.financial/contact/>) and let us develop your Investing Gameplan™ today.

Until next time,

Clint Kirby

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