Week Ending 6/26/2020

WEEK IN PERSPECTIVE

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Re-acceleration in Coronavirus Cases Takes Market Lower

The first few days of the week started off great, but the back half of the week saw heavy selling as governments and companies were forced to respond to a rise in new coronavirus cases with preemptive measures. The Dow Jones Industrial Average fell 3.1%, followed by losses in the S&P 500 (-2.9%), Russell 2000 (-2.8%), and Nasdaq Composite (-1.9%).

This week's biggest decliners were the S&P 500 energy (-6.5%), financials (-5.3%), and communication services (-5.2%) sectors. The information technology sector declined just 0.5%.

There was an onslaught of negative-sounding developments that heightened concerns about the pace of a recovery, which ultimately put a stop to the Nasdaq's eight-session winning streak. Notable headlines included the following:

- The U.S. reported daily highs in new coronavirus cases amid an acceleration in more younger people getting infected.
- New York Governor Cuomo announced that the tri-state area will be imposing a 14-day quarantine on travelers coming from coronavirus hotspots.
- The EU was reportedly considering its own restrictions on U.S. travelers, banning them from entering when it relaxes its border restrictions on July 1.
- Texas and Florida scaled back reopening efforts.
- Apple (AAPL) re-closed stores in Houston and Florida, and Walt Disney (DIS) postponed the reopening date of Disneyland past July 17.

Re-thinking the reopening strategy could temper the rebounding economic data that have contributed to the market's recovery. The latest May data showed new home sales rebound 16.6% m/m to a seasonally adjusted annual rate of 676,000 (Briefing.com consensus 635,000), durable goods orders rebound 15.8% m/m, and personal spending rebound 8.2% m/m (Briefing.com consensus +7.0%).

The re-acceleration of cases also threatens to undo some of the progress in the labor market that the government spent a lot of money to stabilize. Weekly jobless claims for the week ending June 20 decreased by just 60,000 to 1.480 million (Briefing.com consensus 1.250 million).

In the financials space, regulators relaxed some Volcker Rule restrictions, allowing banks to increase their investments in a broad set of venture capital funds. Out of an abundance of caution, though, the Fed will require banks to suspend share repurchases and cap dividend payments in the third quarter following its stress tests results.

Separately, social media stocks succumbed to heavy selling at the end of the week after more companies halted ad spending on Facebook (FB). Shares of Facebook fell 9.5% this week.

U.S. Treasuries finished the week with modest gains. The 2-yr yield declined three basis points to 0.16%, and the 10-yr yield declined six basis points to 0.64%. The U.S. Dollar Index declined 0.2% to 97.45. WTI crude fell 3.2% (-$1.35) to $38.49/bbl.

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The COVID-19 economy: Answers you need for long-term investing

4-5 p.m. ET Wednesday, July 1, 2020

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