Weekly Market Review

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The Week Ending June 26, 2020

After spending a few weeks in the background, COVID-19 risk stepped front and center last week. Hot spots emerged around the country, forcing officials to slow state re-opening plans and even reinstate some measures we became accustomed to during quarantine. The resurgence of COVID-19 cases has pushed the stock market to question whether a V-shaped recovery is still possible. Optimism has reigned since the depths of the COVID-19 pandemic; however, the pressure may now be on upcoming economic and corporate data to show the recovery's true strength.

The Federal Reserve has been delivering for the market and even providing a valuation floor for many sectors. Last week, the Fed decided to throw a curveball at banks when they announced banks could not increase dividend payments from their current level, and they will not be permitted share buybacks for at least the third quarter. This action came after the Fed's recent stress test found that many banks were very close to their minimum capital levels during the COVID-19 pandemic. Even though the market viewed this as a negative for the banking sector, it is positive for other areas of the economy because we should not see a banking crisis in the next downturn, whether COVID-19 induced or otherwise. It appears that Chair Jerome Powell and the Fed are pulling out all the stops and doing everything within their power to prevent another 2008-like crisis.

Another sector that came under some pressure last week was communication services, specifically the social media companies. Large Cap companies like Unilever, Starbucks, and Verizon announced they would stop advertising on Facebook, Instagram, and Twitter during July and perhaps longer. These companies are pushing social media giants to stand against hate speech and enforce standards in monitoring ads on their platforms. So far, about 100 companies have halted ads scheduled for next month. Being that ad revenue is the leading revenue stream for social media companies, the duration of the spending halt will be the critical factor in the direction of the stock price for these companies.

As companies release earnings for the second quarter, volatility should be anticipated. Nike announced last week their revenue fell by more than expected due to stores being closed for most of the quarter. Analyst expectations are usually close to what companies report, but in this new normal we are living in, predictions have become that much more difficult. Therefore, we could be in for more earnings surprises than in the past, leading to more volatility in the stock market and hopefully additional opportunities for active mutual fund managers to take advantage.

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