

Better Economic Data: Rising COVID-19 Cases...For Now

July 7, 2020

by Dan Russo
of PortfolioWise

Want to read more by PortfolioWise? Visit their Featured Firm page here

Key Points

- Equity Investors Focus on Better Economic Data
- Semis Leading and Utes Lagging Paints the Picture for Equity Markets
- Shorter Duration and Corporates a Better Bet in the Fixed Income Space?
- Rising Inflation Should Be Seen in EM Leadership...Watching Closely
- China Urges Investors to Buy Stocks?

Action Plan

Of everything that I have read in the past few days, this from the Daily Shot at the Wall Street Journal really stood out to me:

The government-backed China Securities Journal emphasized on Monday the need for a "healthy" bull market to support the recovery. Beijing's proxies have been hitting social media in droves, echoing the phrase "bull market." The stock market is up 10% over the past week.

This is what was used to explain a nearly six percent rise in the Chinese market on Monday. We can debate the concept of free markets and whether or not global central bank and government policy is creating a "healthy" environment for risk assets. Investors have to operate in the current environment. We don't have to agree with it, but we do have to factor it into our thinking. Central bank and government policy is simply another data point in the supply / demand equation that drives prices.

The action plan is not to argue with it, not to opine on it! The market does not care about our opinion regarding what it "should" do. Right now the market does not seem to care that COVID-19 cases and positive test rates are on the rise in the US. What the market cares about now is that economic data has been better than expected (look at June's jobs report and the ISM data that was released yesterday) and the market cares that massive amounts of stimulus have been pumped into the system globally (look at rising asset prices and the pickup in inflation expectations).

The SPDR S&P 500 ETF (SPY) continues to hold support. As long as that is the case, odds favor those who are positioned properly for further upside, regardless of their opinion on the current landscape. Should support break, a disciplined risk management process should be employed.

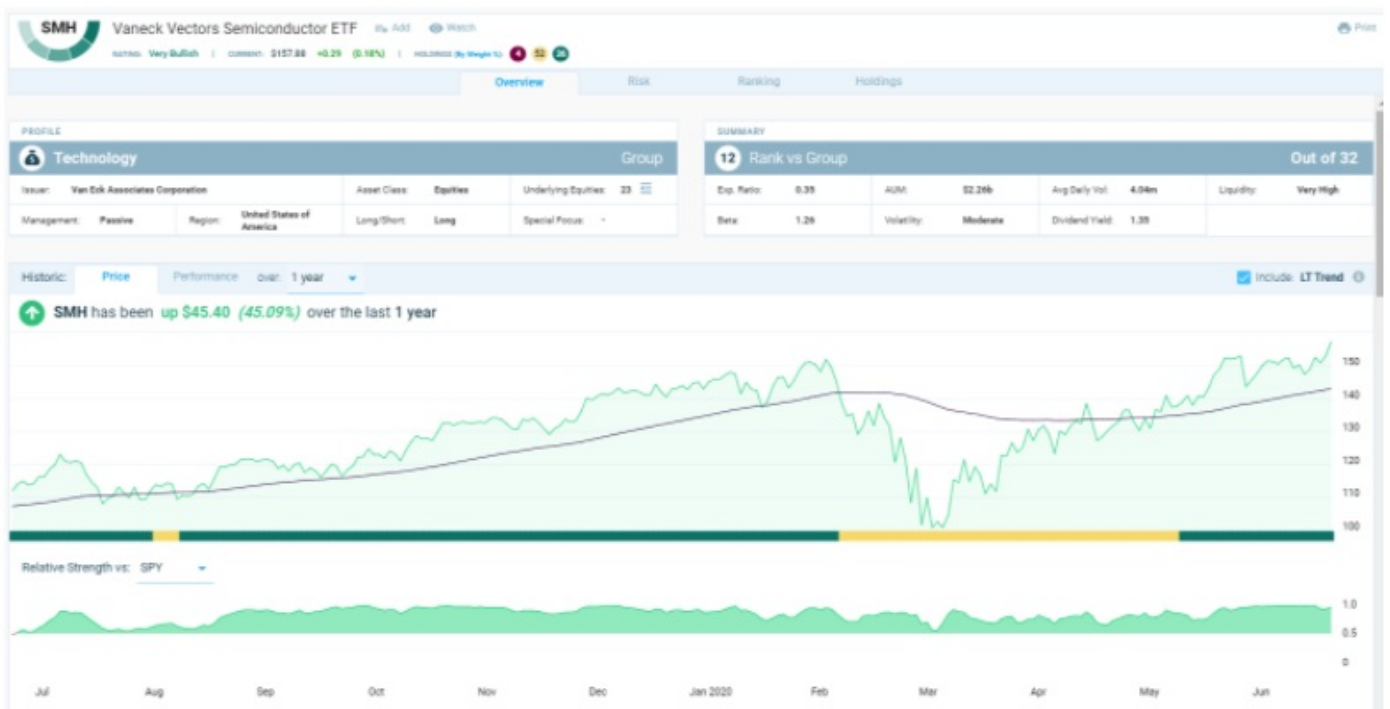
Commentary

Equities

The bull case in equities, which largely centers on the fact that economic data points have been coming in better than expected over the past couple of weeks while massive amounts of fiscal and monetary stimulus have been pumped into the ailing economy, continues to win out. The bear case of rising COVID-19 cases in the many states in the southern and western parts of the United States is valid but the market is looking past this narrative for now. This is why a focus on price and process are so important. We have laid out the key levels for the SPDR S&P 500 ETF (SPY) in these pages for the past few weeks. Thus far, key support in the \$300 - \$310 range has held, leaving the door open to an attack on the February highs. Should \$300 give way, the best bet may be to add defensive positions and to manage risk.



One of the key data points that support a view for higher prices in equity markets is the relative performance of the semiconductor stocks. The VanEck Vectors Semiconductor ETF (SMH) traded to a new 52-week high yesterday and continues to outperform the SPY. Importantly, the intensity of outperformance appears to be strengthening. The fund has a Very Bullish ETF rating.



At the same time, defensive areas of the market such as Utilities continue to underperform.



We reiterate our view that as long as the SPY is trading above key support levels, the odds favor a continuation of the uptrend that has been in place since the lows on March 23rd and the attack on the February highs that we have referenced over the past few weeks. From a leadership perspective, we have not changed our tune as it relates to favoring growth over value and large over small.

Fixed Income

While we have been and remain bullish in our view on treasuries from a trend perspective, we have noted in the last few weeks that action on the longer end of the curve is beginning to waver. Investors who wish to maintain exposure as part of a diversified portfolio should continue to consider shortening duration. Additionally, we are warming to fixed income exposure to high grade corporate credit as a way to enhance yield in an environment which is increasingly showing signs of rising inflation to accompany the lack of growth that we have been highlighting. The iShares Iboxx Investment Grade Corporate Bond ETF (LQD) has a Bullish ETF Rating and is trading near 52-week highs.



Global Equities

Last week we began highlighting the opportunities to add exposure to equities outside the US. The iShares MSCI EAFE Growth ETF (EFG) continues with a Very Bullish ETF Rating and the fund is leading the SPY as it trades close to the highs seen earlier this year. This fund is largely a play on the growth theme that we have been highlighting for the better part of 16 months but now provides diversification outside the US.



If our view on rising inflation continues to play out, we would expect to see emerging market stocks begin to lead. The iShares MSCI Emerging Markets ETF (EEM) currently has a Neutral ETF rating. On a relative basis, EEM is seeing its underperformance wane against SPY. This is a trend that we are going to watch closely in the weeks ahead for indications that our current views are taking hold.



Dan Russo, CMT
 Chief Market Strategist

Disclaimer

PortfolioWise is a product by Chaikin Analytics, LLC. Chaikin Analytics, LLC, is not registered as a securities Broker/Dealer or Investment Advisor with either the U.S. Securities and Exchange Commission or with any state securities regulatory authority. This information does not represent a recommendation to buy or sell ETFs, stocks or any financial instrument nor is it intended as an endorsement of any security or investment. The information, analysis, and opinions presented in our reports include the confidential and proprietary information of PortfolioWise and may include data provided by your financial representative which cannot be verified by PortfolioWise. This report is supplemental literature and does not take into account an individual's specific financial situation. Reports are solely for investment research and the user bears complete responsibility for any trading decisions. Users should consult with their financial advisor before making buy/sell decisions. For more information, see www.portfoliowise.com/disclaimer

© PortfolioWise