

DID YOU KNOW?



June Market Outlook: Optimists Face Key Test in New Month Amid State Reopenings

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The stock rally accelerated in April and May amid reopening optimism even as the economy's brakes slammed. June could help clarify whether the market anticipated things right or got a bit ahead of itself.

A big test for all the recent optimism looms as every state begins the month at least partly reopen. With the most drastic shutdowns over, how long will it take for people to feel comfortable going to a restaurant? What about flying on a plane? Getting a haircut? Economic recovery depends on these everyday decisions made by millions.

Judging from how things have gone thus far in May—when media reports indicated people were generally hesitant to do those things—it's unclear how quickly life can get back to even a semblance of normalcy. Markets have come a long way on hope, but June could be where hope meets reality.

June could also tell us if the early reopening states started to see a spike in the number of coronavirus cases. With some states now three to four weeks into their reopenings, early June is possibly when new cases would begin to percolate if the virus spiked as more people got out and about.

Any sign of rising caseloads in states like Florida or Texas might get a fisheye from investors, who've been bidding up stocks in part on hopes that reopenings can occur without illness increasing. That's probably why you've seen some airline and cruise stocks get a bid lately. However, if cases spike in early states, it could get people worried about governments closing doors to prevent more spread. That would be a big disappointment to the market and might generate some selling.

It's also possible that once the numbers from early states get sifted, they might tell a more positive story. Whatever they end up showing, those data could be more important than any other numbers in determining how June plays out for stocks.

Washington Looms Large as Second Fiscal Package Debated

Another thing we could learn in June is whether fiscal assistance from Washington, which arguably has played a big role since February in propping up the economy, gets augmented or starts to dry up.

For example, the \$670 billion Paycheck Protection Program expires June 30. This initiative from Congress has helped small and medium sized businesses muddle through. A bipartisan bill is in the works to extend it, The Wall Street Journal recently reported. However, if that effort breaks down, it might be bad news for small business owners and employees who've been depending on these funds. Ultimately that could have an impact on consumer demand, a potential problem for the market considering consumers are 70% of the economy.

As May wound down, the House passed another bill providing fiscal assistance, while the Senate appeared far from eager to follow suit. While this isn't a political column, it's possible investors might react unfavorably to Congress denying more aid to states.

Then there's the worsening war of words between the U.S. and China. Does this accelerate next month, perhaps putting pressure on the high-flying Information Technology sector that's helped lead the market back from its March lows? Long before coronavirus, the market took a big left hook from the trade war. The war quieted down but didn't necessarily go away, and some analysts think it could get worse in the months leading up to November's election. Consider keeping an eye on this in June and beyond.

Monetary policy comes into play June 9-10 when the Fed holds its next meeting. At that point, Fed officials might have to respond directly to questions about rates potentially going negative in the next few months, as the futures market began to indicate in May. Speaking of the Fed, results from its annual stress tests of the major banks are expected to come out the last day of June.

The Fed has already said it plans to conduct additional "sensitivity analyses" that reflect the ongoing turmoil caused by the virus, Reuters reported. In past years, banks that passed the stress tests typically celebrated by rewarding their shareholders with dividend increases or share buybacks. That seems very unlikely this year.

As Pathogen Rules Roost, Investor Sentiment Seems Shaky

Those are just some of the external things the market might have to deal with in the weeks ahead. Internally, it's also arguably a good idea to consider investors' mood going in.

The booming rally that brought the S&P 500 Index (SPX) back more than 35% from its March lows by late May and raised the Nasdaq (COMP) above water for the year hasn't been completely convincing. There remain a lot of "weak longs" who might be ready to jump overboard if the boat starts to leak. Data from some banks and market research firms show bearish sentiment remains strong in late May.

Though recent news about progress on a vaccine got an enthusiastic greeting, the market quickly gave up a lot of those gains a day later when a single news article featured some experts casting doubt on the vaccine's potential. It's a news-driven market, and any news story can send us down very quickly in a bad way, sometimes without rhyme or reason, due to shaky longs.

The pathogen still rules the roost, so to speak. The economy is in bad shape, and economic data have been horrible. This quarter's gross domestic product (GDP) might show the worst performance since the Great Depression, according to many economists.

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