INCISIVE INVESTOR

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WEEK IN REVIEW

STOCKS MAKE PARTIAL REBOUND

U.S. stocks closed higher Friday in choppy trading as Wall Street attempted to recover from Thursday's steep losses but left the benchmark indexes with their biggest weekly losses since March 20.

The Dow Jones Industrial Average DJIA gained 477.37 points, or 1.9%, to close at 25,605.54, after touching an intra-session peak of 25,965.55 and a low of 25,183.

The S&P 500 index SPX added 39.21 points, or 1.3%, at 3.041.31, off its intraday peak at 3,088 but also off its low at 3,003.10. The Nasdaq Composite Index COMP climbed 96.08 points, or 1%, to 9,588.81, after briefly slipping into negative territory at 9,485.04.

On Thursday all three indexes saw their sharpest one-day drops since March 16. The S&P 500 and the Dow finished at their lowest levels since May 26, while the Nasdaq ended at its lowest since May 29, according to Dow Jones Market Data.

For the week, the Dow lost 5.55%, the S&P 500 fell 4.8%, and the Nasdaq was off 2.33%.

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Beginning of downturn has begun

The Business Cycle Dating Committee of the National Bureau of Economic Research, the arbiter on recession dating in the United States, declared that the economy has been in recession since February. The downturn could be the shortest on record if the recovery in labor markets seen in May is carried out in other data in the months ahead. Globally, the World Bank estimates that the economy will shrink 5.2% worldwide in 2020, one of the four worst downturns in 150 years and the worst in eight decades. The only global crises more severe were the Great Depression and the downturns following the two world wars.

Fed proceeds with caution

The US Federal Reserve took no additional action at the Federal Open Market Committee meeting this week, but it did adopt a cautious stance, suggesting interest rates will remain near zero through the end of 2022. Fed Chair Jerome Powell said that the FOMC is not even "thinking about thinking about raising rates." The central bank said it would maintain its current pace of Treasury purchases of about $80 billion a month and agency mortgage-backed securities of about $40 billion a month until the FOMC is confident that the economy is recovering. Fed policymakers expect the US economy to shrink by 6.5% in 2020 before rebounding 5% in 2021.

Deep global recession

The Organization for Economic Cooperation and Development forecasts a deep global recession in 2020, with global growth contracting 6% in 2020 and 7.6% if there is a second wave of coronavirus infections. It sees a contraction of 7.3% in the United States and 8.5% if there is a new wave.

HEADLINERS

This week, the Nasdaq Composite Index closed above 10,000 for the first time while the S&P 500 briefly traded in positive territory for the year before falling sharply later in the week.

US Secretary of the Treasury Steven Mnuchin said that while the Trump administration supports further targeted aid for the economy, talks will not begin on the matter until after the July congressional recess.

The Fed expanded its Main Street Lending Program, making its terms more promising by lowering the minimum amount that can be borrowed and raising the maximum amount. The Fed also extended the term of loans to five years from four and will allow the delay of principal repayments for the first two years.

Banks will act as mediators between the Fed and businesses and will be able to sell up to 95% of the loans to the central bank.

A Wall Street Journal survey shows economists expect an economic recovery to begin in Q3. The economists see unemployment at 9.6% by year-end, from 11.4% last month.

US President Donald Trump plans to sign a bill sanctioning Chinese officials for their treatment of Uighurs in China, possibly adding to increasing tensions between the two counties.

Goldman Sachs estimates that if former US Vice President Joe Biden is elected president and Congress enacts his proposed 7% hike in the US corporate tax rate to 28%, collective earnings for the S&P 500 Index will be reduced by 12%.

American Airlines Group Inc. shares AAL are in focus Friday after the company announced a series of business updates in a filing with the Securities and Exchange Commission as its demand trends and cash-burn trajectory improve. Shares surged 16.4%.

Other airline stocks were also sharply higher, including Delta Air Lines Inc. DAL up nearly 12%, and United Airlines Holdings Inc. UAL soaring 19%.

Dick's Sporting Goods Inc. shares DKS jumped 9% in Friday trade after the athletic retailer said it was bringing back its dividend program.

Bankrupt auto rental company Hertz Global Holdings HTZ wants to sell as much as $1 billion in stock to take advantage of its recent rally but experts think the stock could get wiped out. Its shares were up 37% Friday.

Azek Co. AZEK surged 18% after the maker of sustainable building materials priced its public offering late Thursday.

Caterpillar Inc. CAT was downgraded to market perform from outperform at BMO Capital Markets on concerns about the impact of tight budgets on the industrial machinery company's comeback. Its shares closed up 1.3%.

Shares of Calvin Klein parent company PVH Corp. PVH were the biggest loser in S&P 500 Friday, down nearly 6% after reporting earnings on Thursday.

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Tesla Inc. TSLA shares moved nearly 4% lower Friday after a pair of downgrades, two days after touching a fresh all-time high.

Adobe Inc. ADBE shares came close to topping a previous all-time closing high as work-from-home arrangements boosted subscription revenue.

THE WEEK AHEAD

- The Fed's two-day meeting is the big event for markets in the coming week, and traders are hoping for more details on stimulus and a possible new program.
- Strategists expect the market's reopening trade to continue driving investors into cyclicals, like financials and industrials, and other stocks that will be do well in an economic recovery.
- The bond market joined in the reopening trade for the first time in the past week, and rates jumped as investors sold safety plays and moved into riskier assets.

Do you have questions about your stimulus check, the CARES Act, recession, SBA loans, finances, the market or the economy?

Park 10 Financial has the knowledge and expertise to answer all of your concerns.

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ONE LAST THING

TRADITIONAL VS. ROTH IRA

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