INVESTING

Why 'markets have been resilient' so far and how this week's news could affect that, according to experts

In the week ahead, investors should pay attention to news of the next stimulus bill from Washington, and the growth of companies in sectors like telecommunications.

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The major indexes rose Friday on strong tech earnings, helping them close out July on a high note and secure their fourth straight month of gains. The S&P ended the month up 5.5%, while the Dow was up 2.3% and the Nasdaq 6.8%.

The market rebounded a day after we learned that the U.S. economy plunged 32.9% during the second quarter, as the country battled the coronavirus pandemic with widespread shutdowns. It was the steepest drop since the government began tracking quarterly gross domestic product (GDP) figures shortly after World War II.

"The second-quarter 2020 GDP number is the one that, decades from now, people will see on a chart and say, 'Good Lord, what happened there?'" says Peter Earle, Research Fellow at the not-for-profit academic think tank the American Institute for Economic Research. "Between 1929 and 1933, U.S. GDP fell 30%. It took roughly 15 quarters, or 60 months, to decline by that much."

Still, it's important to remember that the figure is "backward-looking data," says Michael Sheldon, chief investment officer at RDM Financial Group. "The recession started in February, but economic indicators are improving, so it could become the shortest recession on record."

For instance, on Monday, August 3, the ISM Manufacturing Index will release its monthly report and many analysts are expecting a modest increase in manufacturing activity for the month of July, Sheldon says. That would follow the positive report in June, which showed that 52.6% of companies said their businesses are growing, an increase from 43.1% in May and 41.5 percent in April.

On July 29, at the Federal Open Market Committee's quarterly meeting, the members voted to leave rates unchanged. "The Federal Reserve has reiterated that it will use all tools at its disposal to support the economy until it gets back on track," Sheldon says.

In the coming week, here's what investors and analysts will be watching, and how the news could affect your bottom line.

Legislators continue to debate stimulus package

Federal lawmakers continue to debate a fourth coronavirus stimulus package. An agreement, if they can reach one, is expected to have a significant impact on the market and the economy.

What's happening: The Fed's support with previous stimulus packages has been crucial for the U.S. economy in recent months. "The most significant driver of stock prices right now is the enormous amount of liquidity that Congress and the Fed have injected into the economy," says Paul Dietrich, chief investment strategist at B. Riley Wealth Management. "Markets have been resilient because investors expect further support from Congress and the Fed if the pandemic begins to slow the economy again."

Why it matters: The current stimulus bill is the key data point to watch because since March, the "unprecedented amount and historically fast pace of the stimulus by both the Federal Reserve and the federal government has been the primary driver of the market rally," says Jill

Fopiano, the CEO of O'Brien Wealth Partners in Boston. "If policymakers disappoint with a lackluster bill, markets could pull back. On the other hand, if they meet expectations, it could be interpreted as a sign that they will continue to do what it takes to support markets until we find a solution to Covid-19."

What it means for you: Investors should continue to pay attention to what's happening in Washington and consider contacting their representatives to voice their opinions about the importance of a strong stimulus bill. Some of the components that may be most important for an economic recovery include an extension of extra unemployment benefits for out-of-work Americans, tax credits to help businesses continue to pay workers, and a second stimulus check for qualifying taxpayers.

Earnings reports show market strength

Earnings season continues as public companies release their second-quarter earnings — and many are reporting higher numbers than expected.

What's happening: As many companies are beating their earnings estimates, they're doing so by an average of 11.4%, according to FactSet. Over the past several years, companies beating their estimates have done so by about 4% on average, so this is a big deal, Sheldon says.

However, some companies "are crushing revenue and earnings estimates from analysts because many companies had withdrawn guidance," says Gene Goldman, chief investment officer at Cetera Investment Management. "Since analysts had less information to work with, companies are crushing these estimates."

Why it matters: Many of the companies that are beating their estimates are high-tech companies, but other sectors are also showing renewed strength. "Over the past several years, the market has been led by technology stocks," Sheldon says. "Recently, we've seen better performance in energy, industrials, and basic materials stocks. This may mean investors believe the worst is behind us and a recovery is underway."

What it means for you: Rather than focusing on technology stocks for growth, consider looking at other sectors that are faring well. "Companies that have done exceptionally well during the pandemic have tended to make or provide essential goods and services such as internet telecommunications, medicines, and critical consumer products," Dietrich says.

Keep in mind that although some companies have fared well, "many in sectors critical to our economy have taken a big hit, particularly airlines and energy companies," says Steve Rick, chief economist at CUNA Mutual Group. "This is quite indicative of not only how serious this downturn is, but how limited improvement can be until we can get this virus under control and sustain reopenings with confidence."

Nancy Mann Jackson is an award-winning journalist who specializes in writing about personal finance, real estate, business, and other topics. Her work appears in several publications, including CNBC.com, Fortune.com, Entrepreneur, Working Mother, and CNNMoney.com.