

Weekly review: What next after the sharp stock selloff?

It was a **sad week** for global stocks. After weeks of unstoppable rally, **global stocks declined sharply** this week. This decline was caused by several things.

Fed's Interest Rate Decision

First, in its **interest rate decision** on Wednesday, the **Federal Reserve** warned that the US economy will be sluggish in the next few years. For this year, the bank expects the economy to weaken by about 6.5% and the unemployment rate to be close to 10%.

In this statement, the bank echoed another report by OECD, which warned about the weakness.

› How to [Predict a Fed Rate Hike](#)

Covid's second wave?

Second, there are fears about a second wave of the coronavirus pandemic, **especially in the United States**.

To a large extent, these fears are warranted since thousands of people in the country have been protesting for about two weeks.

The implication is that these **people may have exposed themselves** to the virus because some of them did not wear a mask. Those that did could have exposed themselves through the eyes.

Geopolitical Conflicts

Third, there is a credible fear of geopolitical conflicts. This is after **North Korea** closed the communication channel with South Korea.

Also, according to media reports, the **US has decided to remove** its **troops** that are stationed **in Germany**.

Crude Oil

Finally, the **soaring US crude oil stockpiles** led to a sharp decline in crude oil prices, which affected energy stocks.

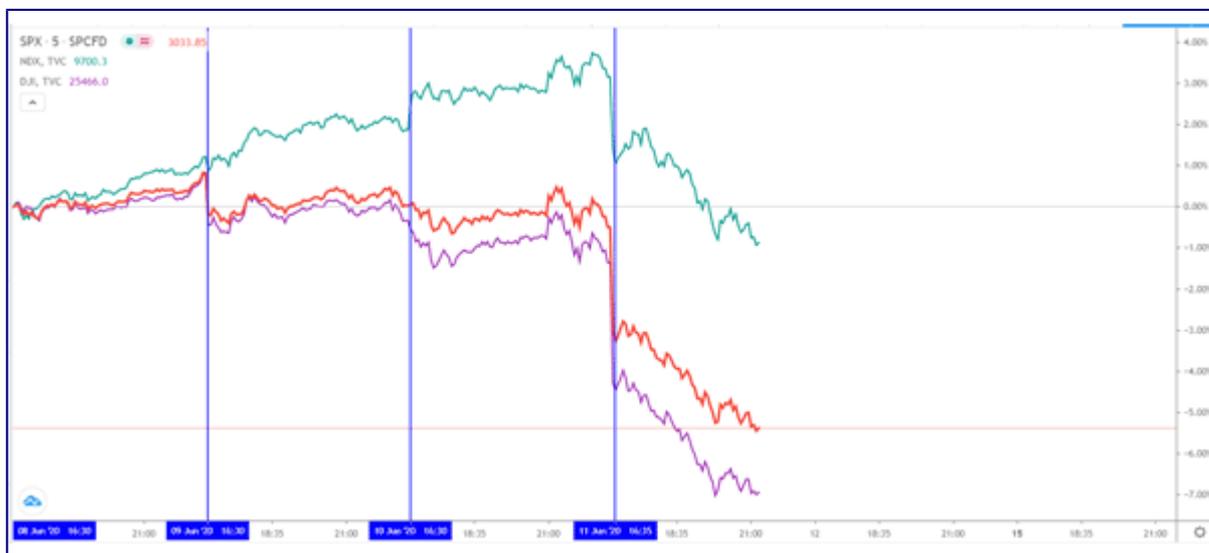
› [What affect Crude Oil Pricing?](#)

Dow Jones index lag

Unlike in the past few weeks, the **Dow Jones was the biggest laggard** among the three biggest indices in the United States.

Through Thursday, **the index declined by more than 7%** compared to the S&P and Nasdaq decline of 5% and 1%.

There are two main reasons why the Dow declined.



Energy Stocks

First, as we have written before, energy companies like **Exxon Mobil and Chevron** are key components of the index. And the stock price of these companies declined by more than 4% from Monday to Thursday as the price of crude oil dropped.

The Nasdaq index does not have any energy company.

Interest Rates Unchanged

Second, while the **decision** by the **Fed** to leave rates unchanged for longer was welcome by most industries, it **hurt the financials**.

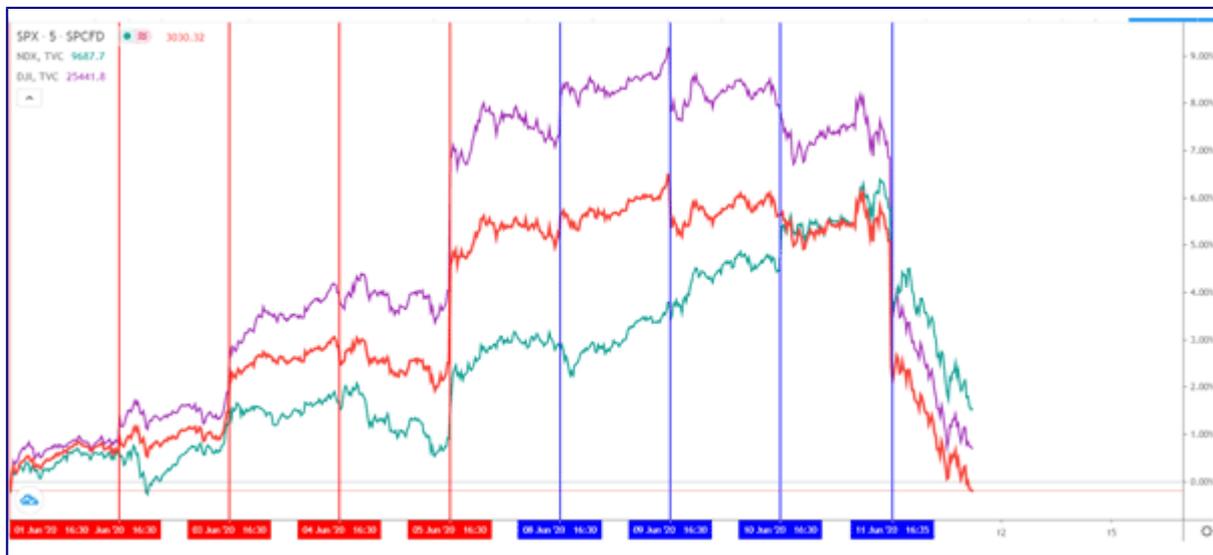
This is because constituent companies like Goldman Sachs and JP Morgan make less money in a period of low interest rates.

Meanwhile, the Nasdaq losses were offset by **gains in companies like Tesla**, which moved to above \$1000 for the first time.

Two week performance

For the most part of the past **two weeks**, the **Dow Jones performed better** than the other two indices. That was mostly because during this period, the price of crude oil was in an upward trend.

The **reversal happened on Thursday**, when the Dow lost more than a thousand points. Also, for the first time in weeks, the S&P was the worst performer among the two indices.



Looking Ahead

In the coming week, the **focus** among traders will be **on** a second wave of the **virus**, several [key earnings data](#), and a **deluge of economic data**.

The key earnings to watch in the coming week will be from companies like Eaton Vance, **Lennar**, Hudson, AeroVironment, Kroger, CarMax and National Grid among others.

In the same week, we will receive **interest rate decision from** several **central banks**, including the Bank of England, Norges Bank, Swiss National Bank, and Bank of Japan among others.

Among the [key economic data to watch](#) will be the **crude oil** inventories data from the US, **US retail sales** and manufacturing production numbers, and eurozone's inflation numbers.

External Useful Resources

- Will Protests Set Off a Second Viral Wave? - [NYTimes](#)
- Fed: No rate hikes likely through 2022, projects 6.5% GDP contraction this year - [Yahoo Finance](#)