Virus surge interrupts hopes for a swift economic recovery

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The worsening COVID pandemic risks choking off the U.S. economy's fragile recovery and turn what some investors hoped would be a sprint back to normal into a long hard slog.

States like California that had begun to take tentative steps to reopen their stores and restaurants are reversing course, while states across the Sunbelt that balked at taking preventative measures in the Spring are having to quickly backtrack as the number of Americans being hospitalized or dying from the virus hits new records almost daily.

"This is not a normal crisis in terms of data we have to monitor," said Kristina Hooper, chief global market strategist for Invesco. With consumer spending, by far the biggest motor of the U.S. economy, still far below last year's level, Hooper added, "This is an environment in which there is going to be a need for more fiscal stimulus or you could see a real hit to consumers."

The U.S. has already spent $3 trillion propping up the economy since the pandemic struck in March. After suffering the worst loss of jobs since the Great Depression, companies seemed to be taking halting steps at rehiring in May and June.

Still, new jobless claims have surpassed 1 million for over four months, and have been worsening in Florida, California and other states that have seen a spike in virus cases since they started reopening businesses. Prior to the pandemic, just 200,000 people sought unemployment assistance in a typical week.

And recently Florida reported a single-day record of 156 deaths, and nearly 14,000 new cases, mirroring a broader trend that has seen the national death rate spike. Infections are now climbing in 40 states, and 22 states have either paused or reversed efforts to reopen their economies, according to Bank of America.

"The biggest question mark right now in the market is the recovery in the economy versus virus cases," said Stephanie Link, chief investment strategist at Hightower.

Despite the worsening pandemic, investors just celebrated the best return on their S&P 500 stock portfolios in over two decades in the second quarter, helped by the Federal Reserve's almost limitless supply of cheap money. As equity valuations soar to unprecedented heights, some analysts signal caution.

"The renewed spread of the virus and degree of community infection means the pace of recovery we've had is just not going to be able to hold up anymore," said James McCann, senior global economist at Aberdeen Standard Investments.

Technology is one sector that investors can still count on, said Sameer Samana, senior global market strategist at Wells Fargo Investment Institute.

Companies that allow people to work remotely or order goods online will likely remain go-to picks for investors, Samana said. Health care companies, either working on a vaccine or making diagnostic tests for the virus, will likely also stay strong, he added.