

Wentz Weekly

December 23, 2019



Politics Proving to be a Tailwind Heading into Year-End

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- After the House voted to impeach President Trump, a debate has ensued on the timing of sending the articles of impeachment to the Senate. While Nancy Pelosi is holding off on sending the articles due to her demand for a fair trial, Senate Minority leader Chuck Schumer is calling for more witnesses and documents for the Senate trial but Senate Majority leader Mitch McConnell is rejecting the request saying it is up to the House to build the case for impeachment. Once the articles are sent to the Senate, the Senate will hold a two to three week trial and then hold a vote. It remains widely expected the Senate will acquit President Trump.
- Congress has approved the SECURE Act, which was attached to the year-end budget package that was passed just in time to avoid another government shutdown. There are many details to the budget including provisions relating to health care, a repeal of three healthcare taxes, a new "must pass" health bill deadline on May 22, and raising the tobacco age from 18 to 21. The SECURE Act contains reforms to retirement savings for individuals. The Act allows small companies to offer joint 401k plans and will allow retirement plans to offer financial products with guaranteed income streams, more known as annuities. Among other things, the Act will remove the age limit which one can make a deductible contributions in traditional IRAs, and increases the age one must take a requirement minimum distribution from 70 1/2 to 72, accounting for the increase in life expectancy.
- On Thursday, the House voted to approve USMCA, the improved trade deal replacing NAFTA. Key parts of the deal include farmers having more access to Canadian markets, automobile manufacturers having to now produce a higher share of its parts within the three countries to qualify for tariff-free status, requirement that 40-45% of automobile content must be produced by those making at least \$16 an hour, all of which are meant to spur domestic manufacturing, boost exports and increase capital spending. The deal is expected to be approved by the Senate in early February.
- Sales of previously owned homes fell 1.7% in the month of November to an annualized pace of 5.350 million homes, versus an expected 0.2% increase. Compared to a year ago sales are up 2.7%. The drop was due to a limited amount of inventory on the market, especially homes priced under \$250,000. Given the sales pace, there is only a 3.7 months of supply of existing homes on the market, compared to 3.9 month supply last month, whereas a balanced market has a 6 month supply. Also, the median home price is now 5.4% higher than a year ago at \$271,300. Source: National Association of Realtors
- Home builders began construction on new homes at an annualized pace of 1.365 million, another month above expectations, 3% above October's pace and 14% above the pace a year ago. Permits to build new homes rose 1.5% to a 1.482 million annualized pace and also well above expectations for the highest number since before the recession a decade ago. In addition to the low supply of homes on the market, this is significant due to the impact the housing market has on the economy and the multiplier effect. Source: Census Bureau



Company News

- Netflix disclosed results for its international business by region for the first time ever publicly, reporting strong growth in Europe and Asia/Pacific regions. Over the past 2 years revenue in Asia/Pacific is up 153%, Europe/Middle East/Africa up 105%, and Latin America up 71%.
- FedEx reported quarterly results that missed expectations with operating margins half of what they were compared to a year ago, now at 3.2%. Management noted negative impacts from weak global economic conditions, increased FedEx ground costs from expanded services, loss of business from large customer (Amazon), shift in mix to lower yielding services, more competitive pricing environment, and later than usual Thanksgiving.
- Micron reported earnings and revenues above the average analyst's estimates. The company gave forecasts that at the midpoint was lower than consensus estimates. However, management is calling for a bottom of the cycle for financial performance next quarter due to better industry conditions.

The Week Ahead

- We are set for a quiet holiday shortened week. The markets will close early on Christmas Eve and will be closed on Wednesday for Christmas. The economic calendar is also light with the only significant reports being New Home Sales on Monday and Durable Goods Orders on Tuesday. There will be no major companies reporting earnings this week.