

# Wentz Weekly

## January 21, 2020

### U.S. & China Phase One Trade Deal in the Books



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- The text of the trade agreement between the U.S. and China was released following the signing ceremony between President Trump and Vice Premier Liu He. Takeaways from the text include: China making \$200 billion in additional purchases over the next two years compared to 2017 levels, commitments on increased market access for U.S. companies, increasing intellectual property protections, limiting forced tech transfers, and details on the dispute resolution mechanism. An important feature is the existing U.S. tariffs on \$360 billion of Chinese goods will remain in place until at least after the election, which is most likely an enforcement mechanism to keep China accountable to its commitment. Now, investors are freer to focus on earnings, after nearly two years of earnings calls being overshadowed by commentary on trade.
- December retail sales rose 0.3% compared to November, as expected and matching the 0.3% gain in the month of November. Sales excluding autos increased 0.7%, which is better than the 0.5% increase expected. For the full year, retail sales rose 5.8%, which is above the average pace over the last 30 years, with e-commerce sales increasing 20% in the year. Sales were driven by gas reflecting higher prices at the pump, home centers, electronics and restaurants. The only weak spots included a 1.3% decline in sales at auto dealerships and a 0.8% drop in sales at department stores.
- The National Retail Federation reported 2019 holiday retail sales rose 4.1% to \$730.2 billion, almost double the 2.1% increase seen during the 2018 holiday shopping season. The sales figures exclude sales at automobile dealerships, gasoline stations and restaurants. Expectations were for holiday sales to grow in the range of 3.8% to 4.2%. Online and other non-store sales were up 14.6% compared to the year prior, exceeding the expectations of a 12.5% increase.
- Housing starts blew past even the highest estimate in December, with the annualized pace of a new housing start increasing 17% in the month to 1.608 million and the highest pace since 2006, and are now 41% higher than a year ago. Single-family units rose 11% to 1.055 million, while multi-family units rose 30% to 553,000. For all of 2019, construction began on 1.290 million housing units, which is up 3.2% from 2018. Builder permits fell 3.9% in December to an annual rate of 1.416 million after hitting a 12-year high in November. Given recent housing reports, it appears the housing market is gaining momentum again, fueled by low rates.



## Company News

- Earnings reports last week were dominated by the banks with mostly positive results. Most large banks beat earnings and revenue estimates largely driven by strong consumer-related business and a surge in trading revenue with JPMorgan's trading revenue up 55% and Citigroup's up 49%. The other business segments also performed well, but lower interest rates were a hurdle with net interest revenue falling at most of the large banks. The only outlier was Wells Fargo who continues to face pressure from legal fees, which resulted in a 50% drop in profits due to a 17% increase in noninterest expense.
- Target reported its December holiday sales increased 1.4%, which was below the company's forecasts. Expectations had increased over the last several months, evident by Target's 6.6% decline the day of the announcement.

## The Week Ahead

- The economic calendar will be light, with the National Association of Realtors reporting on existing home sales Wednesday, but the week will still be packed with news. On Tuesday, the World Economic Forum will begin its 50th annual meeting in Davos, Switzerland, where we are expected to hear from the world's political and business leaders. Also Tuesday, the Bank of Japan will announce its latest monetary policy decision, followed by the European Central Bank announcement Thursday, where both are expected to keep rates unchanged. Fourth quarter earnings season ramps up this week as well, with 43 S&P 500 companies reporting at some point this week.

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