

Wentz Weekly

February 3, 2020

The Coronavirus, the Fed, Earnings and more



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- The Wuhan Coronavirus continues to generate a considerable amount of uncertainty for the markets. As of Sunday night, more than 17,000 people have been infected with over 360 deaths reported. Of the deaths, all but one have taken place in China. Late last week, the World Health Organization declared the virus a public health emergency of international concern. Chinese have quarantined a number of cities, airlines have cancelled flights, the U.S. and other countries have issued travel warnings and restrictions while screening incoming citizens. The People's Bank of China has pledged to inject 1.2 trillion yuan (\$173 billion) into the markets to ensure sufficient short-term liquidity. The Chinese markets opened after the week-long break from the Lunar New Year last night down 7.7%. 
- The Federal Reserve announced no changes to monetary policy at its meeting last week with Chairman Powell stating that the Fed is comfortable where current policy stance is and that it remains appropriate. With lingering risks to the global economy and difficulty in sustaining 2% inflation, if the Fed were to change rates, it would be more likely to trend toward the downside. Of the few changes to the statement, consumer spending growth is now moderate as opposed to "strong" and business investment remains weak. The Fed did not change its stance on purchasing \$60 billion of Treasuries monthly, which was implemented last year to ensure adequate short-term liquidity, but Powell did say the Fed would look to scale that back in the April-June period.
- The BEA's report on the first estimate of fourth quarter GDP shows the economy grew 2.1% on an annualized pace in the three-month period, meeting expectations, and up 2.3% from the same period a year ago. Driving much of GDP growth for the quarter was the housing market and net exports, with business investment and consumer spending slowing. Consumer spending rose 1.8% down from 3.2% growth in Q3, residential investments was up 5.8%, nonresidential investment was down 1.5%, exports were up 1.4%, while imports were down 8.7% and government spending was up 2.7%. Lower inventory growth resulted in a negative contribution to GDP by 1.1%. 
- The level of Consumer Confidence, as measured through a survey compiled by the Conference Board, rose to 131.6 for January compared to 128.2 in December. This increase shows Americans have the most confidence since the middle of 2019. The index, which shows how consumer feel about the economy, how they feel about the next 6 months, and how they feel about jobs, all rose in January.
- Earnings season is in full swing as we wrapped up the busiest week of the reporting season. Earnings were dominated by tech companies with mostly positive results. Amazon reported a large beat on its results with AWS revenue and operating income both above expectations. Apple easily beat estimates, selling more iPhones than expected and raising its forecast for the current quarter well above the average estimate. Microsoft's standout cloud business beat expectations resulting in its Azure product revenue accelerating 62% from a year ago. Facebook beat expectations but traded lower after announcing revenue growth will decelerate this year by more than expected.

Company News

- General Electric beat analysts' expectations on the quarter, reporting free cash flow growth that was much better than expected and increasing its forecast for free cash flow growth, indicating better efficiency.
- AT&T missed expectations with a 1.164 million drop in TV subscribers, including DirectTV, fiber and AT&T Now. However, the company did add 249,000 total postpaid subscribers, or those that pay a monthly phone bill. The company hit most of its restructuring targets for the year and gave its outlook for 2020, which was in line with analysts' expectations.
- Honeywell reported mixed quarterly results but reported strong growth in its aerospace segment in spite of headwinds from the Boeing 737 Max delays. The company gave its outlook for 2020 with earnings and revenue guidance both above analysts' consensus.

The Week Ahead

- It will be another busy week with plenty of political, economic and market news. Kicking off the Democratic presidential race on Monday, the week will begin with the Iowa caucuses. Tuesday, President Trump will deliver his State of the Union Address. It is possible the Senate impeachment trial will hold final votes to acquit by mid-week. On the economic calendar, we will have two manufacturing survey results from the Institute of Supply Management and Markit followed by trade data for December on Wednesday. The week will end with the Department of Labor's Employment Report on Friday. Fourth quarter earnings continue this week with 90 S&P500 companies reporting, including Alphabet, Disney, General Motors, Qualcomm and Twitter.

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