

Wentz Weekly

March 3, 2020

Coronavirus Induced Market Correction



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Since the start of the year, the value of the S&P 500 has fallen by 8.6% and is off 12.9% from the record high set on just eight trading days ago. This sudden decline has been attributed to fear and uncertainty about the impact of the coronavirus on the global economy. The latest concern was sparked from an increase number of coronavirus cases reported outside of China, including in Italy, Brazil and the United States. It is also important to keep in mind the S&P500 was up 35% since the beginning of 2019, conditions were overbought and the run was unsustainable. The markets were looking for a reason to sell off and have since moved to a risk off stance and a rush to safe haven assets. Expect increased volatility to continue, a theme we expect all year, especially as the Democratic primary season heats up.

Home prices, as measured by the S&P Case Shiller Home Price Index, were up 0.5% after seasonal adjustments in December. For calendar 2019 home prices in the national index increased 3.8%, and although a slowdown from 2018 marked 8 consecutive years of increasing home prices. Home prices are 59% higher than the trough reached in February 2012 and 15% above the pre-financial crisis peak. For 2019, Charlotte, Phoenix and Tampa saw the highest increases in prices, all above 5% from a year ago. Chicago, New York, and San Francisco saw the slowest growth in prices, all below 2.5% from a year ago, although none negative. Cleveland region prices grew 3.6% over the year.

Disney announced CEO Bob Iger will step down immediately and the Chairman of the Parks and Products segment, Bob Chapek, will take over as CEO. Chapek has been with Disney for almost 30 years and has headed the Parks segment for over five. Iger will take over as executive chairman until at least through 2021. The sudden change comes after the company successfully worked through a couple very big transitions including the launch of its streaming services, the opening of Shanghai Disney, and finalizing its acquisition of Fox.

The U.S. Census Bureau reported sales of newly constructed homes rose 8% in January to an annual rate of 764,000, easily beating the expectation of 710,000. Compared to a year ago new home sales are up 18.6%. This is the highest level since 2007, surpassing the previous high two months ago. A number of factors are helping, including a strong labor market, low mortgage rates, a mild winter and a low supply of homes. The median sales price of a new home is \$348,200.

The Democratic primary heats up this week, as voters in 14 states go to the polls for Super Tuesday where 34% of all delegates are at stake. Over the weekend Joe Biden won South Carolina as expected and now has 48 delegates compared to Bernie Sanders' 56. After the results of South Carolina were released, Mayor Pete Buttigieg and billionaire activist Tom Steyer dropped out of the race.

Company News

Inuit, who's businesses include QuickBooks and TurboTax, will acquire Credit Karma for \$7.1 billion. Credit Karma generated roughly \$1 billion in revenue in 2019, up 20% from the year prior.

More earnings reports were released last week, mainly from retailers. Home Depot beat estimates with comparable store sales higher than expected, JM Smuckers beat earnings expectations but missed on revenues with organic sales better than expected, and Best Buy beat expectations with comparable store sales beating estimates yet again.

Mastercard, United Airlines, Microsoft, PayPal, and Apple are a number of companies already warning they will not meet current quarter forecasts, given the coronavirus concerns and potential impact on business. Analysts also have lowered earnings estimates during the first two months of the quarter for companies in the S&P 500. According to FactSet, the average EPS estimate has dropped by 3.3% during this period.

The Week Ahead

Market volatility will continue this week with no shortage of headlines. Fourth quarter earnings season wraps up with several more retailers reporting including Target, Nordstrom, Dollar Tree, Costco Wholesale, and Kroger. On the economic front, the highlight of the week will be the employment report on Friday where the economy is expected to have added 170,000 new non-farm payrolls in February. We will also receive results of manufacturing surveys, February construction spending, factory orders, and trade data for January. Politics will be the main headline Tuesday, as Democratic voters go to the polls in 14 states.

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