

Wentz Weekly

April 13, 2020

Fed Expands Lending by Another \$2.3 Trillion



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In the continued effort to limit the economic effects of the coronavirus and ensure liquidity in the financial markets, the Fed announced it is expanding its loans by another \$2.3 trillion, part of which will be backstopped by the U.S. Treasury. The Fed's actions include a Main Street lending program that will purchase \$600 billion in loans which is aimed at ensuring credit flows to small and mid-sized businesses, expanding its Primary and Secondary Market Corporate Credit Facilities to \$850 billion to increase the flow of credit through the capital markets, and in a move to help state and local governments, establishing a Municipal Liquidity Facility of \$500 billion. Part of the plan involves the Fed taking Paycheck Protection Program (PPP) debt off bank's balance sheets, allowing banks to utilize their balance sheets to lend more to consumers and businesses, and allowing the Fed to buy high yield bond ETFs, helping support the junk bond market.

A total of 23 S&P 500 companies will be reporting first quarter earnings results this week with big banks, including JPMorgan, Wells Fargo, Bank of America, and Goldman Sachs, kicking off the season followed by results from Johnson & Johnson, United Health, and Schlumberger. Companies have lately been suspending their previously issued guidance for the quarter, giving investors and analysts a greater degree of uncertainty on business conditions. The quarter started strong in January and February and was followed by an unprecedented halt to economic activity. Close attention will be paid to how management teams are describing the second quarter so far and how they plan to operate during this period. We expect results to be messy and we expect that to translate into a continued volatile market over the next several weeks.

On Sunday, 23 major oil producing countries agreed to cut 9.7 million barrels of oil a day from the global markets, led by a coalition between Saudi Arabia, Russia and the U.S. Crude oil saw volatile price moves leading up to the deal as some reports were saying supply cuts could amount to as much as 20 million bbl/day, which would equate to over 20% of global supply. Oil has gained more than 30% since the beginning of April, however is still down over 60% since the beginning of the year as the coronavirus has reduced the demand for oil by an estimated 30%. Until demand normalizes, we expect the oil market to continue to be oversupplied.

In the week ending April 4, the number of individuals filing for unemployment insurance for the first time was 6,606,000, compared to 6,867,000 the week prior. Those continuing unemployment benefits totaled 7,455,000 in the same week, up from 3,059,000 the week prior. This is now the highest number of continuing claims, overtaking the Financial Crisis high of 6,635,000 in May of 2009. The number of claims has been centered in the services industry, specifically accommodation and restaurants. Temporary layoffs have accounted for roughly 85% of all layoffs.

The S&P 500 rallied over 12% last week, based off the optimism that coronavirus cases are closer to peaking and the economy will slowly start to reopen. We still expect volatility and another leg down in the markets. The next catalyst will likely be first quarter earnings season where we will see for the first time the damage done to income statements and balance sheets and hear from management teams of the impact on businesses due to the shutdown from the coronavirus.

Company News

- Disney announced its Disney+ service has passed the 50 million subscriber mark globally, just 5 months after being launched. In comparison, Netflix has 167 million global subscribers.
- Darden Restaurants preannounced its quarterly results, saying same store sales are down 39% quarter-to-date and down 70% in just the last three weeks.
- AMC Entertainment, the operator of approximately 1,000 theatres across the globe, said they are in talks with a bankruptcy firm about possibly filing Chapter 11 bankruptcy. The talks are still in the early stages but with theatres remaining closed as time progresses, the filing looks more likely.

The Week Ahead

Earnings season kicks off this week with 23 S&P 500 companies reporting results and giving commentary about conditions and how they are handling the pandemic. On the economic calendar, significant data releases won't happen until Wednesday, when retail sales are released. The consensus is for a 24% decline in sales for March. Then a busy Thursday morning with the highlight being the latest on unemployment claims, along with March housing starts and manufacturing data for the first week of April.

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