

Wentz Weekly

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Opening Up America Again



Investment management for your lifetime

Stocks rose sharply Friday, concluding a positive week with the S&P500 finishing the week up 3%, while now down 11% year-to-date and now just 15% off the record highs from mid-February. Much of the rally was driven by early data that suggests the drug Remdesivir, being developed by Gilead, as a more worthy candidate in the treatment of COVID-19. The study, first reported by STAT News, involved 125 patients in “severe” condition, with most of the patients already being discharged within days of starting the treatment. There was also data supporting cases may be plateauing, and growing optimism parts of the economy can reopen as soon as this week, with new guidelines released by the White House.

President Trump [outlined new guidelines](#) for reopening the economy in detailed steps, labeled as Opening Up America Again, which states should take depending on the severity of the outbreak in areas. The final decision will remain in the hands of state governors. The economy will not open at once, but rather a three phase process as laid out in the guidelines which states could move forward on as long as data doesn’t suggest a surge in new cases. Under the first phase movie theaters, restaurants, sporting events, and gyms would open with strict social distancing. Phase two reopens schools and resumes nonessential travel and in phase three all restrictions would be lifted. This does not set dates but will be based on data from the states. Of course, the big question is whether or not Americans will feel comfortable resuming normal activities without fear of contracting the disease.

We have received first quarter results from some of the nation’s largest banks and all are preparing for the possibility customers may not pay back their loans due to the financial impact from the coronavirus. JPMorgan set aside more than \$8 billion in the first quarter, and the top 5 banks set aside a combined \$20 billion for this purpose and expect to build on that in the second quarter. The amount banks have set aside has been based on their expectation the unemployment rate could be between 10% to 20% during the pandemic. The result was a 70% drop in profits for JPMorgan in the quarter. On a positive note for banks, trading revenue from equity and fixed income markets increased at a greater pace due to a substantial increase in market volatility.

Remember, a lot of the results will apply to a period of time before the country went in shut down mode. January and February the economy was still very strong, and we did not start to see closings of businesses until mid-March, when the quarter was nearly over. According to JPMorgan, analysts are expecting a 14% decline in earnings for the first quarter, compared to January 1st when analysts were expecting a 6% growth in earnings, which is expected to be followed by a 18% decline in Q2 after expecting 8% growth on January 1st.

The spread of the coronavirus caused an 8.7% drop in retail sales as many retailers were forced to close shop in March. Retail sales fell almost 2% more than expected, with a significant drop in the two largest categories; auto sales, down 27%, and gasoline sales, down 17%. Excluding these two categories, sales were still down 3.1%, but was better than the 4.5% decline expected. The decline is still significant, with apparel stores seeing a 50% decline, restaurants seeing a 26.5% decline and department stores seeing a 20% decline in sales in March. Stockpiling on food helped grocery stores, where sales were up 27%, and staying at home helped e-commerce, with sales up 3.1% in the month.

Company News

- The major airlines have reached an agreement with the Treasury to participate in the payroll support program that was part of the CARES Act. The agreement gives the airlines access to \$25 billion in payroll grants and requires airlines to not furlough or cut the pay of employees through September 30th.
- UnitedHealth reported Q1 results that were better than expected, with COVID-19 increasing costs for expanded coverage, but also lowering costs due to the decrease in elective procedures. The company also reaffirmed its previously issued forecasts for the full year.
- The TV streaming platform Roku announced preliminary numbers for Q1, saying there are now about 40 million active accounts, up 9% from the end of 2019 and streaming hours rose 49% to 13.2 billion hours. The company estimates revenue for the quarter will be above the average analyst expectation.

The Week Ahead

It will be a busy week with earnings reports as 70 S&P 500 companies will release results this week. Highlights will include IBM, Netflix, Delta, AT&T, Intel, Southwest and American Express. On the economic calendar we will see March results for existing home sales on Tuesday, followed by new home sales on Thursday and the latest on unemployment claims. Congress is also coming closer to agreeing on expanding the funding for small business loans, after the program ran out of funding early last week.

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