

Wentz Weekly

May 11, 2020

Reopening America



Investment management for your lifetime

The sharp rebound in the market from the lows in March is most likely due to the aggressive and prompt fiscal and monetary policy response, creating liquidity in key markets and taking the worst-case scenario off the table with their unprecedented policy responses. Technology stocks have increased the sharpest during the recovery, evident by the NASDAQ outperformance. Many believe the coronavirus has not hurt, but helped some tech companies by accelerating the tech transformation that was already under way. Several CEOs have commented on this including Microsoft's Nadella telling analysts "As COVID-19 impacts every aspect of our work and life, we have seen two years' worth of digital transformation in two months." Other companies commenting on and benefiting from this trend include Amazon, Shopify, Twilio, Zoom, DocuSign, Peleton, and Netflix.

Another reason for the sharp rebound in the market comes from increasing confidence life can return back to normal sooner than feared. States have begun announcing reopening plans in phases based on public health metrics. Governors are setting the rules, which vary widely from state to state. Ohio, for example, is opening in phases – construction and manufacturing will return first, followed by barbershops, hair salons, then restaurants with patio only seating and finally dine-in restaurants a week later. Georgia on the other hand has allowed all retail businesses and gyms, barbers, and hair salons to open sooner.

The April jobs report showed the most job losses in a single month on record, and the highest unemployment rate since the Great Depression, however the report was mostly as expected. The DOL's survey found the U.S. lost 20,500,000 jobs in April, the median forecast was around 21.5 million. All sectors of the economy saw job losses with leisure/hospitality seeing the most at 7.7 million, or 38% of all jobs lost. The unemployment rate increased to 14.7% versus the 16.4% rate expected, while the U-6 rate increase to 22.8% from 8.7% in March. The report did note if the rate included individuals that were recorded as employed but absent from work as unemployed on temporary layoff the unemployment rate would be about 5% higher. The average wage increased 4.7% compared to the month prior, but this was due to a large amount of job losses in the lower paying jobs.

President Trump threatened to terminate the trade agreement with China last week, frustrated over their handling of the coronavirus and concerns they are not meeting obligations of the agreement. Later in the week, negotiators from the U.S. and China held a phone call with each side pledging to create infrastructures necessary to make the phase one deal a success. U.S. Trade Representative Robert Lightizer is reportedly scheduled to meet with Chinese Vice Premier Liu He this week to discuss the progression of the trade agreement.

In Washington, Senators have been discussing another round of coronavirus related funding. In what would be a phase four, Senators are discussing a \$500 billion fund to assist the budgets of state and local governments.

Company News

- Disney misses on earnings but beat revenue expectations for the quarter. The company announced Disney+ subscribers of 33.5 million, versus 26.5 million at prior quarter end, and mentioned as of Monday they had 54.5 million subscribers (over a 20 million subscriber increase in just April alone). Coronavirus had a \$1.4 billion impact on profits. It was a dismal quarter but there is building optimism about timing of parks reopening as Disney Shanghai park will reopen Monday on limited capacity.
- CVS reported quarterly earnings and revenues that were better than expected, with revenues up 8.3% and net income up 41% compared to a year ago. Full year guidance was reaffirmed and is now slightly above the consensus estimate.
- Skyworks beats earnings and revenue expectations, with revenues down 5.5% from a year ago. Management said the coronavirus did not cause any significant disruptions to their operations or supply chain. Current quarter forecast for revenue was slightly below estimates, however better than most had feared.

The Week Ahead

It will be somewhat of a quieter week ahead with the bulk of first quarter earnings already behind us. This week we will still see quarterly results from a handful of S&P 500 companies including Under Armour, Marriott, Cisco and the first quarterly report from DraftKings since becoming a public company. On the economic calendar we will see the consumer price index on Tuesday, producer price index Wednesday, followed by several reports Friday morning including April retail sales, industrial production, and the University of Michigan's survey on consumer sentiment. There is also the possibility of more news from Washington on how the China trade deal is progressing.

The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. The NASDAQ composite is an unmanaged index of securities traded on the NASDAQ system. Information contained herein was received from sources believed to be reliable, but accuracy is not guaranteed. Information provided is general in nature and is not a complete statement of all information necessary for making an investment decision and is not a recommendation or a solicitation to buy or sell any security. Investing always involves risk and you may incur a profit or loss. No investment strategy can guarantee success. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results. Any opinions are those of the author and not necessarily those of RJFS or Raymond James. Expressions of opinion are as of this date and are subject to change without notice. Investments mentioned may not be suitable for all investors. There is no assurance these trends will continue, or forecasts will occur. International investing involves special risks, including currency fluctuations, differing financial accounting standards, and possible political and economic volatility.