

Wentz Weekly

May 18, 2020

Hopeful for a Vaccine



Investment management for your lifetime

Moderna, a clinical stage biotech company that focuses on developing vaccines, announced encouraging preliminary results from its Phase 1 trial of its COVID-19 vaccine Monday morning. Two weeks after the volunteers were given the second dose, levels of antibodies were comparable to or exceeding those that have recovered from COVID-19. Side effects were observed, but consistent with those seen in other vaccines and self-resolving. Markets rallied on the news.

Federal Reserve Chairman Jerome Powell made clear in a speech on Wednesday that a prolonged recession could cause enough damage to make the economic recovery weaker and slower. This would lead to unemployed individuals being out of work longer, unable to find employment due to a loss of skills or a loss of job connections. Powell emphasized the importance of supporting the economy and called on Congress to act, while mentioning the Fed is not out of ammunition and will do whatever it takes to continue to support the economy and financial markets. This was followed by a more optimistic tone in a 60 Minutes interview, where Powell stated the economy will recover, but a full recovery will probably not happen until we see a vaccine. Consumers would then feel the virus is more under control and thus would boost consumer confidence.

House Democrats introduced and passed a bill last week aimed at providing more coronavirus related aid. The \$3 trillion bill would provide \$1 trillion in funding for states and municipalities, \$200 billion in hazard pay for essential workers, enhanced unemployment benefits, rent and mortgage assistance, and another round of direct payments to individuals. This is seen by most as a wish list for Democrats and what they want to prioritize in the next round of fiscal support. The next round will most likely see support from both sides for funding to state and local governments. Republicans immediately shot down the bill, but the White House did say President Trump is open to more legislation for coronavirus related aid, although not the level drafted by House Democrats in the \$3 trillion bill.

Tensions between the U.S. and China continue to change daily, with concerns ranging from China's handling of the coronavirus to the enforcement of the trade deal. In addition, the Trump administration announced new rules late last week aimed at blocking shipments of semiconductors to Huawei, after the May 15th expiration of the temporary general license. The new rule will prevent foreign semiconductor makers using U.S. technology from shipping products to Huawei without receiving a license from the U.S. first. Also, the administration is drafting proposals to push U.S. companies to move operations or key suppliers out of China, incentivized by tax breaks, new rules, and subsidies.

Weekly unemployment claims have steadily declined over the last several weeks, but new claims remain around three million per week. For the week ended May 9, the U.S. saw 2,981,000 individuals file for unemployment benefits, with the four-week average at 3,616,000. Over the last 8 weeks, more than 36 million individuals have filed for benefits.

Company News

- According to the WSJ, Uber is aggressively pursuing a merger with GrubHub, with Uber reportedly offering 1.9 shares of Uber for each share of GrubHub. It would be an all stock deal, and with both stocks up after the report, it was well received by investors. GrubHub is estimated to have 24% market share while Uber Eats is estimated to have 32%. The combined company would overtake the 35% market share of DoorDash.
- Under Armour reported quarterly results that missed analysts' expectations, with sales down 23% compared to the same period a year ago. Management warned current quarter revenues could be down 50%-60% versus analysts' expectations of a 30% decline.
- Mastercard issued a press release with an update on operating metrics. The company said they are beginning to see the transition from the Stabilization phase to the Normalization phase, in other words spending is beginning to recover from the lowest levels.

The Week Ahead

Earnings will pick up again this week with the majority coming from brick-and-mortar retailers. Walmart, Home Depot and Kohls start the week reporting on Tuesday, followed by Lowe's, Target, L Brands, and Best Buy, along with tech companies such as Intuit, Nvidia, HP Enterprise and Alibaba for the remainder of the week. From the economic calendar we will see a couple housing reports including housing starts and existing home sales, as well as mid-month manufacturing surveys for May. Focus will also be on the World Health Assembly where health ministers from around the world will discuss the pandemic.

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