

# Wentz Weekly

May 26, 2020

## U.S. China Tensions Heating Up



*Investment management for your lifetime*

Stocks started last week strong, thanks to a press release from Moderna announcing positive phase one data for its coronavirus vaccine. After the second dose, volunteers saw a comparable level of antibodies as those who had recovered from COVID-19. There were side effects in patients but were comparable to the side effects of other flu vaccines. The next day an article from STAT News sent stocks lower, criticizing the announcement due to the lack of data and due to the fact the vaccine was only given to healthy individuals. Later in the week Dr. Anthony Fauci said in an interview that after having looked at it, the data is “quite promising” since the study showed the vaccine induced neutralizing antibodies.

The Chinese annual meeting that was originally scheduled for March but postponed from the coronavirus, was held Friday where the main issues were the economic impact of COVID-19 and civil unrest in Hong Kong. This is when the government typically sets a GDP growth target, but as individual companies are doing, the government has forgone providing guidance or a target for this year. However Premier Li told Congress the goal is employment growth of 9 million people and keeping inflation around 3.5%. To assist the recovery China plans to keep monetary policy supportive, keeping lending rates lower, and issuing government bonds to support infrastructure spending. Separately, leaders are considering legislation to tighten controls over Hong Kong, despite the region's status as a special administrative region. Li also mentioned China's commitment to the U.S./China trade agreement.

The second big topic from China's annual meeting was regarding Hong Kong. The proposal from China would implement a new national security law that will bypass Hong Kong's legislature and threaten its autonomy that was guaranteed when the territory was turned over from the U.K. to the People's Republic of China. The new law would allow mainland Chinese state security agents to detain and interrogate individuals locally in Hong Kong. This new measure has already led to protests in the region and has the potential to escalate tensions between the U.S. and China. Just a year ago, China's attempt at a national security measure caused violent protests in the region which forced China to withdraw the measure. The U.S. is already preparing sanctions on China due to the new measure.

Earnings reports from retailers, which began last week and will continue into this week, was expected to underscore the depth of the recession and the hit the coronavirus has had on consumers. What we have actually witnessed is a resilient consumer, particularly those shopping online and having goods shipped directly to them. Target, Walmart, Home Depot, and Lowe's all beat expectations last week with comparable store sales, which reflects sales growth of retail locations compared to a year ago, easily beating what analysts had expected. Consequently, management teams have highlighted higher coronavirus related costs, such as higher wages and benefits and increased cleaning costs, which has put pressure on margins.

## Company News

- Facebook announced a new initiative; Shops. The new service being rolled out will assist small businesses utilizing the platform to build their digital shop. This will streamline sales operations and allow buyers to checkout directly on Facebook or Instagram.
- JC Penny's bankruptcy filing was followed up by a report that Amazon is interested in acquiring all or parts of the company. Sources say this is related to Amazon's desire to grow its apparel line.
- Delta said its scheduled flights in the second quarter will be down 85% compared to last year. In addition, Delta said they are keeping seating at 50%-60% capacity. They are also resuming flights to popular tourist cities like Paris and Cancun indicating demand is beginning to improve. Separately Southwest said their May revenue was down 90% compared to the same period last year.

## The Week Ahead

It will be a busy holiday shortened week on the economic and earnings calendar. Earnings from retailers will continue throughout the week with reports from AutoZone, Ralph Lauren, Costco, Dollar General, Nordstrom, Ulta Beauty and reports from non-retailers such as HP, Salesforce.com, and Dell. On the economic calendar we will first see new residential home sales and consumer confidence on Tuesday, followed by a busy Thursday and Friday with jobless claims, Q1 GDP (2nd estimate), durable goods orders, monthly personal income and consumer spending, and consumer sentiment. The week ends with another speech by Jerome Powell where he is expected to discuss current economic conditions.

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.