

# Wentz Weekly

June 1, 2020

## Markets Remain Resilient, Climb Higher



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As previously reported, China moved forward with imposing national security law on Hong Kong as parliament passed the bill last week. The move allows Chinese security officials to detain and carry out criminal penalties on individuals in Hong Kong and bypass the city's legislature. The move by China may have rippling effects from removing the territory's political and legal autonomy and increases the risks of removing Hong Kong as a major financial hub and preferential trading relationships with many nations around the world.

On Thursday, investors became more worried after Trump said he would be speaking in a press conference on Friday regarding China. The fear was an announcement Trump would bring back tariffs or impose economic sanctions which would cause China to retaliate, like what was witnessed during the trade war of the last two years. After China announced and passed the new law, U.S. Secretary of State Mike Pompeo said Hong Kong can no longer receive special treatment under U.S. laws, as the national security law removes the region's autonomy. This removes the special status Hong Kong receives and has the potential to affect any preferential trade and financial status the city receives from the rest of the world. During the press conference, Trump said the U.S. will officially revoke Hong Kong's special status, impose sanctions on Chinese officials, and add visa restrictions. The economic effect is likely to be small, and the worst-case scenario was avoided, causing the markets to turn higher as the press conference concluded.

After President Trump posted a tweet about the potential for fraud with mail-in ballots, Twitter hit the tweet with a fact-checking label. The tweet was flagged and a link was added to the bottom of the tweet stating "get the facts about mail-in ballots." Two days later, Trump signed an executive order asking government agencies to lift legal protections given to social media platforms like Twitter under Section 230 of the Communications Decency Act of 1996. Section 230 was one of the greatest expansions of free speech and classifies social media companies as service providers rather than publishers which removes much of the liability on companies regarding the content posted on their platforms. This also brings back into focus a topic tech companies have avoided; regulation, and is likely why tech underperformed the broader market last week.

The financial sector outperformed on Monday following comments by JP Morgan CEO Jamie Dimon. At a financial services conference, Dimon said banks may not need to build more loan loss reserves in the second half of 2020 and it is important for companies to try to sustain its dividends. In addition, the trading environment so far in the second quarter has been as strong as the first quarter, which was a bright spot in financials' first quarter earnings reports. He also gave upbeat comments on the recovery, saying we have a good chance of seeing a "fairly rapid recovery," with thanks to the government and federal reserve being very responsive.

## Company News

- Veeva Systems reported first quarter results that beat expectations, with revenues up 38% compared to a year ago. Products continue to gain traction with the company adding 1/3 of the global life sciences sales reps since the pandemic began. Guidance was provided and was in line with expectations.
- salesforce.com beat expectations with its first quarter results, with revenues increasing 30% compared to a year ago. Expectations were high and the company guided current quarter and full year revenue and earnings below average analyst estimate, sending the stock lower on the day.
- Micron provided an update to its current quarter forecasts, now saying it expects current quarter revenue to be \$5.2 billion to \$5.4 billion, up from \$4.6 billion to \$5.2 billion, citing strong chip demand from cloud providers.

## The Week Ahead

First quarter earnings season will be winding down this week. We will still have a couple notable companies releasing results including Dick's Sporting Goods and Zoom Video on Tuesday and then DocuSign, Slack, Broadcom, and JM Smucker on Thursday. There will also be a handful of companies hosting their annual meeting of shareholders, where forecasts are sometimes updated, but most likely not this time given the current environment. The economic calendar will start the week with beginning of the month reports including construction spending, and manufacturing surveys on Monday. Thursday we will see the most recent figures on unemployment claims which is expected to have declined to 1.9 million. The highlight of the week will be the Department of Labor's employment report on Friday where the economy is expected to have lost another 10 million jobs in May which would push the unemployment rate to near 20%. Also on the calendar, the European Central Bank will announce its latest monetary policy decision. We will see if the ECB decides to expand its support to the economy and financial systems.

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