

Wentz Weekly

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Markets Pullback After Fed Meeting



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The markets finished Wednesday down by 0.5% in a choppy trading session, the same day Federal Reserve Chairman Jerome Powell held his press conference after the Federal Open Market Committee's latest monetary policy decision. The Fed left interest rates unchanged and signaled rates will stay at these levels through 2022. The Fed expects GDP to fall 6.5% this year and remain above trend through 2022 as the economy recovers. The Fed also said it will continue to purchase Treasuries and mortgage-backed securities at its current pace over the coming months and will continue to monitor developments and adjust as necessary. But the highlight was Powell's press conference and Q&A session. Powell gave a less optimistic tone on the recovery, especially as it relates to the jobs market. He stated there will be a "significant chunk well, well into the millions of people who don't get to go back to their old jobs" and there may not be a job available for them for some time, which could be years.

The World Health Organization reported the number of new COVID-19 cases globally hit a new daily high last Sunday and the numbers remained near that level throughout the week. On top of that there were several states that have seen a pickup in the number of new cases and hospitalizations, after seeing the case count plateau over the last several weeks. An increase in cases was inevitable as the U.S. ramps up testing and as the economy reopens. The media took this news and ran with it, adding fear to a market that just overcame one of the steepest declines in recent memory. Combined with Powell's comments on Wednesday afternoon, investors had a major risk-off day on Thursday, selling equities and driving the markets down over 5%. There remains uncertainty over whether we will see a second wave, but as of now states have remained committed to reopening their economies.

It was another wild week for travel and leisure/entertainment stocks. The sectors continued the rally to start the week with stocks like American Airlines, Boeing and Carnival Cruise up over 10%. That all changed going into mid-week, as an uptick in COVID-19 cases and comments by Powell dampened investors optimism. We are seeing airlines adding more capacity over the summer and fall months, but continue to expect extreme volatility in these sectors as the pace of recovery still remains uncertain.

The passage of two bills last week expanding existing loan programs will likely lead to an extension of any potential phase four fiscal stimulus bill. The first bill expands the Main Street Lending Program, allowing a wider range of businesses to participate and reducing the burden on banks that create and issue the loans. Changes include reducing the minimum loan to \$250,000 from \$500,000, increasing the maximum loan size to \$300 million, delaying the repayment terms to begin after two years (up from one), and extends the loan term to 5 years. This should help medium sized businesses significantly, those that were too large for the PPP but too small for this program prior to these revisions. The second bill provides more flexibility for borrowers under the Paycheck Protection Program (PPP). This bill includes extending the timeframe to use PPP funds to 24 weeks from 8 weeks, extends duration of PPP program to December 31st (subject to funding), lowered the payroll expense requirement from 75% of the loan to 60% which allows 40% of the loan to be used for non-payroll expenses, and extends the loan maturity from 2 year to 5 years.

Company News

- Chewy reported first quarter results that were better than expectations. Revenues grew 46% while sales per active customer grew 14% compared to a year ago as consumers ordered more pet products online during the pandemic.
- Lululemon reported quarterly results with a rare miss on expectations as revenues declined 17% from a year ago. Investors punished the company, sending shares down 3.8% after the company decided to withhold comparable store sales citing the pandemic. E-commerce sales grew 68% from a year ago and now make up 54% of total sales.
- Uber has been frustrated over talks with GrubHub and has decided to end its merger talks, also citing antitrust concerns. Later, European food delivery firm JustEat agreed to acquire GrubHub in an all stock acquisition for approximately \$70/share, around the same price Uber said they offered.

The Week Ahead

The economic calendar picks back up this week. Key data reports include May industrial production and retail sales where sales are expected to have taken a turn and increase 7.5%, after seeing sharp declines in March and April. We will also see housing starts for May and an update on manufacturing conditions from the Empire State and Philly Fed surveys. Fed Chair Powell will testify to Congress on monetary policy. Not much will be new since we heard him speak at last week's press conference. He has publicly been vocal about the need for continued fiscal policy support, so it will be interesting to see if he brings this up to Congress. OPEC will hold its two-day meeting beginning on Wednesday. Not much is expected here since the group just agreed on an extension to the previously announced production cuts. Finally, we will see a few earnings reports from companies including homebuilder Lennar, Oracle, Kroger and CarMax.

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