

Wentz Weekly

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Markets End Another Volatile Week Higher



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The Federal Reserve announced its plans on how they would begin buying corporate bonds through the Secondary Market Corporate Credit Facility. It was previously announced during the depth of the shutdown in March the Fed would purchase up to \$750 billion in corporate bonds and related ETFs but have so far only purchase bond ETFs. The facility will now begin purchasing individual corporate bonds to create a portfolio that mirrors a diversified index of U.S. corporate bonds. This means both stronger and weaker companies will see purchases from the Fed. This is another move to support the markets and increase liquidity for proper market functioning.

The Commerce Department reported retail sales fell 8.2% in March and 14.7% in April but rebounded sharply in May, increasing a record 17.7% in the month. Economists had expected an 8.5% monthly increase. However, sales are still 6% lower than they were compared to a year ago. Vehicle sales increased 44% in the month and accounted for 5.3% of the 17.7% monthly gain. The hardest hit categories, clothing and home furnishing stores, were up 188% and 90% respectively. Bars/restaurant sales were up 29% but are still down 40% from a year ago. The only category seeing a decline in the month was health care which was down 0.4%. Retail sales is a closely followed report as it is a good indicator of consumer demand and consumer spending, which accounts for 70% of U.S. GDP.

Researchers at a team from the University of Oxford found the steroid dexamethasone saved the lives of 35% of severely ill Covid-19 patients. The trial included 2,000 Covid-19 patients who could only breathe with the help of a ventilator, as well as a control group of 4,000 patients who did not receive the treatment. The team said daily doses of the steroid could prevent one in eight ventilated patient deaths and save one out of 25 patients requiring oxygen. Markets have been desperate for any sort of treatment limiting the consequences of Covid-19 and in this case rallied on the news.

The Trump administration is reportedly putting together a proposal for the next stimulus package that includes infrastructure spending and could total around \$1 trillion. Expanded unemployment benefits and an extension to the Paycheck Protection Program are reportedly items being discussed and items that could have bipartisan support. Most of the funds would be directed toward infrastructure projects like roads and bridges, but the administration is also proposing funding to build out 5G networks.

Fed Chairman Jerome Powell gave his two-day testimony to the Senate Banking Committee and House Financial Services panel last week and reiterated a lot of what was said in the previous Fed meeting on the 10th. Powell and the Fed still believe there is significant uncertainty about an economic recovery and there remains a long road to recovery. Regarding the Fed's asset purchases, the Fed will let the market dictate the pace of its bond purchases, while stating the purchases of these bonds are out of an excess of caution. Powell also touched on fiscal stimulus, calling on lawmakers to do their part (with a phase 4 stimulus bill) as the economy is in a "critical phase."

Company News

- Carnival reported preliminary second quarter results, with earnings and revenues that were below expectations. Revenues were \$700 million, down 85% from a year ago, and \$37 million from estimates. Cash burn rate was in line with expectations and Carnival expects a monthly cash burn rate of \$650 million in the second half of 2020. Currently, Carnival has \$7.6 billion of available liquidity, and expects to add additional liquidity through the second half of this year.
- Kroger reported first quarter results that easily beat expectations with revenues up 12%, helped by the pandemic as more people cooked and ate from home. Identical store sales rose 19% from a year ago, beating expectations of 13.6%. Kroger also said they expect to exceed the outlook previously provided. The company did however note \$830 million in additional expenses for bonus pay and coronavirus related expense.
- Southwest is the most recent airline to lower its cash burn rate, which now stands at \$20 million to \$25 million per day. Company notes they have enough cash for at least the next two years.

The Week Ahead

There will be several notable companies reporting earnings this week. The highlight will be Nike on Thursday. In addition, Blackberry and KB Home will report on Wednesday, as well as Accenture, Longhorn/Olive Garden parent Darden Restaurants, and Rite Aid on Thursday. The economic calendar will be busy as well. The week starts with existing home sales for May released on Monday, followed by new home sales on Tuesday, Jobless claims, durable goods orders, and the final revision on first quarter GDP on Thursday, and finishing the week with the monthly personal income and spending report for May on Friday. Outside of earnings and economic data, the week will be busy. Apple holds its Worldwide Developers Conference on Monday where they are expected to announce some sort of detail around a new 5G iPhone and a move away from Intel's processing chips for its Macs and to its in-house ARM-based chips. The Fed will release the results of banks' stress tests on Thursday. Passing the stress tests will lead to many of the banks announcing dividend hikes or potential share buybacks. There will also be several investor presentations throughout the week, including two by Bristol-Myers, who will cover the progress on its immuno-oncology and hematology pipeline.

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