

Wentz Weekly

June 29, 2020

Reopening Plans Being Challenged



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New Covid-19 hotspots around the country has re-introduced fear in the market over a potential wider spread of the virus or another wave of shutdowns. Investor concerns increased throughout the week, beginning with the tri-state area of New York, New Jersey and Connecticut announcing a self-quarantine of individuals traveling from highly infected areas. This was followed by news from several states of bars, restaurants, and beach closures. The virus is currently very much a mixed bag, as Dr. Anthony Fauci has stated. A handful of states are seeing a sharp increase in cases, while most are continuing to see a steady decline. It should have been expected that with a near 20% week-over-week increase in tests administered and activity returning to normal, that confirmed cases were sure to increase. The focus should remain on not overwhelming the hospital system, which are now much more prepared than they were in March. We expect states with hotspots to pause reopening plans or bring back some restrictions on areas where individuals congregate, such as bars, however we do not expect a widespread or nationwide shutdown as we saw in March through May. The market will likely take this as welcoming news as it avoids a worst-case scenario.

Financials were the best performing sector on Thursday rising over 2.5%. Regulators, including the FDIC, the Federal Reserve, the Office of Comptroller of the Currency, and others, finalized an overhaul of the Volcker Rule, which was created in 2010 under the Dodd-Frank Act. The Rule went into effect following the Financial Crisis and was meant to prevent banks from participating in risky activities. Some of the changes will allow banks to make more investments into venture capital and reduce margin requirements for derivative trades, allowing banks to potentially free up billions of dollars of capital.

The Federal Reserve's latest round of stress tests on banks found most banks will remain well capitalized and survive most worst-case scenarios, however the bank's capital buffers would be near the Fed's minimum requirements under the worst case coronavirus scenario. To preserve capital, Fed officials voted to cap the amount banks can return to shareholders. Dividends cannot be increased and share buybacks must be suspended through at least the third quarter. In addition, banks are required to resubmit their capital plans to the Fed and go through another round of capital planning later this year. Investors did not like the results and sent financials down over 4% on Friday. Banks must wait until at least after the market close Monday to release any future buyback or dividend plans.

Apple kicked off the week holding its annual Worldwide Developers Conference via a virtual meeting, announcing updates to the iPhone, Mac, Watch, and iOS. The new operating system for the iPhone, iOS 14, includes a new feature called App Library, new widgets, "picture-in-picture" allowing you to keep watching videos while using apps, and new messaging features. The biggest announcement was the transition to Apple designed, Arm-based processing chip for the Mac, replacing the long-used Intel processors.

Facebook fell over 10% last week following concerns over a hit to ad revenue, after an increasing amount of consumer companies join the "Stop the Hate for Profit" boycott. The campaign started from several organizations with the goal of convincing Facebook to change their policies after ads from companies were seen placed next to hateful and offensive content. Some of the largest consumer companies have halted advertising on the platform including Verizon, Starbucks, P&G, Coca-Cola, and Unilever. On Friday CEO Zuckerberg announced a number of initiatives to address the issue. We expect the boycott to have a very limited and short-term impact to overall ad spending.

Company News

- Nike missed first quarter estimates, with revenues down 38% compared to a year ago and a \$790 million loss in the quarter, which covers March-May. Margins were 37.3% and well below expectations of 43.3% due to higher product costs, higher inventory reserves, and higher costs in supply chain from pandemic.
- Darden Restaurants reported a 47.7% drop in same-restaurant sales, compared to a 47.4% drop expected. Olive Garden sales were down 39.2% and Longhorn sales were down 45.3%. Quarter to date same-restaurant sales are down 33.2% and improving on a weekly basis. The company said current quarter outlook has sales approximately 30% lower from a year ago.
- German payments company Wirecard filed for bankruptcy last week, after auditors were unable to locate over \$2 billion in cash on its balance sheet. The company later admitted the money never existed. The company was one of the fastest growing fintech companies and saw nearly \$20 billion in market value wiped out since the scandal began.

The Week Ahead

There will be a lot of economic data released this holiday shortened week. The week begins with pending home sales on Monday, and then consumer confidence which is expected to have risen again in June and the S&P Case Shiller home price index which is expected to show another uptick in home prices compared to a year ago. On Wednesday we will see total dollar amount of construction spending for May, the results of manufacturing surveys done in mid-late June, and the payroll report from ADP which will show the amount of payrolls added in June. The week will wrap up Thursday with unemployment claims, trade data for May, and the Department of Labor's employment report. Economists are expecting 2.51 million jobs to have been added in June and the unemployment rate to fall to 12.3%. Weak data could put more pressure on Congress to pass another coronavirus related stimulus bill, especially after seeing an increase in Covid-19 cases. There will be a few notable earnings reports as well, including Micron on Monday, FedEx on Tuesday, and Constellation Brands and General Mills on Wednesday. A handful of consumer giant companies have joined the boycott against advertising on social media platforms, especially Facebook, and more are expected to announce the move this week. The markets will be close Friday in observance of the holiday. Have a safe and happy 4th of July!

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 Dow Jones Industrial Average (DJIA), commonly known as "The Dow" is an index representing 30 stock of companies maintained and reviewed by the editors of the Wall Street Journal. 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. Keep in mind that individuals cannot invest directly in any index. Past performance does not guarantee future results. There is no assurance these trends will continue, or forecasts will occur.