

Wentz Weekly

June 8, 2020

May's Employment Report Boosts Markets Higher



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The stock market saw a large rally last week with the S&P 500 finishing the week 4.9% higher while the NASDAQ was 3.4% higher and the Russell 2000, a proxy for small companies, was 8.1% higher. Most stocks saw gains, however we did see somewhat of a rotation throughout the week with the virus sensitive, such as travel/leisure/entertainment, stocks outperforming while stay at home stocks, including many in the tech sector, underperformed. Investors continue to add risk to portfolios and bet on riskier parts of the economy as we continue to gradually reopen.

A large standout in the markets last week were those in the airline sector from news capacity is gradually increasing over the summer months. TSA checkpoint data continues to show travel throughput increase with each day that passes. United Airlines said they will be adding more international routes beginning in July and said July demand is down 75% compared to the same period a year ago, versus June demand which was down 90%. American Airlines announced they will be reducing management and support staff by 30% to cut costs and also said for July they plan to fly 55% of its domestic routes, and 20% of its international routes, compared to a year ago, indicating a pickup in demand.

After losing 20,687,000 jobs in April, May saw a gain of 2,509,000 jobs, according to the latest survey in the employment report by the Department of Labor, bringing the unemployment rate down to 13.3% from 14.7% in April. Expectations were for a loss of 7,700,000 jobs and for the unemployment rate to increase to 19.8%. Average hourly earnings looked to have reversed April's large gains, most likely due to the large increase in lower paying jobs, with wages falling 1.0% in the month after a 4.8% gain in April. Bars/restaurants saw the most jobs come back with 1.4 million after losing 6 million in March/April, followed by 464,000 in construction, 368,000 in retail and 225,000 in manufacturing. This report shocked economist and investors who had estimated millions more in job losses in the month and resulted in a market rally Friday where the S&P 500 saw a 2.6% gain. The report was not perfect though, state and local governments saw a loss of 600,000 jobs in the month while the category "permanent job losers" saw an increase in the month.

It was another wild week for oil, with crude oil rising over 11% during the week in anticipation of an extension to the production cuts by OPEC+. After oil futures went negative briefly in March, OPEC met and agreed to cut supply by 9.7 million barrels per day, which is roughly 10% of global supply. The supply cuts did not begin until May and only lasted until June, and with the coronavirus pandemic continuing to have an impact on demand, OPEC met on Saturday to extend the production cuts into the end of July. The meeting was originally scheduled for Thursday but was postponed, as negotiations continued with group leaders trying to get Iraq on board with the cuts as well. Energy stocks were some of the biggest gainers during the week. OPEC will continue to hold monthly meetings to follow the progress.

The House and Senate passed a bill providing flexibility on terms under the Paycheck Protection Program in the CARES Act. The bill extends the payroll covered period from 8 weeks to 6 months, lowers the ratio to 60% from 75% which stated at least that amount of the loans must be used for payroll expense, and extends the loan to 5 years from 2 years. There was an urgency to get this passed, and with this now soon to become law, it may be longer that we see a phase 4 fiscal stimulus bill.

Company News

- Zoom Video reported earnings and revenue that beat expectations, with revenues growing 169% from a year ago. Customers with more than 10 employees grew 354% to 265,400. There were high expectations going into the report, and the company still easily beat them with a substantial raise in guidance for the current quarter.
- JM Smucker beat earnings and revenue estimates with revenues up 10% y/y (thank stockpiling!). Management provided full year forecasts in line with analysts' expectations.
- Uber says trips continue to gradually increase, but are still down 70% from a year ago, an improvement from April when trips were down 80%. Management also said food delivery orders with Uber Eats has showed no signs of slowing down, after the huge surge in Q1.

The Week Ahead

It should be somewhat of a quieter week. Notable earnings include the pet food e-commerce company Chewy and athletic apparel maker Lululemon. On the economic calendar we will see several inflation reports including the consumer price index and the producer price index. The highlight of the week will be the Federal Open Market Committee meeting and the Fed's policy decision which will be announced on Wednesday. The meeting will be followed by Fed Chairman Jerome Powell's press conference, where investors will focus on comments regarding the economic recovery and monetary policy impact, as well as what the Fed expects next. The markets will also pay close attention to the number of coronavirus cases, following the protests over the last couple weeks, hoping to not see a pickup in confirmed cases.

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. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index. Investing in the energy sector involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors. 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.