

Wentz Weekly

July 13, 2020

More Layoffs Ahead



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Stocks continue the back and forth trading pattern but managed to finish last week higher again. The CBOE Volatility Index or VIX, which is a known measure of market volatility, has remained close to the 30 level. As Barron's notes, a VIX level of 30 implies daily market moves of 1.7% either way. As we had mentioned several weeks ago, we do not believe the volatility will dissipate, especially with an election quickly approaching.

Now that the second quarter is wrapped up, companies will begin releasing their quarterly reports. According to FactSet the S&P 500 is expected to report a 44.6% decline in earnings in the quarter making it one of the sharpest drops in corporate profits and largest since the 69% decline in fourth quarter of 2008. This follows a 15.0% decline in earnings in the first quarter, when the shutdown only impacted a fraction of the quarter. Investors have largely brushed this year's earnings aside given the significant improvement in the market, but will be paying close attention to any sort of management guidance or commentary on the recovery.

The number of initial jobless claims submitted to state departments fell to 1.314 million for the 13th consecutive weekly decline, and down from a record high of 6.9 million at the beginning of April. This weekly data point is closely watched as it shows the number of individuals who file for unemployment insurance for the first time, giving investors and economists rough indication on the number of layoffs. New jobless claims were the highest in California, Texas, Florida, and Georgia. The number of individuals already receiving benefits, known as continuing claims, declined to 18.062 million for the week ended June 27, down from 18.8 million the week prior. Jobless claims are expected to continue to decline as the recovery progresses.

Airlines may be seeing a wave of large layoffs over the next several months. Until October 1st, unless a new bill is passed, payroll grants and loans under the CARES Act have provided airlines with up to \$50 billion to offset expenses and help keep employees on payroll. The terms of the grants and loans state employees must be kept on payroll until at least October 1st. United Airlines was one of the first to warn employees of massive layoffs. The company expects to cut approximately 36,000 jobs across the board, including flight attendants, pilots, and service/maintenance staff. United also said its domestic airline revenue is down 78% compared to a year ago and is burning through \$40 million in cash every day. Airlines continue to add flights as the recovery progresses, in some areas more than consumers are demanding, which will continue to put pressure on ticket prices and further pressure airlines margins.

Operation Warp Speed, a government program that has a purpose of accelerating vaccine development, awarded \$1.6 billion to biotech company Novavax. The funds are meant to help test and manufacture its Covid-19 vaccine, which could be ready as soon as the end of this year. The vaccine is in Phase 1 trial and data is expected to be released this month, with a Phase 2 trial beginning after that, and a 30,000 patient Phase 3 trial in the fall. Novavax is not the only company to receive funding so far, others include Moderna and Johnson & Johnson.

Company News

- Th Warren Buffet announced his company Berkshire Hathaway will be buying Dominion Energy's gas transmission and storage segment in an all cash deal. The deal is worth \$9.7 billion, making it his largest purchase in over four years.
- Brooks Brothers is the latest company to announce its bankruptcy, joining a list of other retailers. The company will be closing 51 stores while it goes through its reorganization, which the company blames on the pandemic.
- Facebook recently met with organizers of the "Stop Hate for Profit" campaign that results in hundreds of advertisers pausing or pulling their ads from the platform. Facebook has said they will make changes because it is the right thing to do, but the organizations have said they were not impressed following the meetings due to a lack of commitments or timeframes. Financial impact to the company should be only short-term and minimal.

The Week Ahead

We will see a pickup in activity on the economic and earnings calendar this week. Mid-month economic data reports set to be released include consumer price index Monday, industrial production Wednesday, then retail sales and jobless claims on Thursday. Several central banks will be holding their policy meetings as well. The Bank of China and European Central Bank will both announce latest policy decisions mid-week, but no significant changes are expected. On the corporate side, 27 S&P 500 companies will be releasing their quarterly reports. Highlights will be from the big banks, including JPMorgan, Citigroup, Bank of America, and Goldman Sachs, as well as Delta, Pepsico, United Health, Netflix and Johnson & Johnson.