

Wentz Weekly

July 20, 2020

Congress to Prioritize New Stimulus Bill



Investment management for your lifetime

Many of the large banks reported second quarter earnings last week, with most reporting better than expected results. The diversified banks with trading desks and investment banking divisions enjoyed the biggest gains, helping JPMorgan to have its highest quarterly profit ever and Goldman Sachs to have its highest investment banking revenue ever. Trading and investment banking activity drove much of the revenue beat for companies like JPMorgan, Citigroup, Goldman Sachs and Morgan Stanley. A pickup in loans and deposits helped as well, to a lesser amount. However, due to the pandemic the six largest U.S. banks set aside a combined \$36 billion in the second quarter alone to their reserves for future loan losses, far more than any quarter of the Financial Crisis. It is unusual for banks to be making record profits during a recession. JPMorgan CEO Jamie Dimon summed it up well in his post-earnings conference call, to recap his comments; In a normal recession, unemployment and delinquencies go up, income, savings, home prices go down. None of that is true today; income, savings and home prices are up. We will see the effects of this recession, we just won't see it right away because of all the stimulus and the fact 60%-70% of unemployed are making more now than they were when they were employed.

Economic data has shown a sharp recovery over the last several weeks with consumer spending picking up quicker than anyone had imagined. This can likely be attributed to the enhanced unemployment benefits that were part of the CARES Act where those collecting receive an extra \$600 per week, on top of the regular \$400 per week unemployment insurance. The Congressional Budget Office says about 83% of individuals receiving unemployment benefits are making more money staying unemployed than they would be working. However, these enhanced benefits are set to expire, creating some urgency for Congress to pass the next phase of a fiscal package. House Democrats passed a \$3 trillion package a few weeks ago and Senate Republicans are set to introduce their package this week, after returning from summer recess. There are several items receiving bipartisan support including financial aid to individuals and businesses, more state and local aid, and more assistance for hospitals and labs to improve testing. Republicans also want some sort of protection for businesses from legal liability due to lawsuits, a payroll tax cut and an incentive for employees to return back to work, while Democrats want to expand the enhanced unemployment benefit. Either way, the priority is to come to an agreement before Congress adjourns again on August 10 until after Labor Day.

California became the latest state to roll back its reopening plans. Due to an uptick in positive cases, Governor Gavin Newsom ordered a full shutdown of bars, movie theaters and museums, while ordering indoor operations close for restaurants. In the hardest hit counties, barbers, gyms, and places of worship must close as well. As of the end of last week the U.S. was trending with about 75k new cases per day, while hospitalizations continue to increase although at a lower rate. Deaths have remained low compared to the number of cases as better treatments have been discovered.

Moderna stock rose last week after releasing data that showed promising results from its Phase 1 clinical trial. The study showed the vaccine produced antibodies in all 45 patients tested. The antibody levels were equivalent to the upper half of those seen in patients who have recovered from the virus. There were no serious adverse events, however 80% of the patients suffered mild-to-moderate side effects such as fatigue, chills, headaches and muscle pains.

Netflix's Q2 financials were mixed, but subscribers easily beat expectations with the company adding 10.1 million global subscribers versus the 7.5 million expected. Netflix has now added 26 million global subscribers in the first half of the year and now has 193 million total subscribers globally. However, the stock was down 6.5% the next trading day after forecasting just 2.5 million new subscribers in the current quarter, below analysts' forecast of 5 million. Much of its production has been shut down this year, as a result Netflix expects to be net cash positive this year versus previously expecting net cash to be -\$1 billion. They expect net cash to be negative again next year and for the foreseeable future after that. Management stated third quarter subscriber guidance was due to a pull forward from such a strong Q2/Q1 which will result in subscriber growth being much slower the next couple quarters.

Company News

- Delta missed second quarter expectations with revenues down 88% from a year ago and capacity down 85% from a year ago. Delta has \$15.7 billion in liquidity and averaged a cash burn rate of \$43 million per day in the quarter, however June improved to \$27 million per day. Warns it will take at least two years before they see a sustained recovery.
- Apple does not have to pay a €13 billion fine in Irish back taxes, according to the EU's General Court. The European Commission in 2016 ruled Apple channeled sales through units in low-tax member states.
- Ford unveiled a new retro looking Bronco last week as part of its strategy to focus on more profitable pickup trucks and SUVs. The Bronco will come in two sizes; the smaller size, the Bronco sport, will be released later this year, and the larger two and four door versions will be released next spring. The price will start at \$29,995.

The Week Ahead

Congress returns from recess this week and with the increase in Covid-19 cases and the enhanced unemployment benefits expiring soon, a phase four stimulus package will be the priority. Expect Senate Republicans to release their plan at some point this week. Earnings pick up this week with 16% of S&P 500 companies reporting their results. Highlights this week include Halliburton and IBM on Monday, United, Coca-Cola, and Texas Instruments on Tuesday, Tesla, Microsoft and Chipotle on Wednesday, Twitter, AT&T, Intel, Skyworks, and American Airlines on Thursday, and finally Verizon, Honeywell and American Express closing the week on Friday. The only reports on the economic calendar are existing home sales, new homes sales, as well as the all-important weekly jobless claims number on Thursday.

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 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, 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. There is no assurance these trends will continue, or forecasts will occur.