

Wentz Weekly

July 27, 2020

China Tensions Rise, Again



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Chinese stocks were having a good run this summer, mostly due to China's sustained economic recovery. The SSE Composite Index, a market index of all stocks traded on the Shanghai exchange, was up just under 12% from the beginning of July to last Wednesday. On Tuesday the Trump administration told China it was ordered to close its consulate in Houston, to "protect American intellectual property." China called the move illegal, and after words back and forth, they announced Friday the U.S. was ordered to close its consulate in Chengdu. The Chengdu location was strategic, the southwestern city is close to Tibet and will have little impact on business interests. The potential for rising tensions shook both markets with the SSE index seeing one of its worst days since the coronavirus-related downturn in March.

The additional \$600 per week in enhanced unemployment benefits will expire before Congress agrees to another stimulus package, which if agreed on would potentially extend the benefit to the end of the year. Senate Republicans left for the weekend Thursday, after failing to come to an agreement on a draft bill. There remain differences between the Senate and the White House, including details on unemployment benefits, funding for Covid testing and funding for state/local governments. On Thursday Senate leaders said the bill would be released the beginning of this week.

President Trump has made it clear on his administrations' intentions to lower drug prices, signing three executive orders tackling the issue. One of the executive orders allows for the importation of drugs from Canada, another looks at pegging U.S. drugs prices to the price of drugs overseas, and the third requires health companies to pass discounts on insulin and epinephrine devices to the consumer. While there will unlikely be any immediate changes, it does set up a rule making process, which will be another challenge.

The European Union agreed last week to issue debt on a large scale, for the first time ever, in attempt to stimulate the region's economy. The recovery package agreed on will set up a €750 billion recovery fund, €390 of which will be grant money, as opposed to offering loans as was the case in the past. The other €360 will be repayable loans. The agreement will see all 27 European Union nations issue debt and help the poorest nations the most, something Germany has been against for years. The concern has always been it would turn into a permanent situation where the wealthy countries are funding the poor ones.

Earnings season will kick into high gear this week with about 34%, or 171 S&P 500 companies reporting this week. The variance in analysts' expectations is perhaps the highest its ever been. The reason has been the lack of guidance or forecasts by companies through the first half of the year. In fact, only about 20% of companies provided guidance in their first quarter earnings reports compared to close to 50% on average. The wide variance in analysts' expectations will likely lead to surprises and potentially large stock moves after earnings announcements. However, investors and analysts may be more focused on commentary and guidance for the second half of the year, as the market has always been forward looking.

Company News

- Tesla beat analyst expectations with higher profits driven by regulatory credits. The company is maintaining its target of 500,000 vehicle deliveries in 2020.
- Microsoft easily beat quarterly expectations, with revenues up 13% from a year ago and \$1.5 billion more than expected. Its cloud segment generated a lot of the beat, with revenues up 17% from a year ago. However, the stock was lower after providing a downside forecast for the current quarter.
- The largest semiconductor company, Intel, reported second quarter results that beat expectations, with revenues growing 19.4% from a year ago. Its data center segment saw 43% growth due to strong growth in its cloud business. The company says its new chip, the 7-nanometer chip processor, is delayed and now 12 months behind schedule. The company provided current quarter guidance below expectations. Both the product delay and lower guidance sent the stock lower by 16%.

The Week Ahead

It will be another busy week, with the Fed, economic data, earnings reports, and politics all likely to make headlines. After failing to come to an agreement last week, the Senate continues its negotiations and is expected to release its version of the fifth coronavirus-related stimulus bill the first half of the week. Federal Reserve officials will meet on Tuesday and Wednesday and announce any monetary policy decision at the conclusion of its meetings on Wednesday at 2:00. The markets will pay close attention to Chairman Powell's post-meeting press conference for any commentary on the recovery and policy tools that are currently in place. This week will be the busiest week for second quarter earnings season with 171 S&P 500 companies reporting, including some of the largest – Facebook, Alphabet, Amazon and Apple. On the economic calendar we will see durable goods orders, a proxy for business investments, consumer confidence, weekly jobless claims, personal income and spending for June, and the first estimate on second quarter GDP. Economist's estimates on second quarter growth vary widely, ranging from -46% to -14%.

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.