

Wentz Weekly

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Deadlock in Congress Forces Executive Action



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The main headline throughout the week was the lack of progress being made in Washington with Republicans and Democrats failing to reach an agreement on the next financial aid package. The end of the \$600/week supplemental unemployment benefit and threat of executive orders from the President still was not enough. Although both sides remain far apart on key issues, there remains a list of items that are receiving bipartisan support – Small business aid, another round of direct payments to individuals, funding for schools, and funding for healthcare, including testing. The deadlock in Congress drove President Trump to sign four executive orders at the end of the week. The four executive actions aim to provide \$400 per week in unemployment from FEMA, defers payroll taxes through December 31st, defers federal student loan payments to 2021, and temporarily halts evictions. The legality on the orders will likely be debated and challenged by Democrats as the stalemate in Congress continues.

Things are getting even more complicated in Washington after President Trump issued an executive order banning the use and business relationship with TikTok after September 20th. The video-sharing social media app has been under a lot of scrutiny in the U.S. due to national security concerns. It was revealed last week Microsoft is in talks to buy the company's U.S. operations, but there remain many issues to sort out before a deal is finalized.

Several indicators, mostly unemployment claims which dropped significantly since the end of March but have flattened to around 1.4 million weekly since June, have hinted of a labor market slowdown, setting up the expectation the July employment report would be a disappointment. Going into the release economist had expected an addition of 1.675 million, but it turns out according to the Department of Labor the U.S. added 1.763 million payrolls in the month. This resulted in the unemployment rate falling to 10.2% from 11.1% and the U-6 rate, which includes those willing to work but not actively looking for a job and those working part time but want full time work, fell to 16.5% from 18.0%. The most job gains were seen in industries that lost the most in March and April such as leisure and hospitality which added 592,000 and retail which added 258,000. There is progress being made, but it will be a long road ahead until we see unemployment at the level we saw in February. As of the latest report the U.S. is still down 12.8 million jobs compared to the February period.

Disney disappointed in its most recent quarter with total revenues of \$11.8 billion coming in \$600 million short of consensus, however that is not what investors were focused on. Disney reported an additional 24 million individuals signed up for Disney+ and 600k more signed up for ESPN+, bringing Disney's total monthly subscribers to over 100 million as more people were sheltered at home. Consequently, its parks and resorts segment recorded a \$3.5 billion loss in operating income after bringing in just \$983 million in revenue for the quarter, down from about \$6.6 billion the same quarter a year ago. The media segment also suffered due to the lack of sports, but expenses fell from less programming costs. Perhaps the most surprising news is Disney's move to release Mulan on Disney+ for \$29.99. Disney views these plans as a one-off event as opposed to trying or testing a new business model, according to CEO Bob Chapek. We believe Disney is testing the waters and would not be surprised if this became a trend in the industry.

The first three weeks of earnings season have shown companies performed much better in the second quarter than feared. Last quarter's earnings season was in the middle of the shutdown, forcing companies to forgo providing any sort of guidance that analysts and investors rely on when making their own projections, making it difficult to form any sort of consensus. As of August 7, according to FactSet, of the 89% of companies in the S&P 500 that have reported so far, 83% of those companies reported earnings and 64% of those companies have reported sales that have been above consensus estimates. If these figures hold, both would be the largest beat rate since the FactSet began tracking the data in 2008. This has resulted in the average estimate on 2020 earnings per share (EPS) for the S&P 500 to increase from around \$125 to the current estimate of \$129. If the upside momentum continues, we would not be surprised to see EPS on the S&P 500 reaching \$135, much better than feared several months ago.

Company News

- Uber reported second quarter results that beat expectations. Total revenues were down 29%, however gross bookings in the Eats segment grew 103%, which was offset by a 67% decline in the rides segment. Total bookings at the Eats segment is at the same rate as the Rides business was just three years ago.
- Penn National Gaming easily beat analysts' expectations for the most recent quarter. The company reported encouraging data since its properties have reopened, stating revenue at those properties that have reopened until the end of June are down just 6% compared to that same period a year ago, while its EBITDAR is up 33% at those same properties. The launch of Barstool Sportsbook app remains on schedule.
- Digital health companies Teledoc and Livongo announced they will merge in a \$18.5 billion deal. The combined companies expect to generate synergies of \$500 million by 2025. Post-merger, existing Teledoc shareholders will own 58% and Livongo shareholders will own 42% of the combined company.

The Week Ahead

Second quarter earnings season will continue for several more weeks but will begin to wind down this week. Notable reports include Royal Caribbean Cruises on Monday, Lyft and Cisco after the close on Wednesday, and DraftKings first report as a public company on Friday. On the economic calendar we will see several data points on inflation including at the consumer and producer level. The big day will be Friday when industrial production, consumer sentiment, and the Census Bureau's report on retail sales are all released. July retail sales are estimated to have grown by 1.8% in the month, still solid growth but slowing down from the 7.5% rate in June. However, Washington will most likely grab the most headlines and be the market moving event. Delegates from the U.S. and China are scheduled to meet on Friday to discuss progress on the trade agreement. Investors still expect a deal between Republicans and Democrats at some point, but Democrats may shift a lot of focus to challenging President Trump's executive actions announced on Friday.

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 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. 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.