

Wentz Weekly

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What Bear Market? S&P 500 Back at Highs



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If you look at the headline indexes and how much they have overcome this year, you'd think all stocks have been performing very well. However, if you dig deeper that is not necessarily the case. In a large amount of trading days that the major indices have been positive, there have been more declining stocks than increasing stocks, including the days where the market hit a new record. Thank the mega cap stocks for this. At one point last week, the top five stocks in the S&P 500 made up 25% of the index, the first time this has ever happen. Apple, now the largest U.S. company, is up over 60% so far this year and its market cap just eclipsed the \$2 trillion level. The lack of market breadth may cause a reason to worry, but Bespoke Investment Group notes over 10% of the all-time highs in the S&P 500 since 1990 have come on days with negative market breadth. In addition, following those all-time highs, the market is positive the following year 80% of the time. With all this being said, we believe now may be a better time than ever to re-examine your investment portfolio or 401ks and consider rebalancing.

The political fight around the next round of coronavirus related financial aid continues in Washington. Senate Republicans were planning on introducing a scaled back version of a stimulus bill that would meet the more immediate needs, such as unemployment benefits and financial aid, and exclude the biggest areas of disagreement. Separately, Democrats said they were willing to cut more from their \$3 trillion proposal, but the comments were later taken back by Speaker Pelosi. Democrats have now shifted their focus to providing funding for the Postal Service, calling back the House to hold a vote over the weekend. Republicans are expected to oppose the bill unless it includes provisions providing relief for businesses and individuals.

Last week's earnings reports were led by retailers. In the second quarter results have shown big-box retailers such as Home Depot, Target, Walmart, and Kohl's have performed very well, while retailers located in shopping malls have struggled since the pandemic began. Home Depot and Target had some of the best quarters so far this earnings season, driven by extra spending money from consumers after being forced to shelter in place for several weeks. Many have also had extra time and funds to perform more DIY home projects, thanks to the work from home movement. Comparable store sales at Home Depot, Target and Walmart were 23.4%, 24.3% and 9.3% higher, respectively, some of the highest comps the companies have seen. Commentary going into the third quarter has been positive, with management teams noting strong spending has continued into July and August.

The Trump administration continues its aggressive stance on China with its restrictions on technology, specifically targeting firms like Huawei. The latest rule announced by the Commerce Department will make it difficult for Huawei to source critical components with any U.S. inputs. This expands the original ruling to include foreign made products, so now no components or software with any U.S. content can be sold to Huawei, unless receiving a license from the U.S. first. On the trade front, the semi-annual meeting to evaluate the progress on trade commitments with China did not take place last Saturday and was reportedly rescheduled. President Trump said that China was living up to its end of the trade deal, however, are still well short of the amount of goods China promised to purchase. Trump later went on to say, "I canceled talks with China, I don't want to talk right now." Later in the week China's commerce ministry said trade talks will happen "in the coming days." So far, no meeting date has been officially scheduled.

Minutes from the Federal Reserve's most recent meeting show officials expect the economy would needs more government support to continue the recovery from the pandemic and avoid a longer downturn. Some officials said more may be needed from the Fed, for example providing forward guidance, giving more confidence to individuals and businesses. The Fed is also closer to wrapping up the review of the policy toolkit. It is widely expected the Fed will adopt an "average inflation targeting" which would allow inflation to run above target for some time before raising interest rates, in effect keeping rates lower for longer. The annual Economic Policy Symposium will be held this week and may provide the stage for Chairman Powell to announce any potential changes.

Company News

- Home Depot easily beat analyst's estimates for the second quarter with revenues up 23%. Sales at comparable store were up 23.4% compared to 10.9% expected. Customer transaction volume was up 12% and average ticket price was up 10%. The company has benefited from strong home sales, the work from home movement, more individuals doing small projects, and the enhanced unemployment benefit.
- Target easily beat expectations in Q2, with revenues up 24.8% and comparable store sales up 24.3% versus 7.6% consensus estimate, for the highest growth the company has ever seen. E-commerce sales rose 195%. EBITDA was \$2.9 billion versus \$1.8 billion expected. The CEO said the strong sales growth from Q2 has carried over into August so far.
- Chinese e-commerce company JD.com had a solid quarter, beating expectations. Revenues were 30% higher compared to a year ago. The amount of merchandise sales on the platform was \$9.1 billion, up 45% from a year ago, while its service revenue was up 36%. There are 30% more active customers using the platform.

The Week Ahead

The earnings calendar is much lighter this week. Notable reports include HP, salesforce.com, Best Buy, J.M. Smucker, Dell, Dollar General, and Ulta Beauty. The economic calendar will be busier. July housing reports will wrap up with new home sales on Tuesday. Durable goods orders, a leading indicator on industrial production, will be released Wednesday morning where another solid growth in orders is expected. Then on Thursday the latest on unemployment claims is released in the morning, along with the Bureau of Economic Analysis release of the second estimate on second quarter GDP. The first estimate had GDP declining 32.9% annualized and the second estimate is not expected to be revised much. The calendar wraps up with personal income and spending data for the month of July. The 44th annual Economic Policy Symposium, typically hosted by the Kansas City Fed in Jackson Hole, WY annually but will be virtual this year, will take place on Thursday and Friday. Powell may use this as an opportunity to preview any potential changes to the Fed's monetary policy framework, which has been under review for the past year. Finally, the Republican National Convention kicks off Monday and will run until 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 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.