

# Wentz Weekly

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## Mega Cap Tech Companies Dominate Earnings



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The largest tech CEOs in the country, those from Apple, Amazon, Alphabet (Google's parent), and Facebook, appeared in front of Congress to respond to questions on their market power and anti-competitive issues. The appearance had less action than thought. The concern from a market perspective has been these companies have gotten too large and are killing off competition so much that Congress needs to step up and implement meaningful regulation. However, as all 4 stocks were up on the day, as Barron's notes investors likely recognized Congress was more interested in making speeches and not as focused on disclosures from the CEOs. Congress repeatedly cut off the CEOs to maximize their five minutes of question time.

There were no surprises in the Fed's FOMC announcement or Chairman Powell's press conference. The statement noted employment and activity picked up somewhat in recent months, but Powell gave more of a mixed assessment saying the high frequency data shows the pace of recovery has slowed since the virus cases began to increase again in June and "the renewed measures to control it are starting to weigh on economic activity." Powell also said we have "entered a new phase of containing the virus, which is essential to protect both our health and the economy" and that the path of the economy is "extraordinarily uncertain and will depend in large part on our success in keeping the virus in check." In addition, the Fed noted enough progress has been made on its monetary policy framework review to present its conclusions at its next meeting in September, and will likely adopt "average inflation targeting" and add front end yield caps/targets to its policy toolkit.

Republicans had a slight disagreement at first but early last week released a draft proposal for a fourth round of coronavirus related fiscal aid, totaling around \$1 trillion. This serves as an opening to negotiations with Democrats, which after its release was immediately rejected by House speaker Nancy Pelosi who said the proposal is "pathetic... and not adequate." The largest disagreement comes from the extension of unemployment benefits, which Republicans want to reduce to \$200 per week before transitioning to a calculation that replaces 70% of lost wages starting in October, while the Democrats wish to extend the \$600/week enhanced benefit to the end of the year. The other major disagreement comes from liability protections, which Senate majority lead McConnell said the Senate will not pass a bill if it does not include this feature. Features receiving bipartisan approval include another round of direct payments to consumers, state and local aid, and funding for schools. The Democrats original proposal called for \$3.4 trillion in spending, and we believe the final package will be somewhere in between, likely in the range of \$1.5 to \$2 trillion.

Last week was the busiest for second quarter earnings reports. To date, about 63% of S&P 500 companies have reported results. The percentage of companies reporting earnings above estimates is 84% and the percentage reporting revenues above estimates is 69%. These are both some of the best beat rates since tracking of this data began. Earnings surprises were seen the most in the technology sector, which has driven much of the market gains since the market bottomed in March. In fact, the top five companies in the S&P 500, sometimes referred to as FAAMG for Facebook, Apple, Amazon, Microsoft, and Google, now hold a 22% weighting of the whole index. The question is whether this is warranted or not. Fundstrat research shows this might be the case. These same top 5 stocks account for 18% of the index's earnings and over 80% of the index's 2020 earnings growth.

The economy, which has suffered from voluntarily shutdowns due to the pandemic, shrank at a record 32.9% annualized pace in the second quarter. Due to data that has already been released for most of the second quarter an extreme decline was expected, and results were actually better than what most economists had expected. Consumer spending, which makes up approximately 70% of GDP, declined by an annualized 34.6% pace and accounted for 25% of the 32.9% decline in GDP. Fixed investments stalled - declining 29.9%, while exports were down 64% and imports were down 53%. Government spending increased 2.7% and was the only contributing positively to GDP.

## Company News

- Lam Research easily beat expectations in the most recent quarter, with revenues rising 18% from a year ago. Management provided current quarter forecasts that are well above the consensus estimate. They expect revenues to be between \$2.9-\$3.3 billion which is well above the average estimate of \$2.7 billion.
- Facebook easily beat Q2 expectations, with overall revenues increasing 11% from a year ago. Engagement and active users grew more than expected as more people were sheltered in place and looked for ways to connect. Facebook expects current quarter ad revenue growth to remain at the same pace as Q2.
- Amazon overall beat expectations easily, however its cloud segment AWS was a slight disappointment with revenue of \$10.8 billion versus expectation of \$11.0 billion. Amazon saw operating income of \$3.2 billion, negatively affected by \$4 billion in coronavirus related costs. Revenue and operating income guidance were both above the average estimate.

## The Week Ahead

It will be another busy week of earnings reports with at least 129 companies in the S&P 500 reporting their quarterly results this week. The economic calendar remains busy as well. On Monday we will see the results of manufacturing surveys to see how activity grew in July. On Wednesday trade data is released for June which should indicate how international demand has recovered since the pandemic began. Then on Thursday the latest figure on unemployment claims is released, which has been largely flat the last several weeks. The main headline will be on Friday when the employment report for July from the Department of Labor is released. Economists' consensus is that the economy added 2 million new jobs in July. We also hope to see some progress on negotiations in Congress on the next phase of a stimulus package.

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.