

Wentz Weekly

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TikTok's "Trusted Tech Partner"



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The battle for TikTok's U.S. operations has reportedly been won by Oracle, who beat out Microsoft in a deal that saves the social media company from being shut down in the U.S. The WSJ reports indicate ByteDance, TikTok's parent company, is set to announce Oracle as the "trusted tech partner" with the deal likely not being structured as an outright sales, with sources saying it might be more appropriate to call it a partnership. This potentially implies the deal does not include an exchange of significant assets. The issue in crafting a deal revolved around TikTok's algorithms, which is the core of the platform and where the value is for the acquiring company. The algorithms keep users engaged by figuring out which videos to show next. They were expected to be part of a deal until China issued export restrictions on key technologies, including the AI TikTok uses.

The TikTok deal was not the only major M&A news over the weekend. On Sunday chipmaker Nvidia confirmed it will acquire Arm Holdings for \$40 billion from Japanese conglomerate SoftBank, making it one of the largest semiconductor deals ever. Arm Holdings is a designer of microprocessors that are used in almost every smartphone. SoftBank had purchased Arm four years ago for \$32 billion and had been rumored to be looking to unload the company. In the deal Nvidia will pay SoftBank \$12 billion in cash and \$21.5 billion in stock, with the potential for \$5 billion more if certain performance targets are met.

The race to develop a Covid vaccine was initially thought to hit a roadblock for AstraZeneca by some last week. Shares of the company fell almost 10% in after-hours trading on Tuesday after Stat News reported the company is pausing its Phase 3 clinical trials of its Covid-19 vaccine. The company said in its standard review process there was a suspected serious adverse reaction, however the patient is expected to fully recover. The voluntary pause would allow "an independent committee to review the safety data of an unexplained illness." It should be noted a pause in a vaccine trial is not at all uncommon and is a routine process whenever there is an unexplained illness in a participant. As of late Sunday night, the Phase 3 trials have resumed after receiving confirmation from the U.K.'s Medicines Health Regulatory Authority that it was safe to do so. There are currently nine vaccine in Phase 3 trials.

A Republican introduced coronavirus aid package failed to pass a vote in the Senate late last week, as the prospects of passing any sort of financial aid prior to the election continue to fade. The bill was a "skinny" version of the previous \$1.5 trillion proposal. The bill failed on a 52-47 vote, needing 60 votes to advance, with all Republicans expect Sen. Rand Paul of Kentucky supporting. Democrats said the bill was inadequate and designed to fail, yet at the same time said Americans need help now. The "skinny" bill would have provided \$300 in federal unemployment benefits, legal protections for businesses and health providers, additional funding for testing, and new funding for schools and childcare.

It has been hard to gauge the precise level of inflation, thanks to the Covid pandemic, after seeing a sharp fall in prices over the late spring months followed by a sharp rebound over the late summer months. On Friday the Labor Department reported consumer prices rose 0.4% in August and are up 1.3% compared to the same period a year ago, as measured by the Consumer Price Index. A more accurate picture of prices which strips out the volatile food and energy categories shows core prices were up 0.4% in the month and are up 1.7% compared to a year prior. This puts the index closer to the Fed's 2% "target." Prices have recovered well, which marks a change from the Financial Crisis, where prices fell and continued to fall the years following. At the end of the day it is difficult to get a precise reading because consumers are not engaging in activities they normally would – such as traveling, buying cars, sporting/entertainment events, and grocery shopping/eating out – than if we were not in the middle of a pandemic.

Company News

- Semiconductor producer Qorvo raised its fiscal second quarter forecasts considerably, citing higher than expected broad based mobile demand for its 4G and 5G products. The news sent the semiconductor industry higher on the day.
- Slack Technologies beat analysts' expectations on its second quarter results with revenues rising 49% from a year ago, but billings were \$218 million, short of the \$226 million estimates. The company added 8k paid customers, bringing the total to 130k and above consensus. Slack also raises its revenue and earnings forecast for the third quarter above its prior range and above consensus estimates.
- Chewy beat expectations for its second quarter with revenues rising 48% from a year ago. EBITDA was positive versus the expected -\$16 million. Chewy now has 16.6 million active customers. Management raised its forecast above its prior range and above consensus estimate.

The Week Ahead

The economic calendar is much busier this week. We will see mid-month manufacturing conditions from the Empire State and Philly Fed manufacturing surveys. Retail sales are released Wednesday where sales are expected to have increased 1.0% in the month. Housing starts and the latest figure on unemployment claims are released Thursday and finally the University of Michigan's Consumer Sentiment survey results are released Friday. But the main event of the week is the Federal Reserve meeting with the Fed's policy decision on Wednesday at 2:00. The meeting and policy announcement will be followed by Jerome Powell's press conference, where investors will look for more detail on the Fed's new "average inflation targeting" policy. The next few weeks will be the quietest of the quarter on the earnings calendar. There are still several high-profile earnings releases including Lennar on Monday, and Adobe and FedEx on Tuesday. Apple will be holding its product event on Tuesday, titled "Time Flies." Investors are expecting a new Apple Watch and iPad Air, but are expecting the iPhone 12 announcement to be delayed into next month.

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 Dow Jones Industrial Average (DJIA), commonly known as "The Dow" is an index representing 30 stock of companies maintained and reviewed by the editors of the Wall Street Journal. 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. Every investor's situation is unique and you should consider your investment goals, risk tolerance and time horizon before making any investment. Sector investments are companies engaged in business related to a specific sector. They are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification. 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.