

# Wentz Weekly

September 21, 2020

## Fed Signals Lower Rates for Longer



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It was the first FOMC meeting since the Fed introduced its average inflation targeting, where the Fed said it would aim for inflation above 2% and wait until it “is on track to moderately exceed 2% for some time.” Even though the new policy was already introduced, the Fed struck a more dovish tone than most expected. As expected, no timeline was provided for its asset purchases and no change to the composition of Treasury purchases. Looking at forward projections, the path of policy by Fed members has rates staying at 0.1% all the way through 2023, perhaps the longest time out the Fed has targeted 0% rates. Its long-run target for rates is 2.5% which is unchanged. The Fed updated its economic projections; now seeing GDP declining 3.7% in 2020, up from -6.5% in the previous projections, 7.6% unemployment rate from 9.0% prior, and inflation at 1.2% from 0.8% in the prior projections. On the economy, economic activity has picked up although it remains well below the pace seen at the beginning of the year. Also repeated previous comments that it cannot do everything itself to revive the economy and more fiscal support is necessary, another call to Congress to get a stimulus bill passed.

There continues to be a lot of disagreement in Washington over the potential next round of coronavirus related financial aid. Multiple House Democrats are beginning to get more frustrated about the lack of progress on a deal, while House Speaker Pelosi holds out for a larger package. There are also reports Democrats in swing states are urging Pelosi to reach a deal with the White House. A bipartisan group of moderate lawmakers introduced a \$1.5 trillion proposal, which White House Chief of Staff Mark Meadows called “very thoughtful” and could possibly lead to the opening of further discussions. He said the proposal does not align with the views of the priorities of the President, but something worth consideration.

Apple hosted a virtual product launch event titled “Time Flies” to highlight the latest watch and service launches. As expected the company did not introduce the latest generation of iPhones. The expectation now is for the iPhone launch to happen sometime in October, likely prior to its next earnings release. However the company did introduce the latest version of its iOS. Product launches include the Watch Series 6, iPad 8, and iPad Air. Fitness+ was introduced, which integrates a wide variety of wellness services with the latest generation of watches. On the services side, the Apple One bundle was introduced. The plan starts at \$14.99/month and includes iCloud, Apple Music, TV+, Arcade, News, and Fitness+.

Retail sales are beginning to slow, after running hot from the post-shutdown recovery, and perhaps due to the expiration of the enhanced federal weekly unemployment benefit that was part of the CARES Act. Retail sales rose 0.6% in August after increasing 0.9% in July, however lower than the 1.0% gain expected. Core retail sales, which exclude the volatile auto and gas categories, rose 0.7% in August, after a 1.3% increase in July and versus the 1.0% gain expected, and are up 2.6% from a year ago in August. Shopping from home continues to increase at a significant pace, with e-commerce sales up 22.4% from a year ago. For the 3-month rolling period from June to August, retail sales are 2.4% higher compared to a year ago. Some of the categories seeing the largest growth include building materials/garden increasing 15.4% from a year ago, grocery sales increasing 9.0%, and furniture sales increasing 3.8% from a year ago.

The TikTok saga to make the company U.S. based continues. The Trump Administration was set to ban individuals from being able to download the Chinese social media app beginning on Sunday, until Trump approved a deal in principal. With the approval, the ban was delayed one week until September 27. The deal would move data and the HQ to the U.S. and create TikTok Global. The deal would result in ByteDance and investors maintaining majority ownership, Oracle having a 12.5% ownership stake while Walmart would have a 7.5% stake. Oracle’s role is as a “trusted tech partner” to assure the U.S. that users’ data is safe. Walmart would enter a commercial agreement to provide e-commerce, fulfillment, payments and other services to the company.

## Company News

- FedEx first quarter results beat expectations by a wide margin, with revenues rising 13.5% from a year ago. FedEx is benefiting from Covid in a huge way, with the company saying it projects to hit 100 million packages delivered per day by 2023, pulling its projections forward by three years from its pre-Covid expectation of 2026. “E-commerce fueled substantially by this pandemic is driving the extraordinary growth.”
- Caterpillar reported total machine sales were down 20% in the rolling 3 months ended in August, which match June and July’s rolling 3 month declines, indicating no significant recovery yet, and marks the 9th consecutive month of year-over-year declines.
- GE CEO Larry Culp said he expects the company to turn free cash flow positive during this year’s second half, which should set the stage for positive free cash flow going forward. The company has seen “good progress” on its \$2 billion in cost cuts.

## The Week Ahead

The corporate calendar will be quiet again this week, but there will be several high-profile companies reporting their quarterly results. Nike, Autozone, and Stitch Fix will report on Tuesday, followed by General Mills on Wednesday, and Costco Wholesale, CarMax, and Darden Restaurants on Thursday. Also this week, Tesla will be holding its annual meeting, followed by its Battery Day event, which has been highly anticipated. There will be several data releases on the economic calendar including several housing market indicators. Existing home sales for August from the National Association of Realtors is released Tuesday morning, followed by August data of new home sales by the Census Bureau. Outside of the housing reports we will see the latest update on unemployment claims and August’s durable goods orders. The Fed will remain in the headlines, but this time as it relates to its existing stimulus programs, with Chairman Powell and Treasury Secretary Steven Mnuchin testifying to Congress.

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.