

Wentz Weekly

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The Fiscal Stimulus Rollercoaster



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Going into the beginning of last week, the consensus was the Trump Administration had more of an incentive to negotiate and agree on a large fiscal stimulus package after President Trump's Covid diagnosis as a way to regain momentum for the campaign. However, Trump took to Twitter Tuesday afternoon to announce he rejects the Democrat's \$2.4 trillion proposal as it is a bailout for poorly run Democratic states and allocates funds not related to Covid-19. He has instead instructed his administration to end negotiations until after the election, and instead focus the attention on approving his Supreme Court nominee. "...immediately after I win, we will pass a major Stimulus Bill that focuses on hardworking Americans and Small Business."

Trump's Tuesday afternoon tweets were followed by evening tweets calling on Congress to pass individual bills targeting specific stimulus measures, due to Democrats unwillingness to come down on their offer, immediately sending stock futures higher. Trump called for \$25 billion for airline payroll support and \$135 billion in additional funding for the Payroll Protection Program that has kept many on payrolls throughout the worst of the pandemic. He also called for a separate standalone bill that would provide another round of \$1,200 stimulus checks to individuals. Shortly after, House Speaker Pelosi said the Democrats are unwilling to pass any individual bills, as the President proposed, unless there is a bigger more comprehensive package. The rollercoaster ride continued over the weekend after the Trump administration and Mnuchin upped the Republicans offer to nearly \$1.9 trillion, of which Pelosi called "grossly inadequate," even though it was nearly \$700 billion more than the Republicans offered just a week prior.

Fed Chairman Jerome Powell spoke at the National Association for Business Economics annual meeting where he gave a more pessimistic tone. As expected, he again called on Congress to pass new financial aid for businesses and individuals, otherwise "typical recessionary dynamics" could result in a downward spiral of the economy. He warned without more stimulus, personal and business bankruptcies could rise further resulting in systemic damage to productivity and long-term wage growth. He admitted the economy is slowing and unemployment is worse than indicated in the employment report (specifically the unemployment rate) – after adjusting for questions about job status and declines in participation rate. Powell also mentioned Mnuchin and Pelosi consulted him on the needs of local governments, which is the biggest disagreement in each party's stimulus proposal. Mnuchin says the Administration is only willing to cover pandemic losses, while Pelosi wants to cover pension shortfalls and other chronic budget problems of state and local governments, which is seen by many as a political play to help Democratic states.

The market's focus is likely to shift from a deadlock in stimulus negotiations to third quarter earnings season, which is set to unofficially begin this week. Earnings reports will begin with the large banks on Tuesday, along with several industrials. Banks have largely been left behind in the market's rally since the March low due to higher loan losses and a lower interest rate environment, but some analysts believe this could be the turning point. Bank's net interest income is expected to have hit a trough, loan losses are improving, and the 12 largest banks are expected to all post a profit in the third quarter. This will help the overall earnings growth rate on the S&P 500 which is now expected to have declined by 21% compared to the 25% decline expected just three months ago, according to FactSet. Expectations are improving, which is against the norm. Typically forward earnings expectations begin high, and come down over the course of the quarter. Not as many companies have provided forward guidance either, which makes it more difficult for analyst to project earnings. Just 69 S&P 500 companies provided guidance for the quarter, compared to just 53 for the second quarter and the average of 104, according to FactSet. Expect the lack of guidance to result in a lot of surprises as well, following the second quarter earnings season when over 84% of companies beat expectations by an average of over 23%, both records since data began by FactSet in 2008.

Some of the largest tech companies are leveraging their dominance to stifle competition and eliminate rivals, according to a Democratic led House Antitrust Panel. The report released by the panel claims these companies are engaging in monopolistic practices and calls for new antitrust laws that could result in structural separations and preventing future acquisitions. Representative David Cicilline calls it a Glass-Steagall for the internet. Big tech did not seem too worried about the House Antitrust Panel's report with shares still gaining on the week.

Company News

- Apple will host an event with the tagline "Hi, Speed" for October 13, where it will announce its next iPhone launch. An earlier leak indicated four new 5G iPhones will be announced, and possibly new hardware. The 5G iPhone lineup has been anticipated for years now.
- Advanced Micro Devices is reportedly in advanced talks to buy chip maker Xilinx. The report indicated the deal could value Xilinx at more than \$30 billion.
- IBM announced plans to spin off its managed infrastructure services unit into a new public company. This would allow IBM to focus on its hybrid cloud strategy, the higher growth segment of the company.

The Week Ahead

The corporate calendar will begin to get busier this week as third quarter earnings season kicks off. Many of the big banks will be reporting their third quarter financial results, beginning with JPMorgan and Citigroup on Tuesday, followed by Bank of America, Goldman Sachs, PNC, and Wells Fargo Wednesday, and Morgan Stanley on Thursday. Outside of financials, Delta reports Tuesday, United Airlines and UnitedHealth on Wednesday, and Kansas City Southern on Friday, among others. Uncertainty remains and analysts have a difficult task forecasting numbers amid the pandemic, so we may see many surprises again. Apple will host its iPhone launch event on Tuesday where it will reveal its 5G smartphone, and Zoom Video will host "Zoomtopia," a conference showcasing how video-first communications are empowering the workforce today. On the economic calendar, the highlights will be inflation data with the consumer price index Tuesday and the producer price index Wednesday. We will also receive data last week's unemployment claims, results from mid-month manufacturing surveys from the east coast, and retail sales for the month of September. Retail sales are expected to have held steady at a solid 0.7% monthly gain. Politics and progress on another stimulus package will remain in the news as well, as we are now just three weeks from the election.

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.