

# Wentz Weekly

October 19, 2020

## Strong Consumer Despite Ongoing Pandemic



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Last week there was an average of 53,283 new Covid-19 cases per day, up 16% from the prior week, after several weeks of slowing case growth. Testing has improved as well, with 6% more tests administered per day compared to the prior week, and over one million tests done per day on average last week. In addition, Europe surpassed the US in average new cases per million, leading the media to report on a so called “third wave.” The rise in cases in Europe has prompted leaders to bring back restrictions in some of the region’s largest cities. Restaurants and indoor facilities have reduced capacity, bars close earlier, and many schools are adopting hybrid strategies. Hospitalizations remain the main focus for us. If hospital capacity becomes too high, it would raise the probability of a more widespread shutdown that would have the largest consequence on the economy. But we are no where close as of now.

Wash, rinse, repeat... Stimulus negotiations continue to go back and forth, with Republicans again offering to increase their offer above the previous \$1.8 trillion that was formally submitted last weekend, but Pelosi still refusing to go below \$2.2 trillion. Treasury Secretary Mnuchin and House Speaker Pelosi held several one-hour long conversations last week, all coming short of an agreement. Mnuchin said he and Pelosi were making progress on certain issues, but disagreements remained not only on the size of the bill, but certain policy measures as well. More Democratic representatives are pushing for Pelosi to accept the offer from the White House rather than waiting until after the election and risking more small business failures and job losses. Senate Republicans plan to hold another vote on a “mini-package” of \$500 billion this week that will provide more funding for small businesses, health care, and schools. Potential future deadlines include the December 11 expiration of government funding, where another spending bill will need passed, and the expiration of Pandemic Unemployment Assistance on December 31 (the \$300 in additional unemployment benefits under Trump’s executive order).

Retail sales data for September somewhat eased concerns of a third quarter slowdown in consumer spending. Americans boosted their spending the most on vehicles, clothing, and restaurants in the month. Overall sales were 1.9% higher in September compared to August, and 5.4% higher in September compared to a year ago, according to data by the Commerce Department. E-commerce sales continue to show very strong growth, with consumers spending 23.8% more online than they did a year prior. However the outlook is less certain for consumers. Millions remain without a job and Congress remains in disagreement on the next fiscal stimulus bill which could extend enhanced federal unemployment benefits and potentially provide another round of stimulus checks for individuals. One of the brightest spots has been building materials and gardening. Sales in the category are over 19% higher from a year ago with consumers working from home and spending more time on home projects and remodeling. Autos, home improvement, sporting goods, and grocery store sales are doing better than before the pandemic, while department and clothing stores, gasoline sales, and restaurants remain well below the levels prior to the pandemic (although improving each month). Consumers high savings rate of 14.1% last month, compared to 7.3% a year ago and a record 33.7% in April, have given support for households to spend as consumers begin to feel more confident in the recovery.

America’s largest banks held up well in the third quarter, posting higher profits in the quarter than they did a year ago. Profits were better than expected mainly because banks did not have to set aside as much for expected loan losses than what most analysts had expected, which offset lower net interest income due to much lower interest rates. JPMorgan set aside just \$611 million in the third quarter, that compares to \$10.5 billion it set aside in the second quarter and the \$2.9 billion that analysts had expected. Citigroup set aside \$2.3 billion versus the expected \$7 billion and Bank of America set aside \$1.4 billion versus \$2 billion expected. In addition, those with trading divisions saw a large increase in trading revenue due to heightened volatility in the markets. JP Morgan’s trading revenue was up 30% from a year ago and Citigroup’s was up 18%. Goldman Sachs benefited from its large investment banking division, which drove better than expected results where revenues were 30% higher than they were a year ago. The full picture is not all that rosy though, with banking leaders saying we are not out of the woods yet, warning that with unemployment remaining high and the pandemic still looming loan losses could continue to increase.

Holiday spending habits have changed over the last decade and look to continue the shift with this year’s Amazon Prime Day sales event potentially pulling holiday sales earlier than prior years. Although not total Prime Day numbers, Amazon said it was the “two biggest days ever for third-party sellers.” These sellers had sales of \$3.5 billion during the two-day period, up nearly 60% the 2019 Prime Day event. Estimates by Digital Commerce show total Prime Day sales rose to \$10.4 billion, up more than 45% from the 2019 event. Amazon was not alone though, an estimated half of the top 100 online retailers offered their own Black Friday-like sales, generating a 51% increase in site traffic. Immediately after Prime Day, Amazon began its next promotion, Holiday Dash (featuring sales on toys, electronics, and many other holiday favorites), part of the rush by retailers to offer sales earlier than the traditional Black Friday sales.

## Company News

- Disney announced a major reorganization to make streaming its primary focus and the center of the company, with management citing the industry’s trend. Its media and entertainment divisions will be rearranged into a single organization for content distribution, ad sales and Disney+. There will be a distribution group created to determine the best platform to release its content (streaming, tv, or movie theaters).
- The World Trade Organization granted EU the right to impose tariffs on \$4 billion in US goods, in retaliation for subsidies given to Boeing. This follows a similar ruling that allowed the US to imposed tariffs on \$7.5 billion in EU goods.
- Delta reported a 76% drop in revenues and missed already low expectations. Load factor (ratio of seat miles to available seat miles) was 41%, lower than the estimates of 49%. Management focused commentary on their efforts on cutting costs, where operating expenses are down 50%.

## The Week Ahead

Third quarter earnings season will heat up this week and likely take over headlines with 80 S&P 500 companies set to report their quarterly results. Key reports include Halliburton and IBM on Monday, Netflix, Procter & Gamble, and Snapchat on Tuesday, Verizon, Biogen, Chipotle, Lam Research, and Tesla on Wednesday, Coca-Cola, American Airlines, AT&T, Pulte, Intel, and Southwest on Thursday, and American Express and Cleveland Cliffs closing out the week on Friday. The economic calendar will be lighter this week, mainly consisting of housing data. On Tuesday data on new residential construction for September is released followed by data on existing home sales on Thursday where economists expect an annualized rate of 6.350 million existing homes were sold in September. On the political front, stimulus talks will continue, and the final presidential debate is scheduled for Thursday at Belmont University, just 12 days before 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.