

# Wentz Weekly

October 26, 2020

## Positive Earnings Struggle To Boost Markets



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Last week, key negotiators in the stimulus talks gave a more optimistic tone, though indicated both parties remain apart on some areas. House Speaker Pelosi started the week by giving the Trump administration a 48-hour window to reach an agreement if both parties wanted to pass a bill prior to the election. She extended the deadline on Tuesday saying the White House has come a long way on making concessions but remain apart on some areas including funding for state and local governments. Trump has voiced his opinion on being against additional funding for state governments tweeting it is a bailout for Democratic ran states like California, New York and Illinois that have had chronic budget problems. The passage of a bill looks highly unlikely prior to the election. The next potential date is the December 11th government funding deadline.

The percentage of S&P 500 companies reporting and beating earnings estimates and the magnitude of beating earnings estimates are both at or near record high levels. Despite the improvement versus expectations, the S&P 500 is still seeing the second largest year-over-year decline in earnings since the Financial Crisis over ten years ago (the largest being the second quarter of this year). According to FactSet, as of Friday 27% of S&P 500 companies have reported earnings so far, with 84% of those reporting earnings above estimates, above the five-year average of 73%. In aggregate these companies have reported earnings that are 17.2% above estimates, which is also above the five-year average of 5.6%. Overall, earnings estimates have increased as we get deeper into the quarter, contrast to what typically happens - analysts' estimates usually start high, then come down as we get closer to quarter end. Three months ago, earnings were expected to decline by 25%, but as of Friday estimates now show a 15.8% decline, another reason for the sharp recovery in U.S. stocks.

Shares of Snapchat's parent company Snap rose 28% last Wednesday, after blowing out estimates for its third quarter. The company reported record revenue of \$679 million, which was 52% higher than a year ago, and was well above the average estimate of \$550 million. The company attracted the highest ever number of advertisers to its platform. Many advertisers took their ad spending to other social media platforms due in part to the boycott against Facebook on hate speech which, along with higher user engagement, drove results for Snap. Meanwhile, results for subscription-based service Netflix did not live up to expectations. The first half of the year saw a pull forward of new subscribers, thanks to the pandemic, which led to third quarter results missing estimates for subscriber growth. Management said 2021 numbers would be down compared to 2020 if the world recovers from the pandemic quicker than expected, leading the stock to fall after the report.

Last week the Justice Department and 11 states targeted Google's search and advertising platform in an antitrust lawsuit against the company, accusing it of illegally using its platform to drive out competitors creating a monopolistic environment. This marks one of the largest lawsuits by the DOJ against a tech company since the 1998 anti-competitive case against Microsoft. The lawsuit could lead to a breakup of one of the largest internet companies. The lawsuit states by "executing its anticompetitive strategy, [Google is] crippling the competitive process, reducing consumer choices, and stifling innovation." The lawsuit could have big implications for big tech, but the outcome will likely be dependent on the results of the election.

Sales of previously owned homes rose 2.4% in September to their highest monthly pace in over 14 years and follows a 24.7% increase in July, which was the strongest monthly gain ever seen in the report began going back to 1968. The National Association of Realtors said an annual rate of 6.540 million existing homes sold which is 10.5% higher than the year ago period. Home sales are being fueled by robust demand due to ultra-low interest rates. Supply is becoming a bigger issue, with the lowest amount of existing homes on the market, 1.47 million, since tracking of this data began. Given the sales rate, there is just 2.7 months of supply on the market currently. The supply/demand situation and low interest rates is driving up prices, with the median price up 14.8% from a year ago to \$311,800. The pandemic and work from home drove a large increase in vacation homes, where sales were up 35% from a year ago.

## Company News

- Tesla has executed very well this year, reporting Q3 results last week that were better than expected. Revenues were up 39% from a year ago and profits beat expectations from higher margins of 3.6% due to strong volume, better fixed cost absorption and additional cost reductions. Tesla expects 500k deliveries this year versus 476k consensus.
- Intel agreed to sell its NAND memory chip unit to SK Hynix for about \$10 billion. Intel reportedly wants out of the memory business due to recent pricing pressure from the oversupply and wants to focus its attention on its core CPU business.
- Kohl's announced new strategy initiatives in its investor presentation last week where the goal is to drive its active business to be at least 30% of sales, and have a bolder approach to its women's business, with a goal of tripling sales in beauty and bringing in new brands.

## The Week Ahead

The corporate calendar remains busy this week with at least 170 S&P 500 companies set to report their quarterly earnings results, which will be the busiest earnings week of the quarter. Highlights of the week will include Twilio and Hasbro kicking things off Monday, followed by 3M, Caterpillar, Microsoft, and Pfizer on Tuesday, Boeing, Ford, GE, Pinterest, and UPS on Wednesday, Alphabet, Amazon, Facebook, Apple and Twitter on Thursday, and Honeywell and AbbVie on Friday. The economic calendar will be busy as well. On Monday, the Census Bureau will release the latest data on new home sales where estimates show an annualized rate of 1.010 million new homes sold in September. Then on Tuesday durable goods orders and the Conference Board's survey on consumer confidence are released. Thursday we will see the latest on jobless claims along with the initial estimate on third quarter GDP where the consensus has the economy growing at a 31% annualized rate in the quarter. Finally, Friday morning personal income and spending data and another consumer sentiment survey will be released. In central bank news, the Bank of Japan will announce its monetary policy decision on Wednesday, and the European Central Bank will announce its decision on Thursday.

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.