

Wentz Weekly

October 5, 2020

All Eyes on President Trump



Investment management for your lifetime

Stocks ended the week higher, likely from the prospects of a Phase 4 stimulus bill increasing, as this will be the variable that likely helps the economy and markets the most over the short/medium-term. After several days of meetings between Pelosi and Mnuchin, Democrats took its \$2.2 trillion revised HEROES Act to the floor for a vote and passed. The Trump Administration has been vocal of not accepting anything over \$1.6 trillion, but the President's Covid diagnosis may be a catalyst to force something through. As of now, the next bill would continue enhanced unemployment benefits, provide another round of stimulus checks to individuals, provide relief for state and local governments, additional funding for PPP loans, funding for airlines, funding for schools, and funding for additional testing.

The Covid-19 diagnostic of the President and close members of his administration adds more uncertainty as we head into the election and may also impact the timing of the Supreme Court nomination process. Several Senators have already tested positive and if more are forced to quarantine, could push the final Senate vote to after the election. It is too early to measure the impact to Trump's reelection chances, but if he sees a quick recovery it may be a positive and give him a boost in the polling, like what was seen with UK Prime Minister Boris Johnson earlier this year when he caught the virus.

Airline stocks rallied Friday after House Speaker Nancy Pelosi urged airlines to pause furloughs and said additional aid would be coming. Terms of the \$25 billion payroll support for airlines expired on October 1, the date airlines promised to keep employees on payroll until. As of Friday, airlines planned to cut approximately 33,000 jobs due to the hit they have experienced from the coronavirus. Pelosi said the additional aid could be part of a stand alone bill or more comprehensive legislation. An attempt to get something approved had failed later in the day. Airlines have said they would reverse planned furloughs if additional aid came through.

The Department of Labor's employment report shows 661,000 new payrolls were added in September, which is a disappointment compared to economists' expectations of 895,000. The unemployment rate fell to 7.9% from 8.4% due to the increase in jobs and a lower participation rate, which fell to 61.4% from 61.7%. The U-6 rate, which includes discouraged workers and those working part time that want full time work, fell to 12.8% from 14.2%. The number of unemployed fell 1.0 million to 12.6 million, but still 6.8 million below the levels prior to the pandemic. More concerning is the number of permanent job losers rose 345,000 to 3.8 million and is up 2.5 million from February. The leisure & hospitality and retail sectors continue to be the sectors that are far behind in bringing the jobs back, down a combined 2.8 million compared to February. Only about half the jobs lost in March and April have come back, and many that say they are temporarily laid off have been without a job for over three months.

Consumer confidence is making a comeback and according to the latest surveys rose to the highest levels since prior to the pandemic. The index of consumer confidence, measured by the Conference Board, rose at its sharpest pace in over 17 years, with the index rising from 86.3 to 101.8 for September. The present situation index of the survey was up to 98.5 from 85.8 and the expectations index was up to 104.0 from 86.6. In addition, the Consumer Sentiment survey, compiled by the University of Michigan, reached a six-month high, reflecting more confidence in the U.S. economy. The index rose to 80.4 in September from 74.1 in August.

The U.S. markets continued its swift recovery, recording the second consecutive quarter of significant gains, despite a stretch of heightened volatility in September. Quarterly gains stacked up as follow; S&P 500 +8.5%, Dow +7.6%, NASDAQ +11.0%, and Russell 2000 +4.6%. It was the NASDAQ's best six-month stretch since 2000, and the S&P 500's best since 2009. The consumer discretionary sector was the best, up 16.0% while energy lagged the most, down 20.2%. With significant gains and stocks close to record highs, now would be a good time to consider rebalancing investment accounts.

Company News

- Last week, Cleveland Cliffs announced it would buy the US steelmaking assets of ArcelorMittal for \$1.4 billion. Last year Cleveland Cliffs bought AK Steel for \$3.1 billion and has gone from being a company that only sold iron ore to now becoming the second largest steel producer in North America.
- Tesla reported it delivered 139,300 vehicles in the third quarter, compared to the consensus estimate around 136,000. The company produced 145,036 vehicles in the quarter.
- Micron reported earnings and revenues that beat expectations, with revenues growing 24.4% y/y. The positive results were driven by strong DRAM sales in cloud, PC and Gaming. Current quarter guidance was provided and was slightly below consensus estimates.

The Week Ahead

This week will be the last week where the earnings calendar will be quiet before third quarter earnings season picks up. There are a couple notable earnings this week, including Cisco and Nvidia on Monday, followed by Paychex and Levi Strauss on Tuesday. The economic calendar will be light as well, with the job opening and labor turnover survey Tuesday, the FOMC meeting minutes released Wednesday, and Jobless claims Thursday. On Tuesday Fed Chairman Powell will speak before the National Association for Business Economics in the annual meeting, where he is expected to again call on Congress for more financial relief. Stimulus talks and updates on the President's health/Covid spread in Washington will likely continue to dominate the political news cycle.

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.