

Wentz Weekly

November 2, 2020

Election Time



Investment management for your lifetime

The main event this week will be the election, where the biggest concern is a contested outcome. This has created uncertainty for investors, pressuring stocks and increasing volatility as we get closer to the election. Much of the focus will be on the outcome of the presidential election, but stock market performance correlates more to which party controls congress. According to Strategas Research, since 1933 the stock market performed the worst under a Democrat congress and Republican president with an average annual rate of return of just 4.9%, and second worst when Democrats control the White House and congress with a 9.3% return. Interestingly, markets perform best when there is a split congress, averaging a 13.6% annual return. Stocks like certainty and with a split congress it is typically more difficult to pass legislation. The average return is not far from this when Republicans control Washington, averaging 12.9% annually. The current makeup of Washington, split congress and Republican president, has resulted in a 13.4% annual return. Democrats will most likely maintain control of the House, and the presidential race is important, but keep an eye on the Senate race as well.

Uncertainty around the election, another surge in Covid-19 cases in Western Europe causing more restrictions, mixed earnings reports and a cloudy outlook have led to another pullback in stocks. As of Friday's close, the S&P 500 is down 8.87% from its all-time high a month ago. However, this is in line with other moves we have seen since the low was made in March. Five difference pullbacks of over 5% have occurred since March and have had a range of -6.37% to -10.55% and average -8.2%. We would utilize these pullbacks as an opportunity to buy, given our thoughts we remain in the middle of a secular bull market.

The first estimate on third quarter GDP released by the Bureau of Economic Analysis shows the economy grew an annualized pace of 33.1%, making it the largest quarterly economic expansion since data began in 1947. This follows a sharp decline of 31.4% in the second quarter, with growth now down 2.9% from the same quarter a year ago. Consumer spending, which makes up approximately 70% of U.S. GDP, drove most of the gains with a 40.7% increase and contributing 25% to Q3 GDP. Business investments were up 20.3%, after being down 27.2% in Q2, while residential investments were up 59.3%, after falling 35.6% in Q2. Government spending was down 4.5% in the quarter, after a surge in government spending in Q2 due to the CARES Act. Even though GDP had a sharp rebound in the third quarter, it remains 2.7% (\$589 billion) below fourth quarter of 2019's level. Growth should moderate after the record high pace in Q3, suggesting it may take until the first half of 2021 to get back to pre-pandemic levels.

A wave of earnings was released last week and now 64% of S&P 500 companies have reported their quarterly results as of Friday. The percentage of companies beating estimates and the magnitude of the beats are at record levels, according to FactSet. Of the companies that have reported so far, 86% have reported earnings above estimates and 81% have reported revenues above estimates. As of Friday, S&P 500 earnings in the third quarter are expected to have declined by 9.8% compared to a year ago, a massive improvement from the beginning of the third quarter when estimates showed a 25% decline, and also an improvement from the 31.9% decline in the second quarter.

Five of the largest companies in the U.S. all reported quarterly results last week – Apple, Amazon, Microsoft, Alphabet (Google parent), and Facebook. Each company had a blowout quarter, but only Alphabet's stock rose after the release. Apple's results were overall better than analysts had expected, but iPhone sales came in light because of a 29% drop in sales in greater China, and the company decided to not provide forecasts for the third consecutive quarter. Amazon reported a 37% growth in revenue with operating income quadrupling expectations but says profit margins will be lower in Q4 due to an expected \$4 billion in Covid related costs. Facebook generated more ad revenue than expected, but management gave a cautious tone on 2021 ad spending after the e-commerce surge this year. Microsoft easily beat expectation in all business segments, but guidance in its cloud segment was not up to analysts' estimates. Alphabet, like Facebook, posted more ad revenue than expected and said YouTube generated \$5 billion in ad sales alone, up 32% from a year ago.

Company News

- The deal for AMD to acquire Xilinx was officially announced last week. It is a \$35 billion deal, or \$143 per share of Xilinx stock. Each share of Xilinx owned will receive 1.7234 shares of AMD. The acquisition will give AMD a strong portfolio of high-performance processor technologies and allow it to be an even bigger competitor to Intel.
- Netflix spiked late in the day Thursday after announcing price increases to each of its plans except for its basic plan which will remain \$8/month. The standard plan is increasing \$1/month and premium plan up \$2/month.
- Bloomberg reported casino & resort owner Las Vegas Sands is exploring the sale of its Las Vegas properties which could go for \$6 billion.

The Week Ahead

It will be a busy week on the corporate and economic calendar, but investors will be focused on the 2020 election. Democrats are favored to hold the House of Representatives, but the White House and Senate are in a much tighter race, and the odds of a contested election is likely. The busiest week in earnings is behind us, but this week will still be busy with at least 119 S&P 500 companies scheduled to report their quarterly results. Highlights this week include PayPal and AMC on Monday, Wayfair and Humana on Tuesday, Qualcomm, Expedia, Hilton, and Qorvo on Wednesday, another busy Thursday with Alibaba, GM, Bristol Myers, Square, Roku, Peleton, theTradeDesk, Uber, and T-Mobile, and finally CVS, Toyota, ViacomCBS to end the week on Friday. The economic calendar picks up as well. Beginning of the month reports such as manufacturing surveys, motor vehicle sales, and construction spending are released on Monday. On Thursday, the latest data on unemployment claims is released, and then the Federal Open Market Committee will announce its latest policy decision at 2:00 where no changes in policy is expected. Finally, on Friday the employment report is released where economists estimate 600,000 jobs were added in October.

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.