

Wentz Weekly

November 23, 2020

Small Cap Stocks Lead Market Rally



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With three vaccines now showing at least 90% efficacy, investors and portfolio managers have been increasing allocation in equities and riskier assets. This is all despite record high daily Covid-19 cases and additional restrictions across the country. However, the market hit another record last week on optimism life will return to normal in 2021 with an approved vaccine widely available at some point in the first half. Stocks recent push higher is not just from the mega cap tech stocks anymore, rather a more broad rally. In fact, the percentage of NYSE listed shares that are above their 200-day moving average is 81.8%, which is the highest reading since 2013. The last several occurrences with this high of participation saw stocks move higher over the next 12 months. Small cap stocks, as measured by the Russell 2000, are up 16.05% since the beginning of November, putting them on track for one of the best months ever.

Earnings results from retailers continue to show the pandemic has not slowed consumers shopping habits, it may have even accelerated it. Big box retailers such as Home Depot, Target, Walmart, and Kohl's all reported quarterly results last week that easily beat analysts' estimates. More home projects are being done, driving Home Depot's comparable store sales growth of 24%, and 8% above expectations, growth that is typically around 5% in a normal market environment. Kohl's saw comparable store sales decline 13.3%, however it would have been much worse if not for a surge in online shopping, where consumers spent 25% more compared to a year ago. And Target, sales were up 20.7%, almost doubling expectations and being driven mostly by a 155% increase in online sales. Much of that is contributed to the stimulus checks and pandemic related enhanced unemployment benefits, but management at Target noted they continued to see 20% sales growth in September and October. The investments in the company's e-commerce business is paying off at the right time.

Data collected and reported by the Commerce Department and Census Bureau show consumers spent \$553.3 billion in October, a monthly increase of 0.3%. It was another improvement from the prior month and is 5.7% higher compared to the same month last year, but a deceleration and the lowest monthly pace since the recovery began in May. The internals may actually show additional weakness. All the gains were derived from online sales, where 4.9% of the monthly gain came from. These October numbers and the 4.9% monthly e-commerce gains may be artificially higher though, as Amazon's Prime Day fell in October due to Covid-19, versus the mid-July event in prior years.

Federal Reserve Chairman Jerome Powell spoke virtually last week at the National Association for Business Economics annual meeting in which he warned of "tragic" risks if Congress does too little to support the economy during its recovery. While the results of several vaccine trials were good news, he said the next few months will be "very challenging" as the virus is now spreading faster and a widespread vaccine will be months into the future. Powell said the Fed's biggest concern right now is the virus and people losing confidence in efforts to control it, and again said the Fed will do everything it can, but cannot do everything alone and called on Congress to help support the economy with fiscal aid.

It looked as if political tensions were heating up after Treasury Secretary Steven Mnuchin released a letter to Fed Chair Powell asking the Fed to return the unused funds from the CARES Act once the programs expire at the end of the year. The Fed immediately responded with a statement urging the Treasury to extend the programs into 2021. The markets that the programs were meant to support, companies that were in dire need of liquidity during the depth of the lockdowns, were no longer at risk, according to Mnuchin. But Democrats were making the accusation this was a political move as the transition to the new President begins. Mnuchin went on to say the some \$450 billion in unused funds could be better used and prefers Congress to reappropriate the funds to different programs like the Paycheck Protection Program, which will help small businesses substantially adding "the people that really need support right now are not the rich corporations, it is the small businesses."

Company News

- Amazon again showed how it can be so dominant by announcing it will allow customers to order prescriptions for home delivery, a move that was anticipated with the acquisition of PillPack and after many rumors over the last couple years. Doctors can send prescriptions directly to Amazon, who verifies it, and delivers to the customer. Prime customers will have free 2-day delivery.
- Shares of Tesla moved higher last week as the S&P 500 Index Committee decided to add the stock to the S&P 500 index.
- The Federal Aviation Administration has rescinded its grounding order on Boeing's 737 MAX after almost two years of the plane being grounded. A stall-prevention system was faulted for the two 737 MAX crashes in 2018 and 2019.

The Week Ahead

It will be a holiday shortened week for investors with stock and bond markets closed on Thursday to observe Thanksgiving Day and open half the day Friday. The economic calendar will still have several data reports. On Tuesday, the Conference Board reports on its survey of Consumer Confidence, where sentiment is expected to have diminished slightly in November due to the recent uptick in Covid-19 cases. Then on Wednesday, we will see durable goods orders, jobless claims, new home sales, the second estimate of third quarter GDP, along with October data on personal income and spending. On the corporate calendar, earnings reports will continue, mainly from big box retailers. Highlights include Best Buy, Dick's Sporting Goods, Dollar Tree, Gap, JM Smucker, HP, and Dell on Tuesday. With positive vaccine trials in the news, investors will also be focuses on any additional news regarding FDA approval or distribution timelines. Thank you for reading and we wish everyone a very Happy Thanksgiving!

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.