

Wentz Weekly

November 30, 2020

Dow 30,000



Investment management for your lifetime

After falling 38% in six weeks earlier this year, the Dow Jones Industrial average, an index of 30 large companies on U.S. stock exchanges, rose 64% since then and broke through 30,000 for the first time last week. While Dow 30k is more of a psychological barrier, it is more remarkable on how quickly the index recovered from the market lows in March. Positive vaccine developments, a more certain and market welcomed election outcome (split congress), and better than expected earnings are all driving stocks higher in recent weeks. The positive developments have boosted investor sentiment – the Investors Intelligence poll shows bulls are at 64%. A level over 60% has historically been associated with short-term tops. This has led investors to move over \$30 billion into U.S. equity funds over the week ended November 11, the highest since early 2018 and the second highest weekly move on record.

The encouraging vaccine developments, with a third vaccine being developed by AstraZeneca showing over 90% efficacy, has investors responding by rotating into more economically sensitive investments. Energy, retail, and leisure/travel stocks have been the largest beneficiaries. For example, the price for a barrel of crude oil has increased over 30% so far this month and trading at pre-pandemic levels, driving the energy sector higher by over 35% this month – on pace for the sector's best month ever.

Financial stocks jumped about 2% Monday afternoon, shortly after the WSJ reported President-elect Joe Biden plans to nominate former Fed Chair Janet Yellen as Treasury secretary. This was a relief to financials. It was rumored Senator Elizabeth Warren was a candidate, one who would have brought on more progressive policies which were a concern for the markets, especially financials. This news, along with news President Trump has instructed the General Services Administration to begin the transition process, drove markets higher on Monday. Biden has indicated several cabinet picks already, with little controversy to his choices, calming the markets. The choices also hint that Biden will be less focused on increasing regulation among various industries.

The pace of new home sales topped 1 million for the first time since the mid-2000s, reflecting continued demand for homes and strength in the housing market. The latest figures by the Census Bureau on sales of newly built homes shows the sales pace is 42% higher compared to a year ago. Sales fell 0.3% in October to an annualized rate of 999,000 but drops from an upwardly revised 1,002,000 pace in September, the strongest monthly pace since 2005. However, such a strong housing market could have consequences. Homebuilders are already struggling to keep up with demand due to low supply of lumber, land, and workers. Over 60% of homes sold have not yet been built, and if the strong pace of sales continues, home builders will be under even more pressure to deliver homes quicker. This has the potential to slow the sales rate – consumers may begin to feel like they will not get their home built because of the slow deliveries and long backlogs. The housing market is an indicator of a strong economy. If consumers are buying homes, they are likely buying other things such as appliances, furniture, electronics, etc.

It was a trend that had been expecting given the change in consumer behaviors that have already been underway but accelerated due to the current pandemic. Early data by RetailNext shows traffic at stores on Black Friday plummeted 48% compared to last year's Black Friday. However, all sales were not lost – online spending for the same day rose 22% to hit another record, according to Adobe Analytics. This made Black Friday the second-largest spending day for online sales ever, second only to last year's Cyber Monday. The change in buying methods is not the only thing contributing to the drop in-store Black Friday sales. Consumers are spreading out their shopping through the holiday season. Retailers have caught onto this trend and have begun Black Friday deals as early as the Monday before Thanksgiving. This year's Cyber Monday sales are expected to hit another record, rising 15% from last year with sales of \$10.8 billion.

Company News

- Best Buy's quarterly results easily beat analysts' estimates. Its sales rose 21.4% from a year ago with comparable store sales rising 23% versus estimates of +13.6%. Online sales rose 173.7% and now represent 35% of total sales. Best Buy has been a beneficiary of the work from home move and its CEO said demand remains elevated going into Q4, but difficult to predict how sustainable the trends are due to uncertainty over various impacts from Covid-19.
- Shopify reported Black Friday sales increased 75% year-over-year to \$2.4 billion.
- A Dow Jones report on Wednesday says salesforce.com has held talks to buy the business communication platform Slack Technologies. The acquisition is reported to be around \$16.9 billion, which would make it salesforce.com's largest acquisition ever.

The Week Ahead

It will be a busier week as we head into the final month of 2020. Today is the last day of November and absent a significant decline, stock indices will see one of the best months ever. The calendar shows several notable earnings and economic data reports this week, along with testimony from Fed Chairman Jerome Powell. On the earnings calendar, key releases include Zoom Video on Monday, Salesforce.com on Tuesday, Okta and Snowflake (first earnings since its IPO) on Wednesday, followed by DocuSign, Dollar General, Kroger, and Ulta Beauty on Thursday. On the economic calendar the highlight will be the employment report on Friday where current estimates see 500,000 new jobs added in November, a slowdown from 638,000 in September. Also on the calendar are the beginning of the month manufacturing surveys, construction spending, and the Fed's Beige Book. Powell, along with Treasury Secretary Steven Mnuchin, will testify before the Senate Committee on Banking, Housing, and Urban Affairs on Tuesday, followed by the House Committee on Financial Services regarding the CARES Act. Elsewhere, OPEC will hold its meeting Monday and Tuesday and it is expected the group will agree to extend production quotas that are set to expire at year end.

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.