

Wentz Weekly

December 14, 2020

Vaccine Rollout Underway, Stocks Continue Rotation



Investment management for your lifetime

Stocks began its most recent rally on the initial news of positive vaccine results in November and since the expectations have been for several approved vaccines with widespread rollout by mid-2021. By mid-week the Food and Drug Administration released analysis of the Pfizer vaccine and reported it to be safe and effective. By the end of the week the FDA announced emergency use approval allowing for the rollout of the vaccine. The first batch of doses will begin on Monday and will be prioritized to health care workers and nursing home residents. The first deliveries will be rolled out to 636 pre-determined locations with 145 locations on Monday, 425 Tuesday, and 66 on Wednesday.

The positive vaccine news has led to a significant rotation in the markets, a move we have seen since Phase 3 data from Pfizer showed over 90% efficacy. According to JPMorgan, the five largest companies in the S&P 500 (which happens to be the mega-tech companies) returned 38.6% through October, outperforming the index and driving a major part of the index gains. The vaccine news has changed investor sentiment, leading investors to change views and look forward to a more normal economy which has resulted in outperformance for cyclicals that have lagged most of the year. Since around the time of the first Pfizer vaccine news in the beginning of November, the same top 5 S&P 500 stocks were down 2.1%, underperforming the S&P 500 which was up 4.4% over the same time frame. In addition, small caps are having one of the best stretches ever with the Russell 2000 rising 25% in just 26 trading days as of December 9. While the markets are forward looking, it is still important to remember the vaccines will take time to roll out and time before the economy returns to normal.

Despite the recent wave in positive Covid-19 cases and some states reimposing restrictions, lawmakers remain in a stalemate on another round of fiscal relief for individuals, businesses, and local governments. Negotiations began again when a group of bipartisan lawmakers introduced a \$908 billion package, but we continue to see disagreements around the Republican's desire for liability protections and the Democrat's desire for more state and local funding. There are several upcoming potential deadlines Congress must focus on, including the government funding deadline on the 18th. The next potential deadline is at the end of the year with the expiration of the CARES Act. A new package looks likely, but both sides will have to settle with giving up something.

A recent deterioration in economic data should give Congress more motivation to pass something. Last week the Department of Labor reported another uptick in first time unemployment claims and an increase in continuing claims. Initial claims rose 853,000, up from 716,000 in the prior week, causing the four-week average to move higher after several weeks of declining. Those that continue to collect unemployment benefits rose 230,000 in the latest week to 5,757,000, the first increase since August. This data follows a disappointing employment report from two weeks ago where half the number of jobs were added than expected with permanent jobs lost remaining 2.5 million higher than in February.

Shares of Disney jumped 13% and hit new records after its Investor Day last week where it set aggressive new targets for its streaming services. During the initial debut of Disney Plus the company expected to hit 60 million to 90 million streaming subscribers by 2024, but almost tripled that forecasted figure in its Investor meeting to 230 million to 260 million. This comes after the company says it has almost already hit 90 million subscribers as of December 2. Including the Hulu and ESPN Plus streaming services, the company now expects 300 million to 350 million global streaming subscribers. For comparison purposes, Netflix currently forecasts 201 million global subscribers in its current quarter. Additionally, subscribers are expected to be driven higher by a slate of new content. The company expects to release around 100 new titles per year, spending \$14 billion to \$16 billion to do so. The recent concern for the stock and its subscriber numbers was Verizon's limited time free trial offers which would eventually roll off Disney's tally after the free trial ended. Its looking less likely that will be the case.

Company News

- Shares of the cloud database platform company MongoDB rose 20% from Wednesday through Friday after the company reported Q3 results that easily beat expectations. The company also raised its revenue and profit forecast for the current quarter and full year.
- Facebook got hit with two lawsuits last week, one by the Federal Trade Commission and the other by a group of 46 states, accusing the company of abusing its monopoly power after its purchase of Instagram and WhatsApp were used to stifle competition.
- Starbucks provided more detail in its China expansion in its Investor Day event saying it had opened 250 new stores in China during the fourth quarter and sees things returning to normal in the country. About 600 new stores are expected to be open in 2021.

The Week Ahead

The economic calendar will pick up in the week ahead while the earnings calendar winds down again. On the economic calendar highlights include mid-month manufacturing survey results from the New York and Philly regions and industrial production for November. On Wednesday, retail sales for November come out where growth is expected to have dropped by a seasonally adjusted rate of 0.3%. Later in the day the Federal Reserve will be in the spotlight with the Federal Open Market Committee announcing its latest monetary policy decision where no changes are expected. Chairman Powell will likely again call on Congress for more fiscal aid. On Thursday we will see the latest data on housing starts and new housing permits along with unemployment claims, where the consensus is at 806,000. On the earnings calendar the notable earnings reports will come from FedEx and General Mills on Thursday, and Nike on Friday. On the vaccine front, the FDA will review safety and efficacy data from Moderna's vaccine trials 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.