

Wentz Weekly

December 21, 2020

Congress Agrees On Stimulus Package



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It took nearly nine months for the next significant fiscal stimulus package, but Congress finally agrees on another package aimed at helping small businesses and consumers during the pandemic. Congress late Sunday night agreed to a \$930 billion package, following the \$2.3 trillion CARES Act in March. For individuals, the bill includes direct payments to individuals (\$600 each compared to \$1,200 in the CARES Act), a \$300 per week increase in unemployment benefits for 11 weeks (versus \$600/week for 16 weeks in the CARES Act), and \$25 billion in rental assistance. For businesses, the bill includes \$284 billion of new funding for the payroll protection program, \$15 billion in support for airlines, funding for schools, childcare and live venues, and funding for health care. The package will be passed with a new stop-gap funding bill that will keep the government funded through September 2021. With this stimulus package behind us, the expectation is now for another round of fiscal aid in the first half of 2021 designed for the recovery.

Retail sales disappointed in November as consumers got off to a slower start to the holiday shopping season than expected amid another wave in Covid cases and new business restrictions. Sales at retailers fell a seasonally adjusted 1.1% rate in the month for the first decline since April, and were revised to a 0.1% decline in October from the earlier estimate of a 0.3% gain (note the decline is amplified by seasonal adjustments). Sales totaled \$546.5 billion at retailers, an increase of 4.1% from the same month a year ago, and above the pre-pandemic level of \$527.3 billion. After stripping out the volatile vehicle and gas categories, sales were higher by 5.9% compared to a year ago. Weakness was seen in vehicle sales down 1.7%, electronics down 3.5%, restaurants (hit by more closures) down 4%, and clothing down 6.8%. This retail sales report, among several other economic reports, suggest the recovery is slowing after a – possibly stimulus driven – surge in growth over the summer months.

While e-commerce sales over the Black Friday weekend surged and were much higher than expected, total in-store and online sales during the 5-day period fell 14% with the average consumer spending \$312, according to the National Retail Federation. This may be due to the fact retailer and consumers started the holiday shopping season earlier and spread out their shopping over more days mostly to limit crowds in stores. The National Retail Federation still expects holiday sales will increase 3.6% this year, with over 20% growth in online sales.

The Fed introduced forward guidance for its asset purchases and said following its latest policy meeting it will continue purchasing \$120 billion a month in securities, with a zero percent Fed Funds rate, until substantial progress has been made in meeting its goals of full employment and inflation that has exceeded the 2% target. There was some expectation for the Fed to extend the average maturity of its treasury purchases, which they did not. The Fed said policy was appropriate and already accommodative and downplayed extending maturity of purchases. The Fed also updated its economic projections, where it most noticeably lowered its projection for unemployment by 2023 to 3.7% and for end of year 2021 to 5.0%. Remember low yields provide a boost to stock prices because low interest rates in the bond market make stocks seem more attractive and draw investors to riskier assets like stocks, another reason we have seen stocks rally from the lows in March and surpass pre-recession highs.

The Federal Reserve banned banks from buyback back shares of their own stock and restricting dividend increases earlier this year to preserve capital ensuring banks could still finance new loans during the pandemic. After the second round of stress tests released Friday after the close, the Fed said banks had strong enough capital levels to resume share buybacks and increase dividends, welcoming news for investors of financials. Dividend increases and share repurchases will be limited to an amount based on income earned over the past year. Several banks have already announced buybacks, including JP Morgan announcing a new \$30 billion repurchase program, and Goldman Sachs who will restart its program in the first quarter.

Company News

- Volume in shares of Tesla surged into the close on Friday when there was as much as \$80 billion of buy orders. The S&P 500 rebalanced and added Tesla into the index at the close, causing index funds to follow suit. Tesla will represent roughly 1% of the index after the rebalance.
- Apple reportedly told its suppliers to be prepared to increase production by 30% in the first half 2021 and that it plans to assemble 230 million phones in the year.
- FedEx beat quarterly results with a 19% growth in revenues, and growth among all segments, especially its express business. Stronger revenue growth was offset by higher costs from stronger demand (new employees to keep up with demand) and COVID-19 related expenses.

The Week Ahead

The calendar will be very light in the holiday shortened week ahead, with markets closing early on Thursday and closing all day on Friday for Christmas. It will be another quiet week on the corporate calendar. The notable earnings this week are FactSet on Monday, CarMax on Tuesday, and Paychex on Wednesday. There are no investor conferences and no IPOs this week. There are a couple notable economic data reports including the final revision on third quarter GDP, consumer confidence and existing home sales for November on Tuesday, and Jobless claims, new home sales, and the monthly personal income and spending report on Wednesday. Thank you for reading and we wish everyone and their families a Merry Christmas!

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.