

Wentz Weekly

December 7, 2020

Bad News is Good News



Investment management for your lifetime

Investors ended up taking what turned out to be a disappointing employment report as an opportunity to buy stocks. The amount of job gains in November was 245,000 and about half as expected. The additional jobs, plus the 400,000 people that left the labor force, caused the headline unemployment rate to drop to 6.7% from 6.9%. This data was collected from a survey closer to the beginning of November, prior to the recent spike in Covid cases that have caused additional restrictions and shutdowns. The amount of people still unemployed is 10.7 million, still 4.9 million more than in February. The number of permanent job losers is 3.7 million, unchanged in November, but still 2.5 million higher than February. The disappointing report was viewed as good news for stocks because it could mean a higher chance of fiscal stimulus in the weeks or months ahead.

Republicans and Democrats still remain far apart of a fiscal stimulus bill, but appear to be restarting negotiations. A group of senators introduced a \$908 billion bill last week, still well below House Democrats \$2.4 trillion bill but above the Republican's \$650 billion proposal. Major disagreements remain around funding for state and local governments and liability protections for businesses, but House Speaker Nancy Pelosi said the bipartisan bill could be used as a starting point. She also said her and Senate Majority Leader Mitch McConnell agreed to tie a new relief bill to a potential upcoming bill to fund the government, where the deadline is December 11.

Data is in for the Black Friday weekend, where numbers easily broke records as expected. On Thanksgiving Day in store sales fell 94.9%, a consequence of the Covid-19 pandemic where most retailers decided not to open until Black Friday. According to Coresight Research, in store discounts were smaller than previous years due to lower inventories. Foot traffic was estimated to be down over 50%. Cyber Monday saw sales hitting a record \$10.8 billion, an increase of 15% from 2019, although below the estimates of \$12.7 billion, according to Adobe Analytics. The much lower than expected sales is thought to be from consumers spreading more of their holiday shopping over the whole holiday shopping. Cyber Week generated a total of \$60 billion in the U.S. with online sales increasing 22% compared to last year.

The U.S. Purchasers Manufacturing Index survey results showed a level of 56.7 for November, up from 53.4 in October, suggesting manufacturing activity accelerated once again in the month. A level above 50 represents expanding activity while below 50 represents contracting activity. The report notes the uptick was driven by increased output and new orders amid stronger domestic and foreign demand. Survey results out of China showed similar results, with a level of 52.1 representing the fastest pace of growth in over 10 years and the 9th consecutive month of expanding conditions out of China. Europe is taking longer to recover. The survey resulted in an index level of 41.7, a decline from 46.9 in October, signifying weakening conditions. The global index fell slightly for November, but a question about expectations shows sentiment is the highest in over six years.

The House passed a bill on Wednesday that would delist Chinese companies from U.S. exchanges unless they allow U.S. regulators to audit their financials within three years. The senate already passed the bill which means it will go to the President's desk for signature. The bill addresses issues around transparency including disclosures and accountability of Chinese companies. Some of these companies have listed their securities on other exchanges, including Hong Kong, as a safety net. There was not immediate selling in stocks such as Alibaba and JD.com, likely because they have three years to become compliant and the chance the new administration could be less strict.

Company News

- Boeing's stock moved higher last week on positive vaccine news, but more so on news that Ryanair said it would buy 75 757 MAX planes in addition to the 135 in already previously ordered, and planned to take delivery of the plans fast than previously planned. This was the first substantial order since June 2019, shortly after the plane's grounding.
- S&P Global announced it would acquire HIS Markit for \$44 billion in an all stock deal, making it the largest deal of 2020.
- AT&T's Warner Bros. said all 17 of its planned films for 2021 will be released using a hybrid model; the films will be released directly to consumers via HBO Max simultaneously with the debut in theaters. The company emphasized this will not be a long-term plan and is planned for just 2021.

The Week Ahead

The calendar lightens up this week. The economic calendar will see few reports including the job openings and labor turnover survey Wednesday, jobless claims Thursday and inflation reports. Data on the change in the consumer price index is released Thursday where estimates show the year-over-year inflation rate at 1.6%, matching October's number, while the producer price index comes out Friday. The earnings calendar has several notable reports – Coupa Software and Toll Brothers on Monday, AutoZone and Chewy on Tuesday, and Lululemon, Adobe, Boradcom, Costco and Oracle on Thursday. There will be several high profile IPOs to take note of this week as well. Scheduled this week is Airbnb, DoorDash, and PubMatic. Meanwhile, the Food and Drug Administration will meet on the 10th to review data on the Pfizer and BioNTech vaccine, and on the 17th to review Moderna's, before giving its approval.

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