

Wentz Weekly

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The American Rescue Plan



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President-elect Biden in a speech Thursday evening laid out his proposed \$1.9 trillion covid-19 relief plan – called the American Rescue Plan. Relief for families and individuals makes up a majority of the \$1.9 trillion proposal and includes an additional \$1,400 in direct payments to individuals (adding to the \$600 under the December stimulus package, making it \$2,000 total), extending the enhanced unemployment benefit of \$400/week through September, raising the minimum wage to \$15/hour, support for childcare expenses with an expanded child tax credit of \$3,000 per child (\$3,600 if under 6), and subsidies for insurance premiums. The second part of the plan involves \$400 billion for responding to Covid-19 including funds for vaccine rollout, testing, PPE, and assistance for schools. The last part provides \$440 billion in help for communities and businesses. The largest single part of the proposal is \$350 billion for state and local governments, something Republicans have voiced their opinion against because it is seen as a bailout for states that have chronic budget issues that are not Covid related.

The plan is ambitious and will likely not pass the slim Democratic controlled congress. The proposed legislation would require 60 votes in the Senate which means it would need at least 10 Republicans to come on board, very unlikely unless the proposal is significantly scaled down. One option that seems likely is Democrats using a special rule known as budget reconciliation to advance the bill which would only require a simple majority of 51 votes, however the bill would still likely have to be more partisan. When trading opened Friday markets sold off somewhat mostly due to inflation concerns over another potentially multi-trillion dollar stimulus bill. The proposal would equal roughly 8% of the United State's GDP.

Fourth quarter earnings season kicked off last week with several of the largest U.S. banks. While the earnings picture continues to improve, analysts still expect an earnings decline in the fourth quarter. For the quarter earnings are expected to decline by 4.8% compared to the fourth quarter 2019, according to JPMorgan, which would make it the fourth consecutive quarter of negative growth. The energy sector, with an estimated 113% decline in earnings, is expected to be hardest hit due to low oil prices, followed by financials with an estimated 29% decline due to lower rates and higher loan loss provisions. However, earnings estimates have improved going into the first quarter. Since December 31, the earnings decline has improved by 2.4 percentage points. If companies beat expectations similar to how they have the last several quarters, the expected 4.8% decline could actually turn to earnings growth.

There is optimism in the financial sector as hopes for a steepening yield curve is offsetting concerns over the amount banks have to set aside for bad loans. Several big banks reported earnings for the fourth quarter already and results are largely mixed. The highlights so far include much better than expected trading revenue due to a volatile market, higher investment banking revenue from the hot IPO and M&A market, and lower loan loss provisions, all of which help in boosting the bottom line. Net interest margins, the difference between interest generated by banks and interest paid, have remained low due to low interest rates and a relatively flattish yield curve. However, the last several weeks has seen the yield curve steepen, something that happens when the spread between long- and short-term rates widen. The culprit is expectations for stronger economic growth and rising inflation in the future. The financial sector is up 4.95% so far this year, compared to the S&P 500's 0.3% gain, reflecting the optimism.

There were many Fed speeches over the last week with the more notable ones focusing on inflation and the Fed's new strategy around average inflation targeting. Fed Vice Chair Richard Clarida reiterated the Fed will not raise rates until inflation reaches 2% and went even further saying the Fed does not plan to lift off "until we get inflation at 2% for a year." While he may not literally mean inflation must be 2% or higher for a year, the point stands that the Fed is comfortable with inflation rising above 2% for some time before making policy moves. Fed Chair Jerome Powell reiterated those comments in an online Q&A, saying the Fed will not raise rates unless it sees troubling inflation or imbalances in the market. Powell went on to say the Fed will not react off theoretical inflation threats, and we could see upward pressure on inflation in the short-term.

Company News

- Telehealth provider Teledoc raised its 2020 revenue guidance at the JPMorgan Health Care Conference. Its 2020 revenue forecast increased from \$1.01 billion to \$1.09 billion and is an increase from \$553 million in 2019. Its member visit volume is expected to increase to 10.6 million from 4.1 million in 2019.
- Target reported its comparable store sales growth in the holiday period (Nov-Dec) was +17.2%, which includes a 102% increase in online sales, with a 4.3% increase in traffic and a 12.3% increase in the average ticket.
- JPMorgan reported fourth quarter earnings results that beat analysts' estimates. Its provision for loan losses were higher than expected, but down significantly from the previous quarter, and offset by strong gains in investment banking and equity and fixed income trading.

The Week Ahead

It will be a holiday shortened week after the markets were closed Monday in observance of the Martin Luther King, Jr. holiday, but the calendar picks up this week. Earnings season kicks into high gear with highlights this week including Bank of America, Goldman Sachs, Halliburton, and Netflix on Tuesday, Fastenal, Morgan Stanley, Procter & Gamble and United Health on Wednesday, IBM, Intel, and CSX Thursday, and Schlumberger and Huntington on Friday. Several conferences in the retail and healthcare industries will take place as well. On the economic calendar notable data reports include housing starts and jobless claims on Thursday, and existing home sales on Friday. Several central banks will be holding policy meetings this week including the Bank of Japan, European Central Bank, and the People's Bank of China. On Wednesday at noon, Joe Biden will be sworn in as the 46th president of the U.S.

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.