

# Wentz Weekly

January 25, 2021

## Strong 4<sup>th</sup> Quarter Earnings, So Far



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Tech stocks were large outperformers last week, with the tech-heavy NASDAQ up 4.2% and outpacing the S&P 500's 1.9% gain. President Biden's \$1.9 trillion stimulus proposal is hitting a roadblock with more Democrats concerned about the costs and size of the proposal. Anthony Fauci is warning the Covid-19 vaccines may be less effective on the new Covid-19 strain, something that would create another setback on the economic reopening. And some world leaders are saying the new strain could be more deadly while announcing further restrictions as a result. All of these are reasons leading to the recent shift in growth versus value. Since the beginning of September, value stocks have grown 9.6% while growth was up 4.8%. However since January 6, that has shifted – growth has outperformed value by almost 5%. We think this provides another opportunity for investors to take profits from some growth positions that have grown significantly since the Covid outbreak began and reposition some of those gains to value.

Fourth quarter earnings season is heating up and the next two weeks will be the busiest with a majority of the S&P 500 reporting over that time. Of the companies that have reported so far, 87% have beat earnings estimates and the average beat has been by 21%, well above the historical average. The estimate for earnings growth for the quarter has been revised higher by 2.5%, with over 80% of companies yet to report. Despite the better than expected earnings reports, stocks have reacted negatively. The average performance the day after an earnings release has been -1.97% to date. Also, looking closer at the data, earnings are only beating by a low-single digit rate if financials are excluded. It is still early in the earnings season, but this week should tell a lot with at least 111 S&P 500 companies reporting.

President Biden was sworn in as the 46th President of the United States last week and shortly after signed a series of executive orders. For investors, the bigger impact and more important issue over the short-term will be the chance of further fiscal support. Treasury Secretary nominee Janet Yellen told lawmakers in her confirmation hearing, it was necessary to "act big" and "without action we risk a longer, more painful recession, and long-term scarring of the economy later." Yellen, if confirmed, will be in the top position to advance Biden's agenda on the economy. Several Republicans said they disagree with her position on certain policies such as tax increases and the minimum wage, but said she was qualified for the position. The Senate Finance Committee approved Yellen's confirmation, sending the confirmation to a full Senate vote as early as this week.

A traditional sign of speculation and market tops has been some of the unusual and crazy trading in certain stocks for no apparent reason. Take GameStop for example, which rose 51% on Friday alone after being up as much as 80% on the day, and gained over 80% for the week. Going into the week the shares have been heavily shorted due to its brick-and-mortar status and the thought that shares were overvalued. A short position is when an investor borrows shares of a company from their broker, sells the shares, and buys the shares back at a lower price to make a profit. When investors end up purchasing shares and the price rises, shorts cover their positions to avoid losses and end up buying shares back, creating a short squeeze where buying intensifies and prices rapidly increase. Typically, an event triggers a short squeeze. In this instance it appears retail investors that noticed the high short interest gathered on social media sites, praising the stock, creating buying interest, and leading to the short squeeze.

Sales of existing homes and housing starts for new single-family homes both hit the highest level since the end of the housing boom in 2006, an unexpected bright spot of the economy after the pandemic shut down many businesses through the year. Strength in the housing sector was propelled by ultra-low interest rates and a pandemic that drove more people to buy homes to accommodate working from home. Sales of existing homes totaled 5.64 million in 2020, up 5.6% from 2019 and the highest since the 6.48 million pace in 2006, according to the National Association of Realtors. Construction of new homes hit a multi-year high as well, with new single-family housing starts hitting 1.380 million in 2020, an increase of 7.0% from 2019. Home buyers are facing a persistent issue that homebuilders are struggling to keep up with: a lack of homes on the market.

## Company News

- Netflix beat expectations on just about all metrics in its fourth quarter with 8.51 million net new subscribers. It expects net new subscribers of 6.0 million for the current quarter. More significantly, the company says for the full year 2021 they expect free cash flow to be around break even, vs previous guidance of negative \$1 billion to \$0, and said they are exploring returning cash to shareholders through buybacks.
- United missed expectations in its latest quarter and says it burned through \$23 million in cash per day, plus \$10 million per day in debt and severance payments, in the quarter. Its forecast was lower than expected as well: Capacity expected to be down 51% in the current quarter and revenue expected to be down 65%-70% versus the 51% decline expected.
- Google parent Alphabet said it is shutting down its Project Loon, a venture that planned to send internet to Earth via giant balloons. Loon most notably restored cell service in Puerto Rico after Hurricane Maria in 2017. Alphabet said the project "couldn't get costs low enough."

## The Week Ahead

The corporate and economic calendars both heat up this week. On the earnings calendar, it will be one of the busier weeks of the quarter with 111 S&P 500 companies reporting including many high-profile tech companies. Reports for the week include Philips on Monday, 3M, GE, Johnson & Johnson, Microsoft, Starbucks, and Verizon on Tuesday, Apple, Facebook, Tesla, Boeing, and AT&T on Wednesday, McDonald's, American Airlines, and Visa on Thursday, and Caterpillar, Honeywell, and Chevron on Friday. On the economic calendar we will see several consumer sentiment surveys, sales on new homes, and income and spending figures for December. On Thursday, the Bureau of Economic Analysis releases its first estimate for fourth quarter GDP, where current expectation sits at a 4.2% annualized growth rate. The main event on the week is the Federal Reserve's latest monetary policy decision announced at 2:00 pm on Wednesday. This will be followed by Jerome Powell's press conference, where no significant changes are expected.

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.