

# Wentz Weekly

January 4, 2021

## Senate Majority Up for Grabs



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One of the most volatile and intense years for the stock market has finally come to an end. According to Raymond James, the S&P 500 moved 1% in either direction in any given trading day 109 times this year out of the 253 trading days. For comparison purposes this only occurred 37 times in 2019. After a 37.4% decline in the first quarter, the S&P 500 recovered and ended the year higher by 16.26%. The tech-heavy NASDAQ did even better, increasing a stunning 43.64% in the year for its best annual performance since returning 43.89% in 2009, fueled by the work-from-home movement due to Covid-19. Small caps were not left out, after declining 43.3% to the lows in March, the Russell 2000 rallied 104.4% from there and finished the year higher by 18.36%. We believe low interest rates and monetary and fiscal support will continue to support this recovery, and believe we are in the middle of a secular bull market and still view stocks as the most attractive investment opportunity.

The fourth quarter just came to an end, which means fourth quarter earnings season is upon us. The (unofficial) start to earnings season will not kick off until some of the largest banks report next Friday. As of mid-December, the estimated earnings decline for the fourth quarter is -9.7% compared to a year ago, which would be the third consecutive decline, according to FactSet. Earnings estimates have been increasing as the quarter progressed, which is opposite of what typically happens. Historically analysts' estimates for earnings start high and come down as the quarter progresses. This shows how difficult it has been in 2020 for analysts to forecast earnings and indicates underlying strength in the consumer and economy, fueled by fiscal and monetary support. In addition, the forecasted earnings decline for 2020 is -13.7%, compared to the 10-year average of +10.0%. A decline of 13.7% would be the largest annual decline since the Great Recession's 25.5% decline in 2008. From a valuation perspective, the forward price/earnings ratio for the S&P 500 is 22.1x, which is well above the historical average of 17.5x. The markets have been justifying the higher earnings multiple due to ultra-low interest rates and improving earnings and economic conditions.

Tomorrow, the results of a Senate runoff election in the state of Georgia could have big implications for potential legislation and the economy and markets over the next two years. If Republicans hold one or both seats that are up for grabs, they will retain majority in the Senate. However, if Democrats win both seats the Senate will be split 50-50 with the Vice President serving as the tie breaker. A Republican win will keep the party in control of the agenda. For example, the House recently passed a bill that would increase the stimulus checks to individuals from \$600 to \$2,000, but Senate Majority Leader McConnell blocked the bill from reaching the Senate floor. Going forward, if Republicans retain control, they will be able to block Biden's agenda – most importantly for individuals and the markets is a potential tax increase on individuals and corporations.

Investors are borrowing the most against their investment portfolios since 2018, serving as a potential warning sign that stock market volatility is not yet over. Margin debt, money borrowed from a brokerage firm by investors to purchase an investment, has been a strong indicator of market euphoria. According to the Financial Industry Regulatory Authority investors borrowed a record \$722.1 billion through November, the most since 2018. Investors betting on margin face higher risks, because if their collateral falls below a certain threshold a margin call is triggered in which they have to deposit more funds or sell the underlying security, potential forcing a loss.

## Company News

- For the first time in 21 months, Boeing's 737 MAX flew passengers in the U.S. in a flight between Miami and New York. Two fatal crashes caused the plane to be grounded worldwide, resulting in an investigation and months of safety enhancements and improved pilot training.
- The Covid-19 vaccine that was developed by the University of Oxford and AstraZeneca was given authorization for emergency use in the UK. The Oxford-AstraZeneca vaccine is cheaper and does not require ultra-low storage temperature compared to the Moderna and Pfizer vaccines.
- Chinese e-commerce company JD.com said it is exploring the feasibility of a potential spin-off of its JD Cloud and AI business to JD Digits (Jingdong Digits Technology Holding) in exchange for equity interest in the company. JD.com would focus on its core business as a result.

## The Week Ahead

With the holidays behind us and the fourth quarter ending, the corporate calendar will pick up again over the upcoming weeks. The first week of the quarter will be relatively quiet but pick up after that. This week we will see earnings reports from Bed Bath and Beyond, Conagra Brands, Constellation Brands, Micron, and Walgreens, all on Thursday. On the economic calendar, data releases include results from several manufacturing surveys, the release of the Fed's FOMC meeting minutes on Wednesday, international trade data and jobless claims on Thursday, and the employment report for December on Friday where economist estimate 100,000 jobs were added in the month. It will be an important day on Tuesday on the political front, when voters in Georgia head back to the polls in a pair of special elections that will decide which party controls the Senate for the next two years. Democrats need to pick up both seats to make the Senate split 50-50 (Vice President breaks the tie).

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.