

Wentz Weekly

February 22, 2021

One Year Later



Investment management for your lifetime

It was just one year ago (February 19th) that stocks hit their highest levels ever before falling 35.4% in just 23 trading days for one of the quickest, sharpest declines ever. The recovery was perhaps more remarkable. In just a year, stocks have recovered 78% from the lows set on March 23rd and are now up 15% from the previous highs set a year ago. The spread of the virus has slowed significantly, the vaccine rollout is accelerating, Covid-related restrictions are easing across the country, earnings continue to exceed expectations, a new \$1.9 trillion stimulus package is on the horizon, and consumers' savings are hitting a post WWII high, all of which have propelled stocks higher over the last several months. And following up from last's weeks mention of volatility, the VIX has snapped its streak of 255 days above 20, which was the second longest period above that level.

Treasury Secretary Janet Yellen reiterated the administration's stance that a new, large stimulus package is necessary to provide a further boost to the economy and to achieve full employment in 2022. In addition to adding to the federal debt, one of the main concerns of another large stimulus package is higher inflation, which Yellen downplayed. She said she is not worried that additional spending will cause inflation down the road, and inflation has been low for a decade but rising inflation is a risk that the Fed has tools to address. Yellen went on to say "the price of doing too little is much higher than the price of doing something big" and the "benefits far outweigh the costs in the longer run." Yellen acknowledged there would likely be tax increases that would phase in over time that would pay for part of the \$1.9 trillion proposed stimulus package.

Democrats are attempting to pass their version of a massive stimulus bill by mid-March, when key benefits under the previous Covid relief bill are set to expire. House Speaker Nancy Pelosi said last week the House is aiming to hold a vote on the bill by the end of this week. The bill would provide payments to individuals, funding for vaccines and testing, funding for schools, and funding for governments among other things. Republicans have criticized the bill's total cost, especially the progressive Democrats desire to include a minimum wage increase. There is an ongoing dispute on whether this feature is able to be included in a bill if it is passed under budget reconciliation procedures. It looks like the final say on the minimum wage debate will be settled this week during a Senate floor debate. We do not think the minimum wage increase to \$15/hour is likely. At least three Democrats are voicing opposition to the minimum wage hike, and only one of them needs to vote no to stop it from getting through the 50-50 split Senate.

Consumer spending picked up again in January driven by stimulus checks that a majority of Americans received in the month, resulting in the highest increase in spending in seven months. Data from the Census Bureau shows retail spending rose 5.3% in January, more than the 1.1% increase expected, with online sales driving much of the growth up 11.0% in the month. The latest data follows three consecutive months of declines, over the important holiday shopping period, as previous pandemic-related government benefits winded down. Spending rose across the board with the largest increases in categories relating to home improvement and the work from home movement; electronics were up 14.7% and furniture up 12%. Restaurants and bars saw a solid increase as well, up 6.9% as businesses continued to reopen with consumers feeling more comfortable eating out. With consumer spending making up roughly 70% of the American economy, we will likely see upward revisions to first quarter growth due to strong spending in the month.

Existing home sales reached the highest pace of monthly sales since 2006 in January, according to the latest data by the National Association of Realtors. Sales of existing homes rose 0.6% in the month to an annualized rate of 6.690 million. The sales rate is 23.7% higher than January the year prior. Housing inventory fell, again, to another record low of 1.04 million units, down 26% from a year ago and also a record decline. That equates to just 1.9 months supply at the current sales pace, down from 3.1 months last year. Six months supply is typical for a balanced market. The low supply has had a significant impact on prices, with the median sales price up 14% from a year ago to \$303,900.

Company News

- Bloomberg reported Apple is developing a new magnetically attached battery pack for the newest iPhone. The charging accessory would attach to the back of the iPhone and charge wirelessly.
- Walmart reported a mixed quarter compared to analyst expectations, with comparable store sales growth of 8.6% versus the +5.8% expected. The company said it will launch a new \$20 billion share repurchase program and raise the minimum wage for most of its employees.
- Streaming platform company Roku announced its results that beat expectations with an acceleration in revenues driven by the pandemic. The company also issued guidance for the current quarter that was well above expectations, but warned the second half of 2021 will face tough comparables due to the exceptionally strong second half of 2020.

The Week Ahead

The calendar remains busy this week with both economic and corporate events. On the economic calendar, survey results on consumer confidence from the Conference Board are released Tuesday along with a home price index where prices are expected to have accelerated in the latest month. On Wednesday data on new home sales is released. Economists expect the sales pace to increase again to an annualized rate of 855,000 homes in January. On Thursday we will see the second estimate on fourth quarter GDP (growth should be unchanged from the first estimate of 4.1%), and new unemployment claims for last week. The week wraps up Friday with monthly income and consumer spending figures. Both are expected to have seen a large increase in the month of January due to recent stimulus payments. Also, Federal Reserve Chairman Jerome Powell will deliver his semi-annual testimony to Congress on Tuesday and Wednesday on the state of the U.S. economy. Fourth quarter earnings season continues with at least 62 S&P 500 companies reporting, with a wave of retailers. Among others, quarterly results will be released for Home Depot, Macy's, and Square on Tuesday; Nvidia, Lowe's, L Brands, TJX, and ViacomCBS on Wednesday; Airbnb, Anheuser-Busch, Best Buy, Dell, Etsy, Moderna, and salesforce.com on Thursday; and wrapping up with DraftKings on Friday. Key corporate events will be held by toy makers Mattel and Hasbro, and social media platforms Twitter and Snap.

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.