

# Wentz Weekly

February 8, 2021

## Budget Reconciliation Speeds up Stimulus Package



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The Department of Labor says 49,000 jobs were added to the economy in January, slightly below expectations, and December's loss of 140,000 jobs was revised lower to a loss of 227,000. On a non-seasonal adjusted basis, the economy lost 2.77 million jobs in the month, which was relatively the same as what we saw a year ago when 2.79 million jobs were lost. This is due to seasonal factors with the winter months typically seeing industries shed jobs. The headline unemployment rate dropped to 6.3% from 6.7%, while the U-6 rate, a number more reflective of the labor market which includes those working part time that want full time work and those marginally attached to the labor force, fell to 11.1% from 11.7%. The number of persons temporary laid off decreased to 2.7 million, still 2.0 million higher than February last year, while the number of permanent job losers is 3.5 million and 2.2 million higher than February last year. There are 4.0 million individuals that have been jobless for at least 27 weeks, making up 39.5% of the unemployed. The industry with the most job losses is still leisure and hospitality, where employment is 23% lower compared to a year ago, highlighting the need for additional aid.

The House and Senate last week both advanced a budget resolution and passed a vote that will open up the reconciliation process for the next fiscal aid package. This will speed up the process for a bill and allow it to pass the House and Senate without support from Republicans. Earlier in the week, Republicans proposed a \$620 billion stimulus package that would include targeted direct payments, enhanced unemployment benefits, funding for vaccine distribution and testing, and additional funds for businesses. President Biden met with Republican leaders on the proposal, however the proposal had no chance of being considered by Democrats and was seen more as what Republicans would support.

Treasury Secretary Janet Yellen said over the weekend the U.S. can return to full employment in 2022 if the government enacts a robust stimulus package that is large enough. Democrats also plan to introduce a bill that will provide \$3,000 per child in direct payments, but as of now it is unclear if this will be able to pass the Senate with a simple majority. In the current \$1.9 trillion Covid-19 relief proposal, details already include \$1,400 in direct payments to individuals, which is expected to be more targeted, i.e. for those with income under \$60,000. Other specifics include extending federal unemployment benefits of \$400/week through September, funding for vaccine distribution and testing, assistance for schools, and funding for state and local governments. Direct spending just to combat Covid-19 is around \$400 billion, while the remaining portion is to provide a boost to the economy. The desire to raise the minimum wage to \$15/hour is unlikely to be included due to Senate rules, which Biden has acknowledged. We expect, with Democrats now utilizing budget reconciliation, a bill will be passed by mid-March, albeit lower than the original \$1.9 trillion price tag, which is important as that is when much of the provisions in the December relief bill expire.

Earnings continue to pour in with a large majority of companies continuing to beat expectations. The beat rate is 81% on earnings and 79% on revenues, one of the largest beat rates since recordkeeping began. Amazon made the biggest headline last week, reporting revenues that eclipsed \$100 billion for the first time ever. Revenue was \$125.6 billion in its fourth quarter, rising 44% from a year prior, with operating income of \$6.9 billion, over \$2 billion above expectations. Its profit-generating cloud business, Amazon Web Services, generated revenues of \$12.75 billion. Amazon said it expects net sales of \$100 billion to \$106 billion for the current quarter, \$8 billion above expectations. The impressive report was not the biggest news though – Founder and CEO Jeff Bezos said he will step aside as CEO and begin the transition into the role of Executive Chair beginning in Q3. Andy Jassy, the current head of Amazon Web Services, will take over as the new CEO. Bezos said he would focus on new products and early initiatives, keeping him engaged at the company, but also wanted to focus more time on what he is passionate on, including the Day 1 Fund, the Bezos Earth Fund, Blue Origin, The Washington Post, and other interests.

## Company News

- Jazz Pharmaceuticals has agreed to acquire GW Pharmaceuticals for \$220 per share. The transaction will include \$200 in cash and \$20 in Jazz ordinary shares, for a total consideration of \$7.2 billion.
- Tesla disclosed it has invested \$1.5 billion in bitcoin and expects to begin accepting bitcoin as payment "in the near future." The company said the policy to accept bitcoin for its products will be on a limited basis and Tesla "may or may not liquidate upon receipt."
- Last week, CNBC reported Apple is close to finalizing a deal with Hyundai-Kia to make the autonomous EV Apple Car. However, Monday morning a Hyundai-Kia spokesperson said it is not in talks with Apple to develop the Apple Car.

## The Week Ahead

The economic and earnings calendar slow down this week. We are past the bulk of fourth quarter earnings reports, but still at least 78 S&P 500 companies will report this week. Highlights include Hasbro, KKR, and Simon Property Group on Monday, Cisco, DuPont, Twitter, and Lyft on Tuesday, Under Armour, Coca-Cola, General Motors, and Uber on Wednesday, Expedia, Kraft Heinz, PepsiCo, and Disney on Thursday, and Dominion Energy on Friday. The economic calendar is very light, the highlight will be inflation data with the consumer price index, where economists expect a 1.5% year-over-year increase on core prices (excludes the volatile food and energy categories). Outside of the inflation report, we will see results from the job openings and labor turnover survey and the latest on unemployment claims. Federal Reserve Chairman Jerome Powell will also be making remarks before the Economic Club of New York on Wednesday afternoon. Markets will remain focused on progress in Congress on the stimulus package as well as the vaccine rollout.

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.