

Wentz Weekly

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U.S. Savings Rate Surges Again



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On a monthly basis the Bureau of Economic Analysis publishes its Personal Income and Outlays report which provides data on the change in American's income and spending. For January, the surprise was a 10% surge in personal income in the month, the second largest increase on record – second only to last April's gain. The large increase was thanks to the December Covid-19 relief bill that provided \$600 stimulus checks for individuals in addition to the extension of enhanced federal unemployment benefits. Many individuals put some of that extra money to work right away. The spending rate increased 2.4% compared to December. Others saved much of this money – the savings rate increased to 20.5% in the month, up from 13% in December. Americans have averaged a savings rate of 7.3% through the 2010s which surged to an all-time high of 33.7% in April of last year due to the coronavirus. We believe this extra savings over the last 12 months is going to create significant pent-up demand, given the \$3.93 trillion in savings Americans have, compared to \$1.38 trillion in savings Americans had pre-pandemic. This will continue to drive economic growth as consumers and spending make up roughly two-thirds of the American economy.

Americans may have even more stimulus money in their pockets in the coming weeks after the House passed another Covid-relief package early Saturday. The bill passed mostly along party lines by 219-212, with two Democrats voting against the bill. The two oppositions were against the minimum wage increase and suggested the stimulus payments to individuals should be more targeted to those that need it most. Due to a procedure governing the reconciliation process, the Senate parliamentarian ruled the minimum wage increase is out of order and will not be allowed in the latest Covid-relief bill. House Democrats have hinted they will continue to push for the minimum wage increase by rewriting the language to make it look like a tax to pass reconciliation, but we still believe this will not go through. They may also push the issue in a standalone bill later on this year. Several progressive Democrats have proposed a penalty or additional tax on corporations if it pays employees below a certain amount. Lawmakers in the Senate will likely make several amendments before passing it in the Senate. The bill would then need to be approved again in the House before being sent to the President's desk to be signed into law.

Fed Chair Jerome Powell took a more neutral stance and decided not to go too much in detail on additional fiscal support or the minimum wage debate in his semi-annual testimony to Congress. In his testimony Powell reiterated the Fed is in no hurry to raise interest rates or begin trimming its \$120 billion in bond purchases per month. On the state of the economy, Powell reiterated the recovery is "far from complete" and said the recovery is uneven with employment and inflation a long way off from the Fed's goals. Some questions from lawmakers focused on the recent increase in longer-term yields, which Powell responded by saying the trend was a "statement of confidence" on the U.S. recovery rather than a cause for concern on inflation. Powell downplayed any inflation concerns and said inflation doesn't "turn on a dime" but if it does become a problem the Fed has the tools to deal with it. Powell maintained his dovish stance which caused rates to take a breather on Tuesday and Wednesday last week.

We are about 96% of the way through fourth quarter earnings season, and results have shown us estimates for first quarter 2021 earnings on the S&P 500 have seen its second highest increase since 2001, according to FactSet. Analyst's estimates on future earnings typically start high and come down as the quarter progresses. Over the past 15 years, the average estimate has declined by 3.8% over the first two months of a quarter. However, the first two months of this quarter, analysts have increased their estimates by an average of 5.0%, contrary to the norm. A review of fourth quarter earnings results shows us 79% of companies have reported earnings higher than expectations, while 76% have reported revenues higher than expected, both above the 5-year average and one of the strongest beat rates since data began. With 4% of S&P 500 companies still set to report, the earnings growth rate is 3.9%, versus a 9.4% decline that was expected when the quarter ended.

The U.S. now has its third approved vaccine after the FDA issued emergency use authorization for the Johnson & Johnson Covid-19 vaccine Saturday night. The FDA news release said the available data shows clear evidence the vaccine may be effective in preventing Covid-19 with its benefits outweighing the potential risks. Unlike the Moderna and Pfizer vaccines, the JNJ vaccine is a single-dose vaccine. Data has shown it is 66.1% effective in preventing moderate to severe disease after 28 days, and 85.4% effective in preventing severe cases. Johnson & Johnson said it will be able to ship 20 million doses by the end of March and 100 million in the first half of 2021.

Company News

- Goodyear Tire is acquiring Cooper Tire for \$2.8 billion in a cash and stock deal and upon closing of the deal Goodyear shareholders will own 84% of the combined company while Cooper shareholders will own 16% of the combined company.
- BigCommerce last week announced a new partnership with Walmart. The partnership will enable its U.S. merchants to sell products directly on Walmart marketplace.
- During Twitter's analyst day, the company laid out new long-term goals. The company said it is targeting at least 315 million users by the end of 2023 and to double its annual revenue by then, which would push revenues over \$7.5 billion, up from \$3.7 billion in 2020.

The Week Ahead

Fourth quarter earnings season is winding down with 96% of S&P 500 companies having already reported. Retailers will be headlining again this week. Highlights will include Zoom Video and Nio on Monday; AutoZone, Kohl's, and Target on Tuesday; Dollar Tree and Snowflake on Wednesday; and Broadcom, Burlington Stores, Costco, Gap, and Kroger on Thursday. The economic calendar has several reports to take note of. Highlights include results from manufacturing surveys and construction spending on Monday; weekly jobless claims, data on productivity and employment costs, and factory orders on Thursday; and ending the week with trade data and the February employment report on Friday. The consensus estimate is for a gain of 200,000 jobs in the month. OPEC + will hold its committee meeting this week, followed by an announcement on production quotas.

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.