

Wentz Weekly

April 19, 2021

Strong March Retail Sales



Investment management for your lifetime

The amount of people filing for a new unemployment claim fell to the lowest level of the pandemic with 576,000 new claims. Prior to the pandemic unemployment claims were at the lowest levels on record, averaging about 220,000 per week. The 4-week average, which smooths out noise, decreased 47,250 and is down to 683,000. There are still 3.731 million people continuing to collect state unemployment benefits. However if you include the number of individuals still collecting some sort of unemployment benefit, for example the enhanced pandemic benefits, that number is much higher at 16.934 million. Those collecting pandemic unemployment benefits total 12.213 million which declined 975,415 from the week prior. As the economy continues to reopen we are seeing an increasing amount of job openings. With the economic reopening we would expect and hope to see the amount of people collecting those benefits decline as more jobs need filled, but with pandemic benefits lasting until at least September we do not believe the rate of employment will rise at the same pace of job openings, at least until September.

A clear benefit of the pandemic unemployment benefits and the stimulus payments many Americans received is the strong growth in retail sales so far this year. The latest data by the Census Bureau shows sales of retail and food services grew nearly 10% in March compared to the month prior and are 28% higher compared to the same month a year ago, surprising even the most optimistic estimates. The biggest beneficiary in March were consumer goods; sales of clothing/apparel were up 18%, sales of sporting goods were up 23%, and sales at department stores were up 13%. More people are opting to go out to eat as well. Sales at food places and bars were up 13% in the month and 36% higher from a year ago. On the other hand, food and beverage stores saw the slowest growth with just a 0.7% increase. The report suggests Americans are feeling more comfortable going out in public with more businesses opening as the vaccine has now reached 25% of the population.

Turning to corporate news, earnings season has kicked off with some of the largest banks reporting first quarter results and most reporting record high profits. The reddit-fueled market rally and record amount of 'blank check' companies going public helped drive profits higher. Investment banking revenue from those activities and arranging and advising on mergers soared 73% at Goldman Sachs thanks to the record amount of said transactions. Revenue from trading activity was higher as well, especially in stocks which had a rather volatile first quarter. Revenue in this segment rose 68% at Goldman and 25% at JPMorgan. Also benefiting banks was their ability to release a significant amount of loan reserves – funds banks set aside in 2020 to cover potentially bad loans from the pandemic. JPMorgan was able to release \$5.2 billion of these funds in the first quarter, after releasing \$2.9 billion in the fourth quarter. These funds mostly flow directly to the bottom line, boosting profits. However, results were basically flat in the consumer side of the business. Loan growth was tepid across the board – JPMorgan reported its outstanding loans shrunk 4% from a year ago. Executives remain confident going into the remainder of the year, JPMorgan CFO said "we expect the recovery to be robust in the second half of the year."

Delta, along with other airlines, gave an upbeat tone in its latest earnings call, anticipating travel demand to continue to come back in the months ahead. Delta's more optimistic outlook comes after the airline said it turned cash flow positive in March and expects to break even on an operating basis in June, followed by a profitable third quarter. Its most recent quarter saw passenger revenue climb 50% from a year ago and the current quarter looks even better. Delta said bookings in March were double the number of bookings in January and its domestic leisure bookings are now 85% of the level they were in 2019 which was the last peak for airline travel.

In overseas news, China's economy expanded a record 18.3% in the first quarter from the same period a year ago, accelerating from the 6.5% pace in the fourth quarter of last year although it was a bit lower than what was expected. The strong growth reflects a low base for comparisons from the depths of the pandemic a year ago and the recovery since then. Economists at HSBC say after stripping out distortions from last year's low base due to pandemic induced activity, GDP growth in the first quarter would have been 5.4%, lower than the trend and target of 6% growth. The government is still targeting growth of 6% or higher this year, with analysts expecting 8.5% growth, despite a series of challenges including more signs of inflation, a slow consumer recovery, concerns about asset bubbles especially in real estate, and geopolitical tensions.

Company News

- Thermo Fisher announced last week it has agreed to acquire PPD, Inc for a total cash price of \$17.4 billion plus net debt of \$3.5 billion. The purchase is a 24% premium to where PPD stock traded prior to the announcement.
- As anticipated for months, Dell announced it will be spinning off its 81% equity stake in VMWare. Dell says its goal is to simplify capital structures and create additional long-term enterprise value.
- Cryptocurrency trading platform Coinbase went public last week via a direct listing. The stock opened for trading at \$381/share for a roughly \$100 billion market capitalization, hit \$429.54 at its high, before falling and closing at \$328.28 for its first day of trading for a \$85.8 billion market cap.

The Week Ahead

The calendar will be much busier this week, especially the earnings calendar. On the economic calendar there are no data reports until Thursday when the latest on unemployment claims is released as well as March's existing home sales from the National Association of Realtors. Then on Friday, the Census Bureau's new home sales report for March is released. Earnings season ramps up this week with at least 72 S&P 500 companies reporting first quarter results. Notable reports include Coca-Cola, IBM, and United Airlines on Monday; Johnson & Johnson, Abbott Labs, Lockheed Martin, and Netflix on Tuesday; Anthem, Verizon, Chipotle, Lam Research, and Halliburton on Wednesday; AT&T, Intel, American Airlines, and Southwest on Thursday, and American Express and Honeywell on Friday. On Tuesday Apple will hold its event called "Spring Loaded" where several new products are expected to be announced. In Central Bank news, the European Central Bank will meet this week and announce its latest monetary policy on Thursday. To end the week, the CDC's Advisory Committee on Immunization Practices will meet Friday to consider recommendations for the J&J vaccine that was recently paused.

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.