

Wentz Weekly

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AT&T Exits Big Bet on Media



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Last Monday, AT&T announced it is spinning off its media division, WarnerMedia, and combining it with Discovery. For AT&T, the deal allows the company to pay down a portion of its significant debt load and helps the company focus on its core operations, telecom and broadband. Much of investor concern lately was its large pile of debt, accumulated after a series of purchases for media assets such as its \$66 billion acquisition of DirecTV and \$106 billion acquisition of Time Warner. However, importantly for income investors, buried in the news release was the disclosure that its dividend will be cut from approximately 7% to estimates of 4%, more in line with Verizon. On the other side, Discovery will add new media assets, making itself a serious competitor in the streaming space. The new company, whose name is expected to be announced this week, includes assets such as Warner Bros, HBO, TNT, TBS, CNN, Discovery, HGTV, TLC, among many others. It will become one of the pure play media/streaming companies and allows it to compete better with streaming giants such as Disney and Netflix. When all is said and done, AT&T shareholders will own 71% of the new company and Discovery shareholders will own 29%.

The White House cut the price tag on its infrastructure bill to \$1.7 trillion, down from \$2.3 trillion but still well above the Republicans proposal of \$568 billion. The new offer, which includes less spending on highways and broadband and more in funding for research, development, and manufacturing initiatives, did not do much to advance bipartisan negotiations. The new proposal also did not show any changes of raising corporate taxes to help pay for the spending programs or cutting spending on social issues which Republicans say are unrelated to infrastructure needs. Republicans say that is the red line and neither side is showing any signs of budging. Some Democrats are urging the White House to end negotiations and move forward with the package in attempt to pass through budget reconciliation. Under this process, a deal could be passed along party lines, but would need all 50 Democrat Senators approving the proposal.

Cryptocurrencies are known for the extreme volatility and last week that volatility picked up even more. Many cryptocurrencies have surged and risen to record high levels recently, driven by speculation and backing of key people like Tesla's Elon Musk. The latest pullback intensified after three financial associations out of China teamed together to announce financial institutions should not accept cryptocurrency as payments or any other transaction or services. Part of the statement read "recently, crypto currency prices have skyrocketed and plummeted, and speculative trading of cryptocurrency has rebounded, seriously infringing on the safety of people's property and disrupting the normal economic and financial order." JPMorgan reports average flows of capital into bitcoin funds peaked in January of this year at \$600 million, but have been declining ever since, and this month is now seeing outflows of about \$100 million, the first month of outflows since January 2020. The next day, Fed Chair Jerome Powell released a video saying the Fed is studying the developments in the rapid change in the global payments landscape and looking at developing a central bank digital currency (CBDC). The video emphasized the CBDC "could serve as a complement to, and not a replace of, cash" and the forms of the dollar.

In an environment where inflation expectations are at multi-year highs, investors are paying attention to every word that comes from the Fed. Last week the Federal Open Market Committee released minutes from its most recent meeting April 29, which is important to note occurred prior to the latest Consumer Price Index data that showed higher price increases than expected. From its post-meeting announcement, the Fed is not considering raising rates or tapering the pace of its bond purchase program. However, the meeting minutes noted if the economy continues to make rapid progress toward its goals, some committee members thought "it might be appropriate at some point in upcoming meetings to begin discussing a plan for adjusting the pace of asset purchases." Immediately after the release stocks moved lower and Treasury yields moved higher. We would expect the Fed to make comments about peeling back its asset purchases at one of the upcoming meetings this summer or early fall.

The surging price of lumber combined with the lack of labor and supply chain disruptions is pushing home prices higher while squeezing supply, resulting in a pullback in the latest month. Housing starts for April disappointment, with an annualized 1.569 million starts versus the 1.700 million expected and a 9% decline from March. However, there is a growing backlog of housing units authorized but not yet started. These permits are up to an annualized rate of 1.755 million, rising 61% from last year. The used home market is experiencing a small pullback as well. Existing home sales fell 3% for April making it the third consecutive month of declines. The pullback may be unexpected and a disappointment, but it's important to keep everything in perspective – the rate of housing starts is still 67% higher from a year ago while the pace of existing home sales are up 33.9% from a year ago. Due to the strong demand and limited inventory of homes, the median price of an existing home is 19% higher from a year ago to \$341,600.

Company News

- Southwest provided an update on operations last week, saying operating revenues improved sequentially from March and in line with expectations. Management said demand continues to improve every day and it expects Q2 capacity to be down just 16% from 2019 (last peak) levels.
- ZoomInfo made another move to enhance its platform by announcing it will allow customers of Snowflake's data cloud platform to integrate ZoomInfo contact data into their technology stacks.
- Data from Susquehanna shows lead time, the gap between ordering a chip and taking delivery, for semiconductors are up to 17 weeks, up another 4 weeks from March. Customers are getting more desperate, which could lead to customers over ordering, worsening the situation and in the end get stuck with too much inventory.

The Week Ahead

First quarter earnings season is winding down with several more retail companies and several young tech companies reporting this week. Notable earnings reports include: Lordstown Motors on Monday; AutoZone, Toll Brothers on Tuesday; Dick's Sporting Goods, Nvidia, Okta, Snowflake, Workday on Wednesday; Best Buy, Ulta Beauty, Dollar General, Dollar Tree, Costco, Gap, salesforce on Thursday; and Big Lots on Friday. The first report on the economic calendar is the Case Shiller Home Price Index on Tuesday morning where the index for home prices are expected to have risen 11.8% from a year ago in March. Also on Tuesday new home sales for April is released along with results from the consumer confidence survey. On Thursday morning we will see the latest update on unemployment claims, the second revision on first quarter GDP, and April durable goods orders. Wrapping up the week is the personal income and spending report where the consensus has a 0.6% increase in spending in April compared to March after a very strong 4.2% increase in March. After a week of extreme volatility, cryptocurrency will likely be in the headline again with the Consensus by CoinDesk Conference taking place this week. There will also be many Fed members making speeches, which will be watched closely by the markets for any hints on talk about tapering the Fed's asset purchase program.

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. Bitcoin and other cryptocurrencies are speculative investments and involve a very high degree of risk. Investors must have the financial ability and willingness to bear the risks of a potential total loss of their investment. The prominent underlying risk of using bitcoin as a medium of exchange is that it is not authorized or regulated by any central bank. Bitcoin issuers are not registered with the SEC, and the bitcoin marketplace is currently unregulated. Securities that have been classified as Bitcoin-related cannot be purchased or deposited in Raymond James client accounts. Prior to making an investment decision, please consult with your financial advisor about your individual situation.