

Wentz Weekly

November 29, 2021

Black Friday Brings More Shoppers to Stores (And a New Covid Variant)



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Consumers spent more time and money at retail stores over the Black Friday shopping period this year with traffic up 61% from last year's levels but still 27% below pre-pandemic levels from 2019, according to RetailNext – a retail analytics firm, reflecting the shifting habits of consumers to shop online and avoid the big crowd as Covid cases rise again. It also reflects businesses continued desire to capture more of the holiday spending earlier in the season than usual (not to mention the consumers' desire to shop earlier to avoid potential shortages from supply chain issues and bottlenecks). Black Friday discounts were not as prevalent as years past as retailers chose to forgo the steep Black Friday discounts in replace of earlier deals that last longer in the continued push to start holiday shopping sooner and that last beyond the Thanksgiving weekend. So far it has worked – a National Retail Federation survey shows 61% of consumers started their holiday shopping earlier this year. With traffic showing a 61% increase, spending in stores saw a 43% increase from last year, according to Mastercard SpendingPulse which measures sales activity. The NRF expects retail sales to increase 8.5% to 10.5% this year compared to last year, in comparison to the average 4.4% increase over the past five years.

However, Black Friday was a different story for the equity markets as Covid fears returned. Before markets opened Friday, reports emerged that a new Covid variant, which the World Health Organization dubbed Omicron and labeled as a variant of concern, was spreading in African nations and was possibly more transmissible. The biggest impact so far has been on travel after the U.S. and much of Europe and Asia restricted travel from several African nations. We do not think the new variant will be a cause for concern over the medium- to longer-term. What will matter is its effect on hospitalizations the deaths and how resistant it is to vaccines and treatments that have been developed over the past 18 months, and at this time it appears the Omicron variant shouldn't pose a threat to the economic recovery. For this, we continue to favor U.S. equities, particularly value and cyclical stocks.

A major unknown in the markets surrounding the Federal Reserve and its next Fed Chair was causing uncertainty for the markets in recent weeks. Current Chairman Jerome Powell's term is up in February and was up for renomination and reports were saying current governor Lael Brainard was his biggest competitor for the position. Many of the progressives were pushing for Brainard due to her more aggressive policies on climate change and regulation, while markets have grown confident in Powell's ability to lead the Fed after accommodative policies were implemented following the breakout of Covid. Last week President Biden announced the renomination of Powell as Chairman and the nomination of Brainard as Vice Chair, alleviating one of the markets concerns. There are still three open seats on the Board of Governors to fill, including the Chair of Supervision which is now expected to be a more progressive selection after the renomination of Powell to Chair.

Under pressure from the 60% increase in gasoline prices from a year ago, President Biden announced the release of 50 million barrels of oil from the Strategic Petroleum Reserve in a coordinated effort of additional releases from China, Japan, South Korea, the U.K., and India. Historically, and we believe this time as well, a release of oil reserves like this has a short-term impact on prices. The release is minimal in comparison to the world demand of oil. The U.S. consumes roughly a fifth of global oil consumption, or roughly 20 million barrels per day. At this rate the release would supply the US for only 2.5 days. In addition, the release is expected to occur over a period of time, and will take time for transportation and refining before eventually reaching the consumer. It is still unknown how much the other nations will release to the markets. The question now is what OPEC decides to do at its next meeting. Earlier this year the organization agreed to gradually raise production to meet the growing global demand. It was widely expected they would keep with its promise of adding an additional 400,000 barrels/day in December after its December 2 meeting, but that could change...

Consumer spending growth and personal income increases remain strong going into the fourth quarter, according to the latest data from the Bureau of Economic Analysis. Incomes rose 0.5% in the month of October, well over the 0.2% increase expected. Consumers are seeing bigger and more consistent pay raises as the wages and salaries component of incomes rose 0.8% and has averaged a 1.0% monthly increase over the past seven months, equaling an annualized rate of 12%. It is important for wages to continue to rise at least at the same rate of inflation, and growing at double the inflation rate could mean higher and more persistent inflation in the months ahead as businesses may choose to raise prices rather than have higher wages cut into their profits. This is an important component to measure as we head into 2022 and as supply chain issues are expected to ease. On the consumption side, consumers continue to drive economic growth by spending more. Personal outlays rose 1.3% in the month driven by a large increase in goods, particularly durable goods. The savings rate, now at 7.3%, continues to come down to a level closer to the historical average as the economy continues its recovery and consumers continue to resume normal activities.

Company News

- Best Buy beat expectations on sales and earnings and reported its comparable stores grew sales 1.6% which also exceeded expectations despite management saying they are seeing a large increase in organized theft at its stores. However, the stock was lower as investors are pricing in slowing growth and pressure on margins.
- Zoom Video beat expectations for its third quarter with a 35% growth year-over-year growth in revenues. Shares were down after its earnings release as investors repriced shares for the expectations of slower growth ahead.
- Ford and Rivian Automotive both agreed to cancel plans to jointly develop an all-electric Ford branded truck, saying they would rather pursue their own plans at this time. Ford has a 12% stake in Rivian, who recently went public.

The Week Ahead

The weeks kicks off with Cyber Monday after a holiday shortened week that ended on a sour note thanks to a new omicron Covid variant. The earnings calendar is lighter but there are some notable companies reporting including; Global Foundries, HP Enterprise, and salesforce.com on Tuesday, CrowdStrike, Okta, Snowflake, and Splunk on Wednesday, and DocuSign, Dollar General, Kroger, Marvell, and Ulta Beauty on Thursday. Elsewhere on the corporate calendar, Amazon will hold its AWS event and Microsoft will hold its annual investor event. On the other hand, the economic calendar will include many reports through the week. Home prices via the Case Shiller home price index, where economist expect prices coming off a peak but still seeing strong growth at a 19.5% y/y increase, and consumer confidence will be released Tuesday. The ADP employment report, October construction spending and the PMI and ISM manufacturing survey results are released Wednesday morning. Thursday will see the most recent data on unemployment claims and vehicle sales for November, and Friday wraps up with the November employment report where the current consensus sees another 543,000 jobs added in the month. There will also be several Fed speeches throughout the week including one by Fed Chair Powell on Tuesday. Finally, OPEC will hold its semi-annual meeting this week to discuss whether or not to continue with its plans to gradually raise oil output.

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.