Wentz Weekly

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Congress Approves Another $484 Billion of Funding

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Congress has approved a fiscal aid package that includes another $484 billion in funding, bringing the total so far to around $3 trillion. The latest aid involves additional funding of $370 billion to the payroll protection program for small businesses, $75 billion for hospitals and $25 billion for testing. The expectation for another phase of fiscal relief is increasing, with focus on funding for state and local governments, hazard pay for essential workers, tax incentives for affected sectors, infrastructure spending, and expanded support to individuals which may include another round of rebate payments to consumers.

U.S. markets suddenly took a turn lower Thursday afternoon after the World Health Organization "accidently" published a summary of a Chinese study on its website stating Gilead's antiviral drug remdesivir failed to treat patients with COVID-19. The post was first reported by the Financial Times where the headline read "Gilead antiviral drug remdesivir flops in first trial". However, the headline was very misleading as the study was terminated early because it did not have enough patients enrolled and data was inconclusive. There are currently several studies ongoing in the U.S. which should provide more reliable data. Results on several of these trials are expected to be released later this week or early May.

The price of crude oil dropped into negative territory last week, hitting a low of negative $37 per barrel, before rebounding into the positive prior to the contract expiring. The price that went negative was the futures contract for the delivery of oil in May, which expired on the 22nd. The concern was those holding the contracts would not have anywhere to deliver, or store, the oil once delivered in May. This is due to the imbalance between supply and demand in the oil market. Supply has not abated yet, in fact the agreement to cut supply between OPEC is not effective until May. In addition, the effects of COVID-19 have caused an estimated 30%-40% decline in demand from less cars on the road, less planes flying and less manufacturing activity. With the lack of space in storage tanks, traders are increasingly using ships to store oil. Under normal circumstances 5% of global ship fleet is used as storage, but now that's around 30%. As of Friday, the June contract for oil was trading at $17.18

The National Association of Realtors reported sales of existing homes fell 8.5% in March to an annualized rate of 5.270 million and still up 0.8% from a year ago. Inventory fell a sharp 10.2% from a year ago to 1.5 million as many de-listed their homes to prevent potential buyers from touring the homes in person. The Census Bureau reported sales of new homes were down 15.4% in March and down 9.5% from a year ago to 627,000. Supply of new homes improved to 6.4 months supply on the market compared to a record low 5.0 months supply last month. Both number are coming off some of the highest levels since the financial crisis. Keep in mind the new home sales report reflects *signed* contracts whereas the existing home sales report reflects *closed* sales.

Company News

- Netflix missed on earnings but beat revenue estimates. A net 15.77 million subscribers were added, well above the 8 million expected. Earnings were lower from a lower margin due to a stronger dollar, increased content costs from costs in pausing production and $150 million contribution to hardship funds. Forecasts were above expectations, although noted as "guesswork" due to uncertainties from COVID-19.
- Delta results were short of expectations with revenues down 18% y/y. After additional cost cutting measures, the company is now burning through $50 million in cash per day versus a $100 million burn rate in the end of March.
- Las Vegas Sands saw a 51% drop in revenues but beat earnings and revenues expectations. Macau revenue was down 65% to $814 million while Las Vegas revenue was down 15% y/y to $400 million. CEO Adelson gave a very upbeat outlook on the conference call.

The Week Ahead

It will be the busiest week for earnings with 142 S&P 500 components reporting. Highlights will include Alphabet, Microsoft, Facebook, Apple, Amazon, 3M and Caterpillar. To date, 23% of S&P 500 companies have reported with Q1 earnings now on track for a 14.4% decline. It will also be a fairly busy week for the economic calendar. Notable data reports include GDP on Wednesday where the consensus ranges between -8% to -2%, jobless claims, consumer income and spending, and with the month concluding on Friday, results from manufacturing surveys for April. The FOMC will release its policy decision mid-week, followed by Jerome Powell's press conference. The Fed has already cut rates to zero, signaled unlimited asset purchases to ensure liquidity, and opened several lending facilities, so additional significant news is not expected. In addition, the Bank of Japan and European Central Bank will hold their policy meetings.