Wentz Weekly

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S&P 500 Inches Closer To Record Highs

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Russian President Vladimir Putin claimed Russia has registered and approved the world's first vaccine for Covid. Given the market's sensitivity to Covid related news, stocks welcomed the news and moved slightly higher after the announcement. However, there was no shortage of skepticism around the world. Health care experts are saying the vaccine appears to have been approved based on the equivalent of a Phase 1 study, which several U.S. companies are well beyond. The Russian Ministry of Health summarized trial results without providing any real data. The summary described two Phase ½ studies with 43 participants each, which the vaccine showing high safety and efficacy, and the participants developed high antibody titers. The expectation is the vaccine will be available for public use on January 1, 2021.

The timeline on a next fiscal stimulus bill is in the air as Democrats and the White House were unable to come back to the negotiating table last week. The main sticking point for Democrats is including at least $1 trillion in the bill for state and local governments. Making matters worse is Congress has left Washington for their summer recess and will not return until after Labor Day. The lack of any progress on a stimulus bill from Congress could lead to August and September economic data that continues its downward trend, indicating a further slowdown in growth from the the strong recovery we have seen so far. President Trump's executive orders aim to provide a bridge until an agreement is made by temporary expanding unemployment benefits and other funding, but the expectation remains a more comprehensive bill in the neighborhood of $1 to $2 trillion.

Retail sales rose 1.2% in July after accounting for seasonal adjustments and are 2.7% higher compared to the same period a year ago. The results for July were a little less than expected, but the weakness was offset by a revision higher to the June sales data. Retail sales are now higher than pre-pandemic levels, but consumer spending trends appear to have shifted. Sales in areas such as department stores and restaurants have remained well below where they were pre-pandemic, but sales of vehicles, home improvement goods, and groceries are above the pre-pandemic levels. The August and September data will be closely watched to see how much the expiration of the $600/week enhanced unemployment benefit from the CARES Act will affect retail sales and consumer spending, which makes up close to 70% of U.S. GDP.

In the U.S., latest Covid data shows cases appear to have plateaued and have been declining since mid-July when we saw a surge in the southern states. In the July 20 week, cases peaked around 465,546 and have declined by 23% since then. Testing has also improved, but is slightly below the levels several weeks ago, although this may be due to the delay in a lot of testing labs. Many individuals have waited over 10 days to get their test results, making them not as significant. However, a new saliva test has just received FDA approval, with many other applications close to receiving approval which would help solve the testing issue and the delay tremendously. Hospitalizations have declined significantly as well, with around 44,000 currently still hospitalized and down from the peak of around 60,000 four weeks ago.

Company News

- Electric vehicle maker Nikola shares rose over 20% last Monday after announcing waste collection company Republic Services plans to buy 2,500 Nikola electric refuse trucks, and deliveries are expected to begin in 2023. The company has produced no vehicles and barely generates revenues, but expectations are high, and analysts are forecasting $3 billion in revenue by 2024.
- Tesla announced the Board approved a 5-for-1 stock split. Each share owned on the record date of August 21 will receive a dividend of 4 additional shares, and the share price will be trading split adjusted on August 31st. Shares rallied on the announcement, up 13% on the day and posting new record highs.
- Boeing said it lost 43 orders for its troubled 737 MAX in July. Total order cancellations are now at 398 for the year thanks to the grounding of the 737 MAX and impact from Covid. As of July, only 74 planes have been delivered this year, well below the pace to reach 2018 levels of 806 planes.

The Week Ahead

Second quarter earnings reports pick back up somewhat this week but will be taken over by brick-and-mortar retailers. JD.com will release its results on Monday, followed by Walmart, Kohl's, and Home Depot on Tuesday, Target and Lowe's on Wednesday, and BJ's Wholesale on Thursday. There will also be several non-retail companies reporting including Nvidia, Analog Devices, and Alibaba. The notable data releases on the economic calendar include July data for housing starts and existing home sales, and results of the latest manufacturing surveys. The weekly jobless claims number will still be in focus Thursday, after falling below one million in the latest week for the first time in over 20 weeks. The Fed will release its meeting minutes from its July 29th policy statement, and any signs of forward guidance or potentially new policy tools will be closely analyzed. In politics, the Democratic National Convention will kick off in Milwaukee on Monday and run through Thursday, however will be mostly virtual. Congress has adjourned for several weeks but could still be called back if any progress is made on negotiations on the next stimulus bill, which at this point appears unlikely.