Wentz Weekly

November 9, 2020

Election Results: Dividend Government, Stocks Rally

Wentz FINANCIAL GROUP

Investment management for your lifetime

The biggest election impact for the markets, and the most expected outcome, was a "blue wave" resulting in significant changes in legislation including increased taxes for individuals and corporations. As we mentioned last week, we expected the Democrats to maintain control of the House, the presidential election was going to be tight and potentially contested, but the Senate race was the biggest wildcard. Markets rallied through the week as the prospects of a divided congress became more clear. In fact, stocks had one of their best weeks of the year and best election-week performance since 1932, with the S&P 500 rising 7.32%. The NASDAQ was even better rising 9.01%, as investors resumed the growth trade and chances of increased scrutiny and regulation on tech was less likely. The S&P 500 had four consecutive gain of at least 1%, something that has only happened three times since 1938. As it turned out, a divided congress was one of the best outcomes for stocks – it provides for a check and balance in congress and more certainty with any chance of sweeping changes highly unlikely. As we noted last week, markets perform best when there is a split congress, regardless of who is president, averaging a 13.6% annual rate of return in those years.

Election results have been put on the back burner this morning and the market is continuing its rally due to positive vaccine news from Pfizer in its Phase 3 study. The Covid-19 vaccine being developed in collaboration with BioNTech was reported to be over 90% effective in preventing infection in participants. The Phase 3 study included 34,000 participants where there were just 94 confirmed cases that were evaluated and no safety issues. To put in perspective the seasonal flu vaccine is about 50% effective and measles and smallpox vaccines are about 95% effective. The news is having a massive impact on the markets and individual investments. Cyclicals, virus-sensitive stocks, and small caps are outperforming, while stay at home/work from home stocks and treasuries are underperforming. The prospects of an effective vaccine sparked selling in the treasury market, with the 10-year treasury moving closer to 1.0% and the 30-year rising from 1.59% to 1.71% after the vaccine news. The steepening of the yield curve is driving the rally in Financials. It is important to note that although the news is very encouraging, this is the results of the first interim efficacy analysis, and we still have some time before a vaccine is widely available for mass use. The prospects of a vaccine may have also reduced the chance and/or amount of a potential stimulus bill, however the bigger impact on economic growth will be life returning to normal sooner.

The Federal Open Market Committee concluded its two-day meeting on Wednesday in which they announced no changes to monetary policy and was mostly uneventful, as expected. Interest rates remain unchanged at 0%, the Fed will continue purchase the same amount of assets, and the statement by the Fed was basically a carbon copy of the prior meeting. In the press conference, Powell indicated the Fed may provide a timeline for asset purchases at an upcoming meeting and details were discussed at this meeting but did not provide more details such as if the average maturity of purchases would be extended. This would be expected however if economic conditions begin to deteriorate over the next several months. Powell acknowledged the recent spread of the virus and said it was concerning, but noted the economy recovered strongly in the summer months when the country experienced a wave.

The U.S. labor market brought back 638,000 jobs in October, above expectations of 575,000 and the sixth consecutive month of gains. The job gains sent the unemployment rate down by a full percent to 6.9%, even with the participation rate moving up 0.3% to 61.7% as more people entered the labor force. Wages were basically flat in the month, but are up 4.5% from a year ago, with government stimulus still playing a big role in the high year-over-year gain. The job market has now recovered 12.1 million jobs out of the 22 million that were lost over March and April. We continue to see the most job gains in the leisure and hospitality industries, an encouraging sign that things are trending in the right direction. Less encouraging was 3.7 million said they were unemployed due to a permanent job loss, a stat that will have one of the biggest impacts to economic growth. Overall it was one of the better employment reports since the recovery began.

Company News

- Dunkin' Brands is being acquired by private equity group Inspire Brands (owner of Buffalo Wild Wings, Arby's and Jimmy John's) for $11.3 billion, or $106.50 per share in an all cash deal. The price was approximately a 20% premium to Dunkin' previous day closing price.
- Ride sharing stocks Uber and Lyft saw significant gains last week after California passed proposition 22 which exempts drivers from being classified as employees.
- One of the largest earnings beats last week came from theTradeDesk who saw revenues grow by 32%, with its largest growth segment, Connected TV, growing 100%, both well above estimates. The CEO said they are seeing "several years of advertising disruption and innovation compressed into a few months."

The Week Ahead

We are over halfway through third quarter earnings season where results have been much better than expected. Earnings will continue this week with the most notable reports being McDonald's, ZoomInfo, and Nikola on Monday, Lyft on Tuesday, Disney and Cisco on Thursday and DraftKings on Friday. Alibaba will hold its Single Day event on Wednesday, which turns out to be the largest online shopping event in China. The economic calendar is light, with just the job openings and labor turnover survey on Tuesday and several inflation reports with consumer price index Thursday and producer price index on Friday.