Wentz Weekly

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Democrats Complete Blue Sweep

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Stocks began the year trading lower for the worst day since October and the first time opening the year down since 2016, a year where the S&P 500 was down over 11% the first six weeks of the year. In fact, the last day stocks were down at least 1.5% as they were Monday was October 28, the same day Europe announced new lockdown measures amid the "second wave." There was no one specific catalyst but many believe the new lockdown measures out of the United Kingdom were to blame. UK Prime Minister Boris Johnson announced a nationwide lockdown ordering schools to go virtual and nonessential businesses to close through mid-February.

In Asia, Japan declared a state of emergency that would take effect through February 7. The measures include bar closures by 8 pm, requesting no non-essential outings, and limiting mass gatherings like sporting events like sporting events to 5,000 people. China imposed some of the strictest restrictions since March on over 11 million people in a province that neighbors Beijing after discovering over 100 new cases.

Stocks appeared to be taking a breather ahead of the Georgia runoff elections that took place on Tuesday as they awaited results. Since the November election, investors have expecting a divided government for at least the next two years, something that would prevent the Biden Administration on pushing his agenda. Since that time, the S&P 500 has rallied over 11% for that reason. The Democrats needed to win both races to take the Senate to 50-50. In that case Vice President Kamala Harris would break the tie, giving Democrats the majority. In addition, members of the cabinet will have a great deal of influence on policy and a Senate majority would secure enough confirmation votes for Biden to make significant changes.

With both Democratic challengers winning the Georgia race, the stock market responded with what we think was a kneejerk reaction. The first thought was the Democrats urgency to pass another stimulus package with a much larger price tag. Priorities in the package would include a higher check amount for individuals and funding for state and local governments, while liability protections for small businesses will likely be left out. Small caps have outperformed large cap companies as increased stimulus benefit US centric companies. However, a multi trillion-dollar stimulus package could have long-term effects. It would increase the chance of higher inflation down the road, and bonds are taking notice with yields on the longer end of the yield curve moving higher (i.e. higher interest rates in the future). From a sector perspective, it would be a net positive for interest rate sensitive sectors like financials and negative for utilities. We see the Administration's next priority would be tax reform, including the potential increase of taxes on individuals and corporations. A higher corporate tax rate means less profits for corporation and thus lower stock prices, an overall negative effect for the stock market. Investors are also worried about tougher regulation from lawmakers, which has put pressure on the tech sector and caused it to be one of the worst sectors over the last several days. Overall, however, due to fundamental trends we continue to like technology.

Additional restrictions on certain businesses decelerated the rehiring process and even resulted in additional layoffs in December. The household survey in the Department of Labor's employment report indicated 140,000 payrolls were lost in December, below the consensus which saw an additional 114,000 jobs. Most of the job losses were from leisure & hospitality industry where 498,000 jobs were eliminated. The unemployment rate remained at 6.7% while the U-6 rate, which includes those that left the labor force because they were discouraged and those working part-time that want full-time work, dropped to 11.7% from 12.0%. There was a large increase in the average wage, up 0.8% in December compared to November and 5.1% compared to a year ago, reflecting the fact that more lower-paying jobs were lost. The number of people temporarily laid off increased by 277,000 to 3 million, while those permanently laid off declined 348,000 to 3.4 million, still up by 2.1 million since February. Stocks really didn't budge after the report. Markets likely interpreted the report as 'bad news is good news' like they did two months ago – a bad employment report could further increase the chance of more stimulus, especially from a new administration.

Company News

- Netflix says it broke viewership records for total viewing hours, as well as average hours viewed per subscriber, for both December and for the holiday week of December 25-31.
- Micron beat earnings and revenue expectations in its latest quarter with revenues growing 12.3% and margins expanded by almost 4%. The company issued guidance for the current quarter that included sales and earnings that were both above analyst's estimates.
- Roku says its operating systems was the number 1 smart TV operating system sold last year, leading with 38% market share. The company also announced it will acquire global rights to almost all Quibi's portfolio of original shows for use on its Roku Channel.

The Week Ahead

First quarter earnings season kicks off this week with several of the largest banks, including JPMorgan, Citigroup, PNC, and Wells Fargo, reporting on Friday. Other than the big banks, we will see quarterly reports from KB Home on Tuesday and Delta on Thursday. On the economic calendar the highlights will be several inflation reports and retail sales. On Wednesday, the BLS reports data on consumer prices, on Thursday we will see data on import and export prices, and on Friday we will see data on inflation at the producer level through the producer price index. Outside of that, on Thursday the latest on unemployment claims is released followed by Friday when retail sales for the month of December is released. Economists expect retail sales to be down 0.1% in the month (seasonally adjusted). Also, this year's Consumer Electronic Show (CES) event will take place this week – virtually – where big product announcements typically create a lot of attention. Note the markets will be closed next Monday in observance of Martin Luther King, Jr. Day.