Wentz Weekly

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The American Rescue Plan Finalized

Another $1.9 trillion in Covid relief is expected after the Senate passed its version of the American Rescue Plan. The size of the package is equal to roughly 9% of the U.S. economy, and comes after the $3.42 trillion in previous Covid-related government relief. About a quarter of the package will be allocated to areas directly impacted by Covid with the remainder mostly providing aid to the economy and other political priorities not related to the pandemic. The package now moves to the House where it will see a final vote then head to the President's desk to be signed into law. The package is similar to President Biden's proposal, but among other things excludes the minimum wage increase and reduces the federal unemployment benefit. Roughly $400 billion will be going to families in the form of direct payments to individuals ($1,400 per person, child, and dependent). Another $230 billion will go to support the federal unemployment program that includes $300/week in benefits through September, $100 billion for an extension of the child tax credit to $3,000 per child, and $47 billion in housing assistance. Testing and tracing and vaccine distribution will be given $63 billion. State and local governments will receive about $350 billion and funding for education will see $170 billion. In total, approximately $83 billion will be used in fighting Covid-19, $850 billion in support for individuals, and $670 billion in support for the public and private sector.

The rise in longer dated bond yields and steepening of the yield curve, where long term rates rise at a faster pace that shorter-term rates, have caused speculation the Federal Reserve will bring back "operation twist." This is a Fed tool that was used twice in history, once in 1961 and again in 2011, where the Fed buys longer-term bonds in attempt to push down longer-term rates. In the last public appearance before the Fed's next policy meeting, Chairman Powell spoke at the Wall Street Summit on Thursday where he downplayed the concern on higher rates while saying the Fed watches a broad array of financial indicators and the recent uptick in rates and the correction of the NASDAQ are not necessarily worrisome. Powell reiterated policy will not change until the labor market is back at full employment and admitted there could be an uptick in inflation in the months ahead but emphasized any increase is expected to be transitory. Investors have become increasingly worried inflation is heating up (driving interest rates higher) due to accommodative fiscal and monetary policy, improving economic activity, supply chain bottlenecks, and a flood of money due to government stimulus.

The rise in input costs is starting to be seen over the first couple months of the year according to managers in the manufacturing industry. The Institute for Supply Management's manufacturing PMI was 60.8 for February, while Markit's PMI was 58.6, supported by sharp increases in output and new orders. A level over 50 indicates expanding activity. The survey results show new orders, production, and employment all rose in the month with customer backlogs hitting one of the highest levels on record. The report noted unprecedented supply chain disruption with supplier shortages and transportation delays leading to "a substantial rise in input costs." The price index category rose to 86, the highest level since 2008, leading to more concerns on inflation this year. The issue is whether the price increases will be transitory, as Fed Chair Powell is expecting.

Jerome Powell has consistently reiterated monetary policy will not change until the U.S. sees full employment, and February's employment report showed progress to that goal. Total payrolls rose 379,000 in February, above the consensus estimate of 200,000 and within the expected range of -50,000 to 500,000. The reported unemployment rate fell to 6.2% while the U-6 rate that includes discouraged workers remained at 11.1%. Wages are 5.3% higher compared to a year ago, mostly due to the higher paying job market doing better than the lower paying part of the market. Leisure & hospitality saw the most job gains with 355,000, however still down 3.5 million jobs from a year ago. Temporary help services added 53k jobs, health care +46k, and retail +41k. The number of permanent jobs lost was unchanged with 3.5 million, and 2.2 million higher than a year ago.

Brent crude oil rose nearly 8% last week and is approaching $70/barrel, a level it has not seen since October 2018, driven by a comeback in demand and the continued caps on production out of OPEC. The organization met last week to discuss the oil markets, and typically conclude the meeting with a decision on production quotas. In the latest meeting the OPEC and its allies decided not to remove pandemic-driven supply cuts that have been in place since last year and will keep current production rates steady through April. Going into the meeting many analysts expected OPEC to remove the production cuts as demand continues to improve thanks to the economic reopening and following the deep freeze in Texas which wiped 2.5 million barrels a day from the market. The energy sector has by far been the best performing sector so far this year, rising 40% through Friday thanks to the rise in crude oil prices.

Company News

- Las Vegas Sands announced it has reached a decision to sell its Las Vegas properties and operations to Apollo Global Management for $6.25 billion.
- Netflix said it has added a feature on its mobile app that works like TikTok where it focuses on fast moving comedy bits, called "Fast Laughs." It offers a link at the bottom for users to view the full material or add to watch list.
- Disney CEO Bob Chapek gave an update at an analyst conference saying Disney has been using the down time in parks to improve technology and guest experience including better storytelling and park itineraries based on consumer data, as well as contactless features. Chapek also said regarding the media segment that the days are over where movies are in theatres for 3 months before being released, which is what many were expecting with streaming services. Separately, Disney said it is closing about 20% (about 60) stores to focus more on e-commerce.

The Week Ahead

This week investors will remain focused on the rise in interest rates and the new Covid-relief bill and its impact on the economy and markets. The economic and earnings calendar slow in the week ahead. The economic calendar includes several inflation indicators and several reports on the jobs market. On Wednesday we will receive an update on inflation with the consumer price index where consumer prices are expected to have increased 1.7% year-over-year in February. On Friday, the producer price index is released reflecting inflation at the producer level. On Thursday we will receive the weekly update on unemployment claims along with results of the job openings and labor turnover survey. Notable earnings reports on the calendar include Stitch Fix on Monday; Dick's Sporting Goods and MongoDB on Tuesday; Oracle on Wednesday; DocuSIgn, JD.com, and Ulta Beauty on Thursday. In Central Bank news, the European Central Bank will announce its latest policy decision after its policy meeting concludes on Thursday. There are also a number of Investor Days that will take place including three from the largest U.S. telecom companies.