Wentz Weekly

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Historic First Quarter Earning Season

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First quarter earnings results have blown past expectations. On April 1st, right before the first quarter earnings season began, analysts were expecting earnings to have grown by 23.8%. First quarter earnings were one of the best on record with S&P 500 companies reporting a 52% growth in profits in the quarter, the highest year-over-year growth since the first quarter of 2010, according to FactSet. In addition, 86% of those companies reported actual earnings above analyst's expectations, the highest percentage since data began. The results are driven by multiple factors – significant pent-up demand, consumers sitting on a lot of cash after saving an average of 18.3% of their disposable income since the pandemic began (versus the average of 7.3% through the 2010s), fiscal and monetary support, and cost cutting measures. Much of the pandemic induced cost cutting measures have remained in place, helping to boost the bottom line, and resulting in a 12.8% profit margin, a record high. Analysts expect this growth to continue into the second quarter and the latter half of 2021. The second quarter is expected to see a 60% increase as profits are compared to a pandemic low quarter of last year. This base effect should begin to fade as we head into the second half of the year and normalize in 2022 where the expectation has profits growing at 12% after an expected 35% growth in 2021.

Economic data out of the U.S. continues to come in very strong. Last week the Bureau of Economic Analysis (BEA) said in its second revision to Q1 GDP the economy grew at a 6.4% annualized rate in the first quarter. Estimates for second quarter growth were revised higher Friday after the latest data on personal income and spending for April. The BEA said personal income from all sources in April fell 13.1%, due to a large decline in stimulus payments to individuals after most received their checks in March. However, the total amount earned from wages and salaries jumped 1% for the second consecutive month and worker pay is now 4% higher than it was prior to the pandemic.

Higher pay and increased government benefits resulted in a 0.5% increase in personal spending, also higher than what was expected, as Americans continue to show a strong desire to spend. Spending was driven largely by increase in services, as Americans are feeling more comfortable doing things in public again. Consumers offset the large increase in spending on services with a small drop in spending on goods. Within the goods category, spending on vehicles was the strongest, up 4% in the month. The savings rate was 14.9% in April, still elevated thanks to government payments to individuals, but lower than March and the all-time high of 33.7% last April at the onset of the pandemic. But excess savings caused by the pandemic looks to be over with the average consumer's savings rate returning to pre-pandemic levels after subtracting the governments income support. Excluding federal programs, such as the enhanced unemployment benefit and stimulus payments, the savings rate is closer to 9%, versus the 10-year average of 7%. Americans have saved an extra $2.4 trillion since the beginning of the pandemic. This surplus is savings, along with still significant pent-up demand, are some of the biggest reasons we believe we are in just the beginning innings of this secular bull market.

Republicans counteroffered the Biden administration's $1.7 trillion infrastructure proposal with a $928 billion proposal of their own. The proposal by Republicans focuses on traditional infrastructure and includes $506 billion in spending on roads and bridges, $98 billion on public transit systems, $94 billion on water infrastructure, $65 billion for broadband, $56 billion for airports, $46 billion on rail systems, and $22 billion for ports and waterways. The proposal is seen as being too narrow for Democrats and leaves out tax increases. The Republican proposal would look to repurpose about $700 billion of unused funds from pandemic relief packages. Both sides are still far apart on size and scope of spending, and will continue to push for bipartisan support, but we still believe the Democrats will use reconciliation to pass their proposal as they will only need a simple majority of 50 votes in the Senate.

President Biden released his $6 trillion budget for 2022, highlighting his priorities over the next 10 years. Biden's plans would raise spending by $4.4 trillion over 10 years and includes his previously announced American Jobs Plan and American Families Plan which combined for $4 trillion. The two plans call for spending on both physical infrastructure and what the administration calls human infrastructure which includes social issues such as free college and climate change. The proposal calls for an increase in the deficit of $800 billion over 10 years, equating to 0.3% of GDP over that 10-year period. To help fund his agenda, the budget proposes reforming the tax code by raising taxes on corporations to 28% from 21% and raising the top capital gains tax rate to 43.4% from 23.8%. Biden's plan would also double the IRS staff over a decade to help ensure the wealthy are paying the taxes they owe. The adjustments to the tax code would increase tax revenues by $3.6 trillion over 10 years. After the Republicans infrastructure proposal and the party's unwillingness to budge on tax increases, Democrats will likely look to pass their proposal through reconciliation. The budget is important as Democrats will have to pick a dollar figure to include in the budget resolution that will direct committees how to build its package.

Company News

- At a Ford investor event, the company announced its plans for 40% of volume to be all-electric by 2030. The company also increased its spending forecast by $30 billion to accelerate its all-electric push. The company indicated over 70,000 reservations for its all-electric Ford F-150 already.
- Amazon agreed to acquire MGM (studios) for $8.45 billion. The acquisition is expected to improve Amazon's library of content in attempt to grow its streaming and advertising business. The acquisition adds over 4,000 films and significant intellectual property.
- Several airline executives made comments last week on recent travel demand. United said ticketed yields issued this month for Q2 reached 2019 levels with domestic leisure travel exceeding 2019 levels. Delta also said leisure travel is exceeding 2019 levels, and American said it is seeing more signs of business travel this year.

The Week Ahead

The calendar will lighten up in the week ahead. Notable conferences include Facebook's developer conference, Taiwan Semiconductor's annual symposium, the tech sector's COMPUTEX show, and an event by Tesla to showcase its new car. On the earnings calendar several notable reports include HP Enterprise, Zoom Video on Tuesday; Splunk, Cloudera, and PVH on Wednesday; and DocuSign, Broadcom, J.M. Smucker, Lululemon, and Slack on Thursday. On the economic calendar the week starts with the PMI and ISM manufacturing surveys on Tuesday along with May's construction spending. Then on Thursday the latest unemployment claims are released and the main event of the week will be the Department of Labor's May employment report released Friday morning. The consensus sees 645,000 payrolls to be added in the month to bring the unemployment rate down to 5.9%. Lastly, on Friday, Jerome Powell will give a speech on Central Banks and climate change.