Wentz Weekly

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The Santa Claus Rally

Wentz FINANCIAL GROUP

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U.S. equity markets concluded the light-volume holiday shortened week on a positive note by rising the final three trading days of the week and ending those three days 3.5% higher. Investors started the week in a risk-off selling mode after word from Senator Manchin (D-WV) over the weekend confirming he cannot support President Biden's Build Back Better social spending bill (Democrats needed his vote for the bill to pass). Manchin believes the economy does not need the additional stimulus and it will only add to the already high debt level and intensify inflationary pressures. The other concern was in anticipation of Biden's speech where some feared would result in lockdowns or restrictions, like many European nations announced just days prior to. Instead, additional data came out that the Omicron variant is less severe, the vaccine still protects against severe cases, and the FDA approved two separate pills to help treat Covid from Pfizer and Merck, along with the U.S. sending 500 million Covid tests to families. With a lack of negative catalyst and volume for the week that was about half the average daily volume, stocks moved higher.

Based on historical trends, the move higher should continue over the next seven days. The so called "Santa Claus Rally" begins today and as the Stock Trader's Almanac says, is a calendar effect that involves a rise in stock prices during the last five trading days of the year and first two trading days of the new year. The almanac says on average stocks rise 1.3% during that 7-day span since 1950, which is far more than the average of any given 7-day period of 0.21%. Over that period stocks are higher 76% of the time, also higher than any given 7-day period of 57%. As of Monday morning, stock futures are higher and with a lack of headlines and trading volume remaining low a Santa Claus Rally could be in the works.

Preliminary results for holiday sales were as strong as most had expected. Data from Mastercard SpendingPulse shows holiday spending was up 8.5% compared to 2020 levels with online sales making up a large part of the gains with a 11% increase. The data represents in-store and online purchases across all forms of payments from the November 1 through December 24 period. The figures represent a 10.7% increase compared to the same period in 2019, right before the covid pandemic hit the world. The apparel sectors perhaps saw the largest increase in spending with sales up 47% from last year. Data supports our view that Americans started their holiday shopping earlier this year to get ahead of the holiday rush and potential shortages from the supply chain, bottlenecks, and labor issues.

The monthly personal income and outlays report continues to show solid progress the U.S. economy and Americans are making. Income continues to rise at a steady, above-trend pace with a 0.4% increase in November after a 0.5% rise in October. Income is now 7.1% higher from a year ago. Income is broken down into many different sources, but wages and salaries is the largest and most important for consumers and the economy. This category rose another 0.5% in November but is 10.8% higher from a year ago, and 23.1% higher from depths of the recession in April 2020, reflecting strong wage gains lower income earners have seen over this recovery. Spending has been even stronger, with the index indicating consumers spent 0.6% more in November after a 1.4% increase in October. Spending in November was driven by spending on services, offset by a small decline in durable goods due to less spending on things such as recreational goods and vehicles. Spending is 12.4% higher compared to the same month a year ago and 34% higher compared to April 2020. These reports are important to track when it comes to the economy as 70% of the U.S. economy is made up from the consumer spending money. The savings rate fell to 6.9%, its lowest level since 2017.

Company News

- Carnival Cruise said 61% of its ships are now operating with guests on board and expects its full fleet to be back in operation in the spring of 2022. In addition, its bookings for the second half of 2022 and first half of 2023 "are at the higher end of historical ranges."
- In a play to grow its cloud-based healthcare business, Oracle agreed to acquire Cerner, a digital information technology company, for $28.3 billion for Oracle's largest ever acquisition.
- Spider-Man: No Way Home, co-produced by Sony and Disney, surpassed $1 billion in the box office over the Christmas weekend, the first film to reach that milestone since 2019. The film was the third fastest to reach $1 billion, even without it showing in China.
- Micron reported quarterly results that beat expectations while guiding for current quarter revenues above consensus expectations. The company said it entered strategic agreements to secure supply and expects gradual improvements in 2022.

The Week Ahead

The final week of the fourth quarter and year will be quiet on the earnings and corporate calendar and somewhat quiet on the economic calendar. There will be no notable earnings reports and no other notable corporate events this week. On the economic calendar the first report of the week comes Tuesday with the Case Shiller Home Price Index where economist expect home prices to continue to rise at a strong pace, with the consensus for a 1.0% monthly and 18.6% annual gain. There are several other minor data releases through the week along with jobless claims on Thursday, which are back at pre-covid levels. Equity markets have a full week while the fixed income market will close early at 2:00 pm on Friday. Have a safe and Happy New Year!