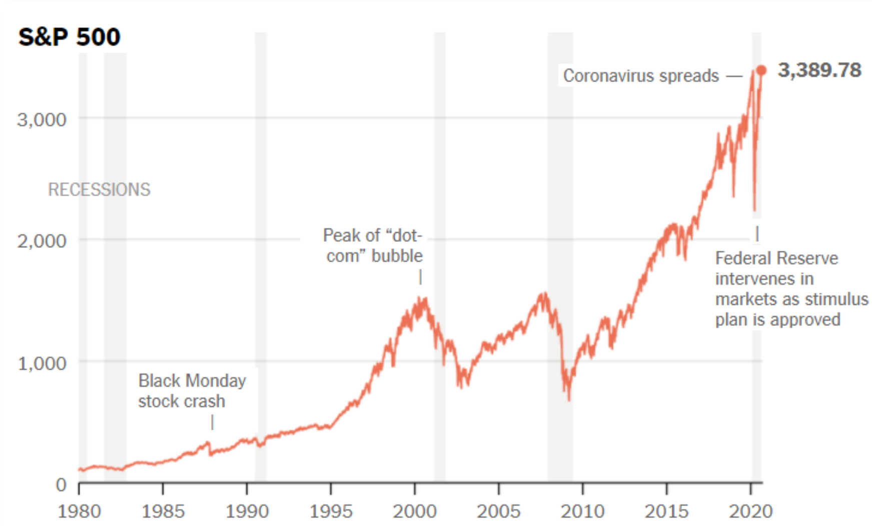
August 21, 2020

The Markets & the Economy - What We're Watching

Top Picks of the Week:

- S&P 500 hits new highs
- 2nd quarter earnings season winding down with retailers reporting

Covid-19 has brought upon significant economic damage, unemployment rates never seen in history, and a rising US budget deficit, but the stock market is beating all odds. The S&P closed at a new record high on Tuesday.[1] The index has rallied 55% in roughly the last five months. This ferocious rebound followed a 33-day stretch between 19-Feb and 23-Mar in which the index fell 34% from peak to trough, marking the fastest bear market on record. The pandemic has taken a significant toll on human lives across the globe as well as our global economy, but investors are putting aside the bad news and relishing in the idea that the worst might be over. Contributing factors to the near record high in the S&P comes from several areas such as, the Fed's support of the markets and low interest rates, a slight slowdown in new cases, and progress with corporate profits. The substantial monetary and fiscal stimulus, which Bank of America has pegged at $21 trillion with $2 billion per hour of central bank asset purchases, has been the most powerful tailwind. In addition, further policy accommodation is likely in the pipeline via the Fed framework shift and a fifth coronavirus relief bill. Vaccine optimism is another widely discussed driver with Dr. Anthony Fauci repeatedly highlighting expectations for a vaccine approval late this year or early 2021. A positive economic surprise momentum, big earnings beat rates, and the S&P 500 index concentration with big tech supported by secular growth themes have all helped as well.[2]



Just as financials kick off the earnings season, a parade of retail earnings wind down the second quarter earnings season. With overall retail sales returning to pre-pandemic levels we are seeing sizable sales gains being reported this week at big box stores like Walmart & Target. These are important developments because similar to new and continuing unemployment claims, retail earnings and sales provide important information regarding the current and future health of our consumer driven economy. Retail earnings this week provided a window into the health of the consumer giving us insight into *where* they shop, *what* they are buying and *how* (in-store v online) they are spending.

[1] Image Source: Refinitiv, By The New York Times
[2] FactSet

We own a few of the big box store stocks across our portfolios, they reported the following this week:

- **Walmart**: reported earnings and revenues that significantly beat analyst expectations, posting its biggest earnings surprise in 31 years, largely driven by government stimulus and a big payoff from their E-Commerce investments made years ago. US sales rose 9.3% while e-commerce revenue rose 97% year-over-year. Walmart's results reinforce the strength of its e-commerce platform and its ability to benefit in a difficult retail environment. Shares hit an all-time high after reporting earnings on Tuesday.
- **Home Depot**: second quarter earnings beat on the top and bottom line – record breaking sales this quarter with digital sales growth of 100%. Government stimulus checks as well as enhanced unemployment benefits, contributed to record demand. Sales increased more than 23% in the second quarter with strong demand for big ticket items such as appliances and patio furniture. Home Depot benefited from the stay at home DIY consumer who found the time to take on projects that until recently, were on the back burner. Buoyed by strong results, Home Depot shares rose to all-time highs after Tuesday's earning release.
- **TJX Companies** – reported mixed results missing on earnings, but beating on the top line. The temporary closure of its stores for nearly a third of a quarter, due to COVID-19 and its struggle to stock enough goods after an initial surge of shoppers when it reopened, resulted in a 32% decline in sales which was still better than analyst expected. These short-term headwinds impaired quarterly results, but the long-term investment thesis remains in place aided by TJX's strong balance sheet, diversified business model and strong brand loyalty.[3]

For questions or more information, please reach out to your Relationship Manager. For additional insights from IMG experts, please visit our website's Stock Market Insights page.

Commentary is reflective as of the close Thursday, August 20, 2020.

[3] Barrons