WEEKLY RESEARCH SUMMARY

DAVENPORT 1863
BUILDING WEALTH TOGETHER

AUGUST 3, 2020

	Week	YTD	52 Week
Dow Jones Industrial	-0.16%	-7.39%	-0.21%
S&P 500®	+1.73%	+1.25%	+11.56%
NASDAQ Composite	+3.69%	+19.76%	+34.25%

Source: Barron's

S&P 500 Close on 07/31/2020: 3,271.12

Consensus FY EPS/P/E*

2020E	2021E	2022E
$127.03	$163.41	$190.31
25.7x	20.0x	17.2x

Source: Bloomberg

Despite stronger than anticipated 2Q20 corporate earnings, mixed economic news and rising COVID caseload un-nerve investors awaiting progress from Washington DC on a fresh stimulus package. As result, markets remain choppy with the Dow Jones Industrials dipping 0.2% and the S&P 500® rising 1.7% this past week. Economic data set reports for June (prior to COVID resurgence) continue to look solid with Durable Goods Orders up 7.3% for the month, while business spending also picked up as evidenced by a 3.3% ramp in new orders for nondefense capital goods. In addition, overall 2Q20 corporate earnings have been stronger than initially forecast, with Tech sector mega caps Apple, Amazon, and Facebook leading the way with blowout results reported last week that drove the NASDAQ Composite up by 3.7%.

However, we sense COVID continues to overhang the economy and market sentiment. White House COVID task force coordinator Dr. Deborah Birx, speaking on Sunday news broadcasts suggested the U.S. was entering a new phase for COVID, as the virus is resurging on a widespread basis across the Midwest, Southern states, and in California. Dr. Birx urged Americans to wear masks and follow social distancing guidelines. As of Sunday evening, data from John's Hopkins COVID Research Center pointed to 4.60 million COVID cases as having been confirmed across the U.S. (up 9% in the past week), while deaths continue to rise by 1,000 per day - totaling over 154,000 - placing the U.S. at the center of the pandemic. We note that former FDA Commissioner Scott Gottlieb continues to warn that unless drastic steps to rein in the virus are taken (and successful), the U.S. could experience 300,000 COVID related deaths by yearend 2020 - raising fears as plans to reopen schools are being drafted across the country.

Furthermore, latest figures on new claims for Unemployment Benefits increased for a second consecutive week - remaining above 1 million for 19 consecutive weeks - while the Commerce Department reported the U.S. economy had contracted at a record 32.9% annualized pace in the 2Q20 (as was widely expected) or a 9.5% drop compared with the prior quarter. These stats represent the steepest declines over the 70 plus years that such records have been maintained. The GDP Price Deflator declined 1.8% (consensus targeted an increase of 0.1%), while prices for domestic purchases fell 1.5% versus the 1.4% increase recorded in 1Q20. The Personal Consumption Expenditures (PCE) price index fell 1.9% with Core PCE off by 1.1% - all pointing to deflationary trends as existing. The troubling trends on the jobs front suggests COVID could inflict enhanced near term pressure to the U.S. economy with jobs gains being muted when July statistics are reported later this week. With the unemployment rate standing at 11.1% and the March 2020 Cares Act funding having run its course, passage of a new stimulus package becomes paramount to sustaining the consumer.

In other economic developments, The Conference Board's Consumer Confidence Index declined to 92.6 in July from 98.3 in June, while the Fed has extended its lending facilities to business, governments, and individuals and purchases of Treasury and agency-mortgage-backed securities by three months through yearend 2020. In the meantime, Fed Chair Powell's post FOMC new conference on Wednesday broke no new ground as he indicated existing policy designed to foster full employment and price stability would remain unchanged until this latest crisis had clearly passed stating that 'the Fed is not even thinking of thinking of thinking about raising interest rates at this time'. These factors lead to a further softening of the U.S. dollar index that closed down 1.1% at 93.5 - helping to sustain gains for gold that closed the week at $1,962.80 per ounce (up 3.45%). Thus, investors have refocused on Capitol Hill where Democrats and Republicans remain far apart on plans for a new round of economic stimulus, raising investor concerns over near term implications for the U.S. economy as prior programs have run their course.

Republican and Democratic lawmakers remain at a standstill over some components of a new COVID stimulus package. Last week, Senate Republicans unveiled their roughly $1 trillion economic relief package known as the Health, Economic Assistance, Liability Protection, and Schools Act (HEALS). The package includes another round of $1,200 cash rebates; a proposed cut in supplemental unemployment payments from $600 per week to $200 (through yearend) targeted at replacing 70% of wages for those qualifying for the benefit, tax cuts directed at employer expenses, funds for childcare and school re-opening, liability protections, state & local government relief funds, and investment for expanded COVID testing and vaccine efforts.

The key sticking point that has arisen in negotiations revolves around the supplemental unemployment benefits - with Democrats focused on sustaining payments at $600 per week. Still, it is encouraging that both Democrats and Republicans have agreed to the $1,200 cash issuance to most middle and lower income Americans. We sense that uncertainty over these negotiations could hang over markets until resolution is forthcoming likely into mid-August. If we get positive development on the stimulus package there could be room for a late summer market rally - but otherwise, markets appear fairly valued given uncertainty on the COVID front.

This week investors will receive a wide range of economic and corporate updates. In addition to aforementioned negotiations on a new stimulus package on Capitol Hill, numerous S&P 500 leaders are expected to report 2Q20 results; and, several economic reports recapping June and July data sets are scheduled. The key data set investors will likely focus on this week will be reported on Friday, August 7, as the Bureau of Labor Statistics (BLS) releases its July Jobs report. Economists are looking for roughly 2.1 million new non-farm payroll additions for July (following the 2.37 million additions reported for June), with the Unemployment Rate trending down nicely to about 10.5% from June levels at 11.1%.

Other economic reports to watch for this week include the Institute for Supply Management's (ISM) July Purchasing Manufacturers' Index (PMI) on Monday, expected to show a second consecutive monthly expansion (after the spring economic shutdown) with a reading targeted at 53.6 (up from the June reading of 52.5). ISM follows up on Wednesday with its Non-Manufacturing PMI report expected to dip modestly from June levels of 57.1 to 55.8 tied to COVID resurgence. And, once again, the Department of Labor will release latest Unemployment Claims for the week ended August 1 on Thursday - hopefully stabilizing after two weekly increases.

In addition, we move into the second half of the 2Q20 earnings season this week. Refinitiv reports that 82% of reporting S&P companies have delivered earnings above street expectations with the current outlook pointing to EPS being down 33% for the 2Q contrasting with initial expectations of a 40% plus decline. Among the many S&P companies reporting latest quarterly results this week, investors will focus in on management commentary regarding the outlook for 2H20 and 2021 from AIG, Becton Dickinson, Berkshire Hathaway, Bristol Myers, Clorox, CVS Health, MetLife, Sony, T-Mobile, Tyson Foods, Vulcan Materials, Walt Disney and Wayfair.

Look for choppy market conditions in 2H20 with stocks essentially moving sideways. August and September have historically been the toughest two-month stretch for stocks each year, with heightened volatility and weaker returns - likely to be accentuated with the Presidential election cycle this year. As we have previously written, market valuations appear full on a near term basis with the S&P 500 trading at 25.7x 2020 estimated earnings and 20.0x 2021 projections. We expect investors will key in on the July Jobs report - especially given most recent increases experienced in new Unemployment Claims filings. Any perceived disappointments could create selling pressure given the market's premium valuation. And, corporate management commentary regarding business trends and the outlook into 2021 will prove critical for individual issues as investors tune into 2Q20 earnings calls. Finally, we anticipate uncertainty could be on the rise as we head into the November elections especially if polls continue to show President Trump as trailing likely Democrat nominee Biden.

Still, we remain confident stimulus efforts already forthcoming from central banks around the globe along with fiscal programs initiated by many governments will ultimately produce a solid economic recovery once vaccines and or therapeutics to manage COVID-19 become broadly available into 1H21. As such, we continue to advocate scaling into select quality growth stocks possessing strong balance sheets, differentiated products and services remaining in demand, and, generating free cash flow supporting dividends.

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Dow Jones Industrials: The Dow Jones Industrial Average is an index of 30 "blue chip" stocks of U.S. "industrial" companies.

NASDAQ Composite: The Nasdaq-100 Index is a "modified capitalization-weighted" index designed to track the performance of a market consisting of the 100 largest and most actively traded non-financial domestic and international securities listed on The Nasdaq Stock Market, based on market capitalization.

VIX: The ticker symbol for the Chicago Board Options Exchange (CBOE) Volatility Index, which shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options.

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*Represents Bloomberg consensus estimates for earnings per share (EPS) for each respective fiscal year (FY). Price-to-earnings ratios (P/E) are denoted in the bottom row as a multiple of earnings per share or "x" - i.e. 20x represents "twenty times".

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