FUNDAMENTUM
INVESTMENT MANAGEMENT

Weekly Snapshot 9/21/20

Market Review: Week Ending 9/18

US stocks declined for the third consecutive week, as the S&P 500 Index fell 0.6% to a 6-week low of 3319[1]. The S&P has now lost 5.4% over the last 3 weeks while the Nasdaq Composite has fallen 7.7%, as many of 2020's best-performing Technology stocks have experienced profit-taking (Apple has declined 17% in September, though it is still up 45% YTD)[1]. While there are signs that the pace of the recovery has moderated (Retail Sales grew at a lesser rate in August vs. July and the weekly Unemployment Claims have been stuck in the 880k range[1]), we view the pullback in stocks as a necessary and healthy correction for a market that had shown signs of excess, rather than an economic event. In fact, cyclical sectors Industrials, Materials and Energy all gained more than 2% last week[1] despite the fall in the Index, an unlikely occurrence if investors feared the economy. In fact, investors appear to be buying cyclicals by rotating out of Technology throughout September. However, with the ongoing impasse in Congress for the extension of unemployment benefits, we would not rule out the risk of a weakening economy as consumer sentiment remains depressed (last week's University of Michigan's Consumer Sentiment Index reached a 6-month high of 78.4, though far below pre-Covid levels of +100[1]) and consumers relied heavily on these benefits to sustain spending in May-July. Chairmen's Powell's speech last week included a downbeat assessment of the recovery, though the Fed did lower their 2021 unemployment rate estimate and pledged to keep Fed Funds rate near zero until inflation is solidly above the desired 2% level, something not expected to occur until 2023. That assessment of the economy could be a factor in the slide in stocks, but credit spreads continued to fall after the speech[1], indicating the bond market isn't overly concerned about the economy (or inflation) in the coming months. Through the close Friday, year to date results for the major indices are as follows: S&P 500 4.2%, Russell 2000 -7.0%, MSCI EAFE –4.5% and Bloomberg Barclays Aggregate Bond 6.9%[2].

Stocks in the News

- ***Fedex -*** FDX announced banner Q2 results with residential shipments surging during the stay-at-home lockdown period. The stock is up 63% in 2020 as the company continues to ride the wave of online shopping that has only grown in popularity during the Covid-19 period, reaching 22% of all retail sales, up from 15% a year ago[1].
- ***Snowflake -*** Cloud data warehousing leader SNOW went public last week in the year's largest IPO. The stock closed up 112% on the first day, reaching a market valuation of $70b, 5x the value of the company in February during a private round of funding. Trading at a staggering 140x sales (not earnings), SNOW capitalized on the investor frenzy for technology disruptors that enable working-from-home with the timing of their public offering[1].
- ***Facebook/TikTok -*** Rumors surfaced that the Federal Trade Commission could be launching an antitrust lawsuit, adding to the ongoing scrutiny large-cap technology leaders have undergone in recent years. Along with President Trump's involvement in the acquisition of TikTok and the upcoming ban on the TikTok and WeChat apps, investors are reminded of the potential risks the Government presents to many of the largest Technology leaders[1].

What We Are Watching in the Week Ahead:

- ***Pace of the Economic Recovery*** - Journalists and Wall Street pundits are quick to use letters to describe any economic recovery. The letter being used to describe the current one is "K". This represents a segment of companies that benefit from a stay-at-home economy where housing is at a premium - large-cap technology disruptors, homebuilders, home-related retailers and manufacturers of home goods - while the other arm of the K represents the travel-related industries and many small businesses where jobs are expected to vanish, unable to cope with Covid-19 protocols and changing consumer behavior. This week's reports on *New and Existing Home Sales* along with the Federal Reserve's Q2 assessment of *Household Net Worth* will all measure the strength of the consumer, and are particularly important now that 7 weeks have passed since extended Federal unemployment benefits have lapsed.

Fundamentum Investment Committee

Chad Roope, CFA - Portfolio Manager
Paul Danes, CFA - Investment Committee
Trevor Forbes - Investment Committee
Matt Dunn, CFA – OSJ Supervisor

References: 1. FactSet 9/21/20, 2. Morningstar Direct 9/21/20