

May 4, 2020

OBSERVATIONS

- Covid-19: Global cases exceed 3.5 million (1.15million in the U.S.) and 247k deaths (67k deaths in the U.S.).
- New Gallup survey among individual investors show that 49% view equity investing as a bad idea today. During previous recessions that figure peaked at 62% (2007-2009), 64% (2001), and 68% (1990-1991).¹
- Jobless Claims (released 4/30) reached 3.8 million for the prior week, 6-week total now exceeds 30 million.¹
- New home sales have rebounded in recent weeks – in March, sales of newly built homes were down 85% from the prior year. April's modest rebound now has new homes sales down 65% from last year.²
- U.S. GDP declined -4.8% in the first quarter, below the -3.5% contraction expected by economists. The largest drag on the economy came from personal consumption of goods and service (roughly 68% of the economy). Consumption of goods declined -1.3%, while consumption of services declined -10.2%.³
- The FOMC kept short term rates at zero and “expects to maintain this target range until it is confident that the economy has weathered recent events.”
- The European Central Bank (ECB) continued to expand stimulus efforts, notably offering 3-year loans to banks with **interest rates as low as -1%, the lowest ever.**
- Most Asian markets were closed last Friday (1-May) and today (4-May) for Spring holidays (May Day & Golden Week). Several European markets were closed last Friday as well for May Day holidays.
- Warren Buffet's Berkshire Hathaway reported a Q1 cash position of \$137bn. Berkshire did not deploy any cash during the March stock market route, noting that they had not seen “anything that attractive”.

EXPECTATIONS

- S&P 500 dividend futures are pricing in a dividend of \$48 for 2020, or 1.70% based on current prices. Pre-crisis expectations were for of \$60, or a 2.15% dividend yield⁴, implying dividends to decline by 20% in 2020.
- For the two-week period April 13-27 high yield companies raised a combined \$28bn, the 4th largest 2-week total on record.⁵ The presence of the Federal Reserve's extraordinary monetary policies has helped, and should continue to help, thaw credit markets.
- S&P 500 up +12.8%⁶ in April, best month since 1987 and third best month post WWII. Expect sideways markets rather than further gains from here as markets grapple with uncertainty related to economic and fundamental data in coming weeks.
- On tap for the week: 55% of the S&P 500 has reported earnings and another 148 companies (29%) are due to report this week. Friday (8-May) brings the jobs report where forecasts are for a 16.1% unemployment rate – the highest since records began in 1948. Next month's (May) report could exceed 20% given the pace of continued job losses.

ONE MORE THOUGHT

We have noted in past that the top 5 companies by weight – Facebook, Apple, Microsoft, Alphabet, and Amazon (FAMAA) now account for a record 21%⁶ of the S&P 500. At a collective \$5tn in total market cap, FAMAA now exceeds several countries including the U.K. France, Germany, Canada, and India – to name a few. FAMAA has

¹ Gallup, *Stock Investment Lose Some Luster After COVID-19 Sell-Off*, April 24, 2020

² CNBC, *John Burns Real Estate Consulting*

³ BEA - *Gross Domestic Product, 1st Quarter 2020 (Advance Estimate)*, April 29, 2020

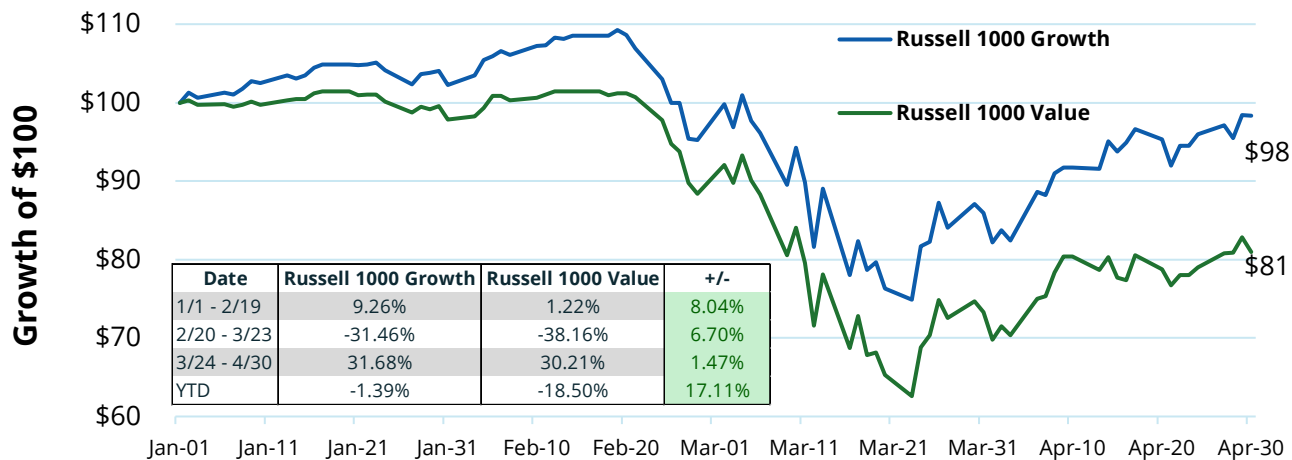
⁴ CME - *Globex, S&P 500 Annual Dividend Index Futures Quotes*

⁵ WSJ, *S&P Global Market Intelligence*, April 28, 2020

⁶ Bloomberg LP

played a remarkable role in bolstering performance of broad markets. From the beginning of 2019 thru April 30, 2020, FAMAAs have accounted for a whopping **47%**⁶ of gains registered by the S&P 500. From the March market lows, they have accounted for 20%⁶ of gains made by the S&P 500 – a sign that relatively broader participation is currently taking place as compared to the prior year. Apart from performance there are some other noteworthy contrasts. FAMAAs market cap exceeds the cumulative market cap of the bottom 350 companies in the S&P 500. These 350 companies represent all sectors of the economy and employ approximately 10 million people compared to the 1.25 million employed by FAMAAs⁷. All of this is to say that the concentration of the FAMAAs stocks reinforces a couple of things: (1) the role these companies have played in recent market performance has been significant and (2) there is an increased importance of getting a more broad based participation across a variety of sectors and companies in order for broad markets to meaningfully advance. FAMAAs accounting for only 20% of the market’s gains from the March lows might well be a start.

CHART OF THE WEEK



Source: Clearstead, Bloomberg LP, data as of April 30, 2020, Total Returns

Large cap growth stocks have led broad markets for several years, this year to date has been no different. Large cap growth (buoyed by tech and healthcare) outperformed large cap value leading up to, and including, the severe market declines seen in March.



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⁷ Bloomberg LP