

July 27, 2020

OBSERVATIONS

- Covid-19: U.S. passes 4 million cases. New CDC study shows that 35% of symptomatic adults, who tested positive for COVID-19, did not return to a normal healthy condition after 2-3 weeks of testing positive.¹
- KPMG estimates that the number of vehicle miles driven could decline by 140 billion to 270 billion miles per year. The number of cars per household could decline from today's 1.97cars to 1.87cars – implying 7 million to 14 million fewer cars needed in the U.S.²
- With record low mortgage rates, refinance applications jumped 5% from the prior week and are now 122% higher than one year ago.³
- *The Haves*: Existing homes sales increased 20.7% MoM in June – largest monthly gain on record (data dates back to 1968).⁴
- *The Have Nots*: In July, 36% of renters failed to make full on-time payments.⁴ Federal and local level moratoriums on evictions are expiring or near expiring adding pressure for tens of millions of Americans.
- Corporate insiders have been selling stocks at a ratio of 5-1 (selling-to-buying) – the third highest reading in the past 3 decades.⁵
- Filings for initial jobless claims came in at 1.416 million people, the first weekly increase in 15 weeks.³
- Tesla reported a quarterly profit, marking the 4th consecutive quarter of profits. The milestone makes Tesla eligible for inclusion into the widely followed S&P 500 (approximately \$11tn are benchmarked to the index).
 - As of 23-July, Tesla is the 15th largest company in the U.S. – based on market capitalization.³
- U.S. – China tensions ratchet up after Trump administration decision to close China's Houston consulate. China responds in kind, ordering the U.S. consulate in Chengdu to halt operations.

EXPECTATIONS – Busy week

- Federal unemployment benefits are set to expire at July month end. New coronavirus relief negotiations are likely to extend into late July as partisanship takes center stage. Estimates for new stimulus range from \$1tn from the Republican led Senate to \$3.5tn from the Democratic led House.³
- Earnings - for S&P 500 companies reporting earnings last week, 81% & 71% beat earnings and sales estimates, respectively. 192 S&P 500 companies are set to report this week (including Apple and Amazon).⁶
- Federal Reserve meets (28 & 29 – July) – no changes expected, first look at Q2 GDP (30-July).³

ONE MORE THOUGHT

"There seems to be an unwritten rule on Wall Street: If you don't understand it, then put your life savings into it." - Peter Lynch

These are quite extraordinary times and while the S&P 500 is near positive for the year, there are a number of fascinating observations occurring within markets as the combination of the pandemic and the subsequent fiscal and monetary response(s) have flooded markets with liquidity and speculation. A few notables that have passed our desks recently. **Winner take all.** The combined market capitalization of Apple, Microsoft, Amazon and Alphabet (\$5.97tn) now exceeds the entire Japanese market, which has a market capitalization of \$5.84tn (Japan is the world's

¹ https://www.cdc.gov/mmwr/volumes/69/wr/mm6930e1.htm?s_cid=mm6930e1_w

² "Automotive's new reality: Fewer trips, fewer miles, fewer cars?" KPMG

³ Bloomberg LP

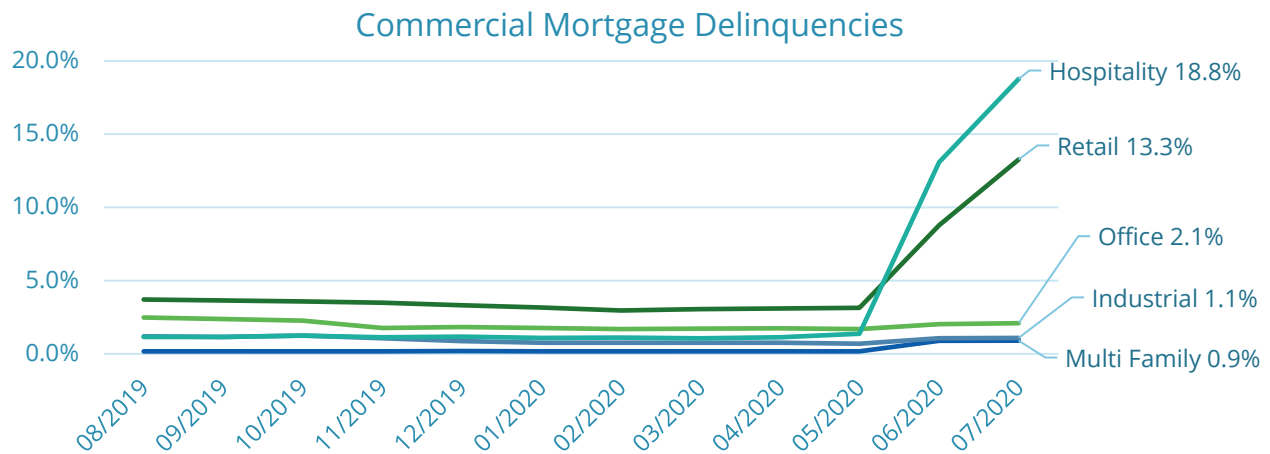
⁴ <https://www.apartmentlist.com/research/july-housing-payments>, Thehill.com, Urban Institute

⁵ Bloomberg LP, Washington Service

⁶ Factset, S&P 500 Earnings Season Update: July 24, 2020

3rd largest economy).⁷ Add in Facebook and Tesla and these 6 companies account for more than half the Nasdaq 100 index.³ **No profits, no problem.** Pre crisis nearly 40% of all small cap companies were unprofitable. From the March 23rd market lows, those unprofitable companies have gained, on average, nearly 80%, while profitable companies have seen their shares rise 47%.⁸ **The deep end is safe.** During its Q2 earnings release TD Ameritrade noted that it brought in a record 661k newly funded retail accounts with trading revenue at 4X last year's level. E-Trade has added 657k new accounts YTD and saw trading activity jump 267% in Q2.⁹ Robinhood's trading app has seen users grow from 10 million to 13 million this year alone – with a median age of 31 years¹⁰. These observations are seemingly at odds with the fundamentals of the economy, but we posit that this is simply the intersection of technology, capital markets, and excessive liquidity – the combination of which may produce and exacerbate speculation.

CHART OF THE WEEK



Source: Clearstead, Bloomberg LP, h/t VisualCapitalist.com, as of 21-July, 60+ days delinquencies

Of the hardest hit sectors in the economy, hospitality and retail companies are becoming increasingly delinquent in commercial mortgages as a result of tumbling occupancy rates and bankruptcies. Meanwhile, fiscal and monetary stimulus and has helped limit the impact in the multifamily, office and industrial sectors.



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⁷ Bloomberg LP, as of 20-July

⁸ Bloomberg LP, Small Cap = Russell 2000 Index, as of 21-July

⁹ Bloomberg LP, quarterly earnings release 21-July

¹⁰ CNBC, <https://www.cnbc.com/2020/06/17/robinhood-drives-retail-trading-renaissance-during-markets-wild-ride.html>