

August 10, 2020

OBSERVATIONS

- Covid-19: Cases exceed 5 million in the U.S., 3 million in Brazil, and 2 million in India. A new study of COVID-19 patients showed that 55% of study patients continued to exhibit neurological symptoms (e.g. smell and memory loss) 3 months later.¹
- U.S. manufacturing expanded at the fastest pace since March of 2019 and new orders increased to levels last seen in September of 2018.²
- Today, nearly 5 in 10 of all furloughed workers believe their temporary layoff will become permanent, this contrasts to 2 in 10 in April.³
- J.P. Morgan credit card data shows consumer spending has flatlined since June and remains 10% below 2019 levels. Creditcard.com survey showed that 62% of those with credit card debt would not be able to make minimum payments in the next 3 months if the pandemic continues.
- Perhaps benefitting from the increases in online retail: Class 8 truck orders (e.g. commercial tractor trailers) increased 29% MoM and is more than double one year ago levels.²
- Warren Buffet's Berkshire Hathaway bought back a record \$5.1bn worth of its stock in Q2 - Berkshire ended the period with a whopping **\$140bn** cash hoard.²
- July employment report²: payrolls increased by 1.76 million and the unemployment rate dropped to 10.2%. Job gains were led by the hospitality and leisure sector – adding 592k jobs. Adjusting for persistent data issues that have impacted the Labor Department's classification of a number of Americans as being employed (while they have in fact been unemployed), the unemployment rate would be 11.2%.
- China escalations: White House signs executive order banning Chinese owned social media apps TikTok and WeChat after 45 days – unless sold by their Chinese owned holding companies. Microsoft is in continued talks to acquire TikTok.

EXPECTATIONS

- As markets approach new highs and, in many cases, make new highs, we would note that August begins a seasonally tough 2 month stretch for the S&P 500. Post WWII, August and September have averaged near zero returns of +.10% and 0%, respectively.²
- St. Louis Federal Reserve notes that changes in employment appear to be related to spikes in COVID-19 across many states. There has been a strong negative correlation between cases per 100,000 people and changes in predicted employment (i.e. more cases = less hiring).⁴

ONE MORE THOUGHT – *Passive investing and active attributes*

In the event that Tesla were to be included into the S&P 500 it would rank as the largest company ever (market capitalization of \$277bn as of 5-Aug) to have been added to the S&P 500. Facebook set the current record – holding a \$120bn market cap at time of S&P 500 inclusion in 2013. It is estimated that Tesla would account for nearly .80%² of the S&P 500 if included at today's value, implying that S&P 500 index funds would need to acquire \$37bn⁵ of Tesla stock in order to maintain the indexes constitution (roughly \$4.6tn are currently in S&P 500 index

¹ [https://www.thelancet.com/journals/eclinm/article/PIIS2589-5370\(20\)30228-5/fulltext](https://www.thelancet.com/journals/eclinm/article/PIIS2589-5370(20)30228-5/fulltext), CBS Marketwatch

² Bloomberg LP

³ The Associated Press-NORC Center for Public Affairs, CNBC

⁴ <https://www.stlouisfed.org/on-the-economy/2020/august/recent-covid19-us-employment-slowdown>

⁵ Clearstead, .80%*4.6tn = 36.8bn

funds/products⁶). Of course, these funds would need to sell the equivalent of \$37bn in all other S&P 500 companies in order to generate the funds required to purchase Tesla stock for inclusion. We are not making judgments on the inclusion of Tesla were it to be included in the S&P 500, and in fact we view 'passive management' as an important tool for our clients. Rather, the inclusion is reflective of an important characteristic of index management – adding and removing companies such that the S&P 500 continues to be reflective of the overall economy. The turnover in the S&P 500 has averaged 4.2%, meaning in any year around 20 companies enter and exit the index⁷ – and turnover tends to be higher during times of crisis. Carry that forward and in 10 years, roughly half the index will be different. As for being removed from the index, this has generally been a function of M&A or decline in market capitalization⁸. All of this is to say, that while the magnitude of Tesla's addition is significant, a change here simply signifies the continued evolution of the index – as it has done for so many years in order to best reflect the largest and best companies in the economy.

CHART OF THE WEEK



Source: Clearstead, Company websites

These are a few of the well-known companies and brands that have filed for bankruptcy protection. Year-to-date over 160 companies have filed for either Chapter 7 or Chapter 11 bankruptcy (see 3rd page).⁹ There appear to be significant opportunities emerging in the distressed parts of the market as the crisis forces many companies into restructuring debt loads. *Clearstead will be focusing more on distressed investing in a future ClearPoint.*



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⁶ S&P Global, as of 31-July

⁷ "Corporate Longevity - Index Turnover and Corporate Performance." Credit Suisse, February 17, 2017

⁸ From 200-2016, 55% of S&P 500 removals stemmed from M&A, 32% from failure (declining market capitalization), and 12% from 'other'

⁹ Bloomberg LP, Chapter 11 and Chapter 7 filings for public and private companies with liabilities in excess of \$50 million as of 3-Aug

Announced Bankruptcies From 3/31/2020 thru 08/03/2020

Name	Industry	Name	Industry
RAVN AIR GROUP	Airlines	BRIGGS & STRATTON	Industrial Engines
SUPERIOR AIR CHARTER LLC	Airlines	ENDOLOGIX INC	Interventional Cardiology
TZEW HOLDCO LLC	Amusement & Theme Parks	CAPITAL ASSET MANAGEMENT LLC	Investment Companies
BROOKS BROTHERS GROUP INC	Apparel & Footwear - Online	IMH FINANCIAL CORP	Investment Holding Companies
CENTRIC BRANDS INC	Apparel Design	AVIANCA HOLDINGS SA-SPON ADR	Mainline Airline - Full Svc
CHINOS HOLDINGS INC	Apparel Design	GRUPO AEROMEXICO SAB DE CV	Mainline Airline - Full Svc
TRUE RELIGION APPAREL INC	Apparel Design	LATAM AIRLINES GROUP SA	Mainline Airline - Full Svc
JOHN VARVATOS ENTERPRISES IN	Apparel, Footwear & Acc Design	TAILORED BRANDS INC	Men's Clothing Stores
APC AUTOMOTIVE TECHNOLOGIES	Auto Parts	GRUPO FAMSA SAB-A	Mid-Tier Department Stores
HYT NORTH AMERICA INC	Auto Parts	J.C. PENNEY CO INC	Mid-Tier Department Stores
KPI HOLDINGS LLC	Base Metals	STAGE STORES INC	Mid-Tier Department Stores
GLOBAL ASSET RENTAL LLC	Beer & Ale Wholesalers	CINEMEX HOLDINGS USA INC	Movie Theaters
WAVE COMPUTING INC	Big Data Applications	BHF CHICAGO HOUSING GROUP B	Multi Asset Class Own & Develop
SPEEDCAST AMERICAS INC	Broadcasting Equipment	ULTRA PETROLEUM CORP	Natural Gas Production
GLOBAL EAGLE ENTERTAINMENT I	Cable Video Services	ROMAN CATHOLIC CHURCH FOR TH	Non-Profit Organization
RUBIE'S COSTUME CO INC	Clothing Accessories Stores	ROMAN CATHOLIC DIOCESE OF SY	Non-Profit Organization
RHINO RESOURCE PARTNERS LP	Coal - Surface & Underground	MUJI USA LTD	Office Supp & Stationery Stores
COMCAR INDUSTRIES INC	Commercial Veh Fin & Leasing	DIAMOND OFFSHORE DRILLING	Offshore Drilling
VIVUS INC	Comml Non-Profit Spec Pharma	BJ SERVICES LLC	Oil & Gas Services & Equip
AKORN INC	Comml Profitable Spec Pharm	VISTA PROPPANTS AND LOGISTIC	Oil Sands Production
CALIFORNIA RESOURCES CORP	Crude Oil & Natural Gas E&P	HORNBECK OFFSHORE SERVICES	Oil Services Ships
CHESAPEAKE ENERGY CORP	Crude Oil & Natural Gas E&P	HI-CRUSH INC	Oilfield Services & Equipment
EXTRACTION OIL & GAS INC	Crude Oil & Natural Gas E&P	COVIA HOLDINGS CORP	Other Chemicals & Minerals
UNIT CORP	Crude Oil & Natural Gas E&P	NORTHWEST CO LLC/THE	Other Household Textile Prods
WHITING PETROLEUM CORP	Crude Oil & Natural Gas E&P	OLD TIME POTTERY LLC	Other Spec Retail - Discr
DENBURY RESOURCES INC	Crude Oil Production	INTEGRAMED AMERICA INC	Outpatient Health Services
GAVILAN RESOURCES HOLDINGS L	Crude Oil Production	ADVANTAGE HOLDCO INC	Passenger Car Rental & Leasing
NOBLE DRILLING HOLDING LLC	Drilling & Drilling Support	HERTZ GLOBAL HOLDINGS INC	Passenger Vehicle Rental
SKILLSOFT CORP	Education Software	TECHNIPLAS LLC	Plastic Products
BRUIN E&P PARTNERS LLC	Exploration & Production	TONOPAH SOLAR ENERGY LLC	Plumb, Heating & A/C Contr
CHISHOLM OIL & GAS OPERATING	Exploration & Production	ALDRICH PUMP LLC	Power Boiler & Heat Exchangers
LILIS ENERGY INC	Exploration & Production	LONGVIEW INTERMEDIATE HOLDIN	Power Generation
ROSEHILL RESOURCES INC	Exploration & Production	NORTHEAST GAS GENERATION LLC	Power Generation
SABLE PERMIAN RESOURCES LLC	Exploration & Production	PERMICO MIDSTREAM PARTNERS H	Power Generation
TEMPLAR ENERGY LLC	Exploration & Production	LSC COMMUNICATIONS INC	Printing Services
METAL PARTNERS REBAR LLC	Fabricated Structural Metal	PROFESSIONAL FINANCIAL INVES	Real Estate Investments
CEC ENTERTAINMENT INC	Fast Food Restaurants	BILTMORE 24 INVESTORS SPE LL	Real Estate Services
NPC INTERNATIONAL INC	Fast Food Restaurants	CALIFORNIA PIZZA KITCHEN INC	Restaurants
24 HOUR HOLDINGS II LLC	Fitness & Recreation Centers	PQ NEW YORK INC	Restaurants
GGI HOLDINGS LLC	Fitness & Recreation Centers	INTELSAT SA	Satellite Telecom (exclude TV)
CONGOLEUM CORP-CL B	Flooring Products	JASON INDUSTRIES INC	Seating & Trim
MAINES PAPER & FOOD SERVICE	Food Products Wholesalers	REMINGTON OUTDOOR CO INC	Small Arms
LE TOTE INC	Formal Wear & Costume Rental	LUCKY BRAND DUNGAREES LLC	Specialty Apparel Stores
MATCHBOX FOOD GROUP LLC	Full Service Restaurants	ELEMENTAL PROCESSING LLC	Specialty Chemicals
PAPER STORE LLC/THE	Gift, Novelty & Souvenir Stores	LT SMILE CORP	Specialty Facilities
AAC HOLDINGS INC	Health Care Facilities	PERMIAN TANK & MANUFACTURING	Steel Producers
LVI INTERMEDIATE HOLDINGS IN	Health Care Services	MIDTOWN CAMPUS PROPERTIES LL	Student Housing Own & Develop
PROTEUS DIGITAL HEALTH INC	Health Care Software	MOOD MEDIA CORP	Technology Distributors
GNC HOLDINGS INC-CL A	Health Supplement Stores	PYXUS INTERNATIONAL INC	Tobacco Leaf
NEIMAN MARCUS GROUP LTD LLC	High-End Department Stores	LAKELAND FINANCE LLC	Travel Services
TUESDAY MORNING CORP	Home Furnishings Stores	EXIDE HOLDINGS INC	Vehicle Batteries
INTERACTIVE HEALTH SOLUTIONS	Home Health Care Services	INGENU INC	Wireless Telecom Equipment
QUORUM HEALTH CORP	Hospitals	FRONTIER COMMUNICATIONS CORP	Wireline Telecom Services
RE PALM SPRINGS II LLC	Hotel Owners & Developers	ASCENA RETAIL GROUP INC	Women's Clothing Stores
LIBBEY GLASS INC	Housewares	RTW RETAILWINDS INC	Women's Clothing Stores
SUR LA TABLE INC	Housewares	KLAUSNER LUMBER ONE LLC	Wood Preservation

Source: Bloomberg LP, Clearstead, as of 3-Aug, Chapter 7 and Chapter 11 filings for public and private companies with liabilities greater than \$50 million