

May 26, 2020

**OBSERVATIONS**

- Covid-19: U.S. biotech company Novavax announced Monday (25-May) that it has started Phase 1 clinical trials of a vaccine candidate with preliminary results expected in July. Global cases now exceed 5.4 million (1.66 million in the U.S.), with the global death toll nearing 345k (98k in the U.S.).
- Global equity markets responding positively after encouraging vaccination news. As of this writing the S&P 500 is +2%<sup>1</sup> and back above 3,000 (levels last seen in early March).
- Technology company Zoom's \$48.8bn market capitalization exceeds the aggregate market capitalizations of the 7 largest airlines. The market capitalization of the 7 largest airlines has fallen from \$121.30bn to \$46.214bn since Jan 31.<sup>2</sup>
- Investors behind Peet's Coffee are moving forward with a planned IPO, raising \$2.2bn. The IPO market has been relatively inactive - the value of IPOs has decreased -54% (in the U.S.) and -72% (in Europe) YTD.<sup>3</sup>
- The U.S. Treasury issued the 20-yr bond (20-May) for the first time since 1986. While there has been some speculation for 50-yr and 100-yr bond issuance, Treasury Secretary Mnuchin pushed back on the notion.
- Weekly unemployment claims increased 2.438 million, 9-week total now 38.6 million since the crisis began.<sup>1</sup>
- The U.K. issued debt with negative yields for the first time on 20-May. The 3-year government bond auction resulted with yields at a -.003% yield, a sign the government is getting paid to borrow.<sup>1</sup>
- Existing home sales declined -17.8% MoM in April, a 10-year low. Despite the decline in volumes, median prices increased +7% from a year ago, marking the 98<sup>th</sup> consecutive month of YoY price gains.<sup>4</sup>

**EXPECTATIONS**

- Walmart quarterly eCommerce sales grew by 74% YoY, while same store sales increased by 10%. The retailer has hired an additional 235,000 employees in the U.S. Walmart, like others, will suspend financial guidance for the remainder of 2020 (FY 2021) "due to unprecedented variability" in their business.<sup>5</sup>
- German Chancellor Merkel and French President Macron jointly proposed €500bn recovery fund - repayment would be the responsibility of the entire bloc. The fund would primarily benefit the hardest hit countries and brings closer the long-resisted prospect of fiscal union.
- Oil continues its rebound, with WTI now trading above \$33/bbl - levels last seen pre pandemic.<sup>1</sup>
- The COVID-19 pandemic has increased the pace of automation and technology as companies adapt to social distancing, health, and efficiencies - Gap stores is tripling its army of item picking robots for its warehouses to 106. Each robot can handle the workload of 4 people.
- Protests in Hong Kong followed Beijing's plan to introduce new national security laws aimed at controlling Hong Kong. The proposed laws may impact Hong Kong's special trading privileges with the U.S. - furthering the political divide between the two countries.

**ONE MORE THOUGHT**

The U.S. Senate passed the Holding Foreign Companies Accountable Act last week, which puts some additional transparency and auditing requirements for emerging market companies, including Chinese companies, that list

<sup>1</sup> Bloomberg LP

<sup>2</sup> Visualcapitalist.com, data as of 15-May

<sup>3</sup> WSJ, Dealogic

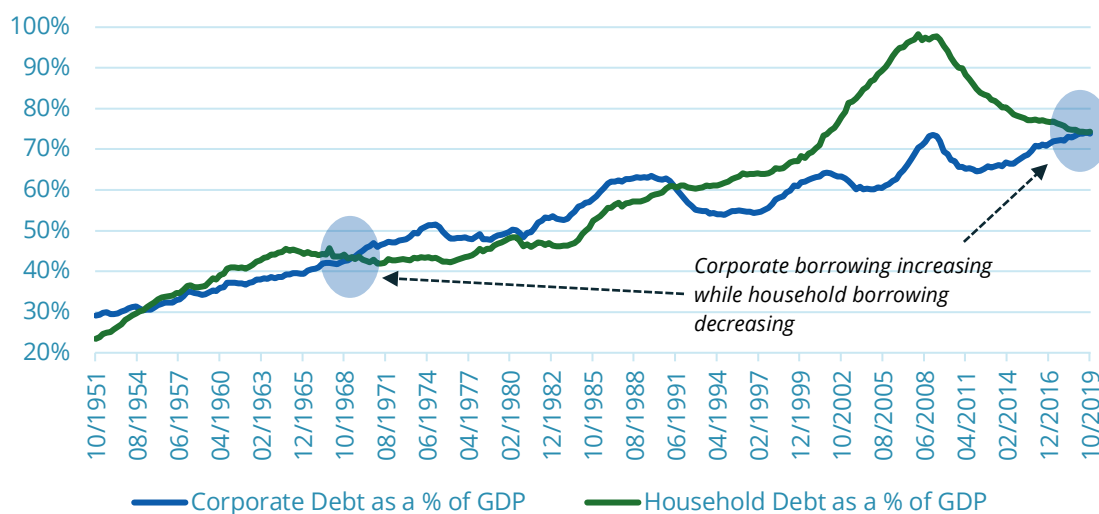
<sup>4</sup> CNN.com, Barron's

<sup>5</sup> Walmart Q1 FY 2021 earnings release

ADRs (American Depositary Receipts) on any US stock exchange. The act is likely to be taken up by the U.S. House this week and could become law during the summer. The most significant provision of this law requires Chinese firms with listed ADRs to comply with the Public Company Accounting Oversight Board's (PCAOB) audits for three years in a row. This has caused some market watchers to wonder if this act will result in the eventual delisting of prominent Chinese firms like Alibaba, Tencent, or Baidu. However, given that approximately 90% of the Chinese firms listed in the US are currently being audited by a big-four U.S. accounting firm, the need to comply with PCAOB audits should be an easy hurdle to cross. Emerging market companies, that currently do not use a U.S./globally established accounting firm, would have three years to comply with the pending U.S. law(s). Clearstead is actively monitoring these developments and their potential impact on global capital markets, but at present the likelihood of US authorities de-listing prominent Chinese companies remains low.

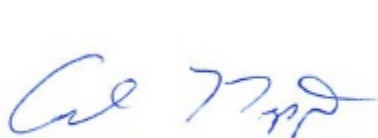
### CHART OF THE WEEK

#### Corporate and Household Debt as a % of GDP



Source: Clearstead, Board of Governors of the Federal Reserve System (US), Nonfinancial Business; Debt Securities and Loans; Liability, Level [TBSDODNS], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/TBSDODNS>, May 19, 2020.

Since peaking at nearly 100% of GDP during the financial crisis, household debt has steadily declined for over a decade. Corporate borrowings, on the other hand, have been on the increase following the great financial crisis.



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