

August 17, 2020

OBSERVATIONS

- Covid-19: In light of news related to Russia's vaccine development progress, a summary of developments related to the CARES Act funded Operation Warp Speed can be found on page 3.
- One mega company vs. 2000 small ones: Apple's \$1.97 trillion market capitalization is now equivalent to 87% of the entire Russell 2000 small cap index (market capitalization of \$2.26tn).¹
- New biotechnology initial public offerings (IPOs) have raised nearly \$9.5bn this year, while existing biotech companies have raised an additional \$32bn in follow on offerings – both are records.²
- A new record low in the junk bond market: Ball Corp raised \$1bn in the high yield market at a record low 2.875% coupon.³
- Modest uptick in year-over-year inflation: CPI (ex. Food and energy) rose to 1.6% YoY, above the 1.1% expectations.³
- Marked change in Main Street psychology: 64% of small business owners confident they can survive under current conditions – almost double the number from April.⁴
- The S&P 500 closed within 6 points (0.2%) on 12-Aug of the pre-pandemic closing record of 3,386.15, which occurred on 19-Feb. The index now stands +5.65% YTD and +51.86% from the March lows.¹
- 963k Americans filed first time claims for unemployment benefits – the first time below 1million since 13-Mar. Some of the decline from prior week(s) might be attributed to the expiration of the Federal unemployment benefit making filing less attractive.³

EXPECTATIONS

- Another of the unforeseen repercussions of the pandemic, coinage is in significant demand and continued headlines of coin shortages (or lack of coins in circulation) likely to result in expediting cashless transactions. In sum, 26% of all consumer transactions are cash based. Nearly 47% of all transactions under \$10 are conducted using cash.⁵ Exchange your coins at the bank! *But hang on to dimes and quarters that were minted prior to 1964, those have 90% silver content.*⁶
- Still no progress made in D.C. on the next round of stimulus – stalled negotiation now likely to persist into September as the Senate adjourns through Labor Day. Meanwhile the legality and clarity of recent White House executive orders on stimulus measures are being called into question.
- Democratic presidential candidate Joe Biden tapped California Senator Kamala Harris as his running mate. Biden and Harris will formally accept the nominations at the Democratic Convention, which kicks-off on Tuesday August 18, 2020.

ONE MORE THOUGHT *Cutting to prosperity – maybe, maybe not.*

The 82% of companies beating analysts' earnings estimates in Q2 ranked as an all-time high (see chart of the week). However, fewer (around 65%) of companies beat revenue expectations. Reported earnings were over 22% higher than estimates. In terms of sales, reported revenues were only 1.6% above estimates – highlighting a couple of

¹ Bloomberg LP, as of 14-Aug

² WSJ, Dealogic data from 1995-present, as of 8-Aug

³ Bloomberg LP

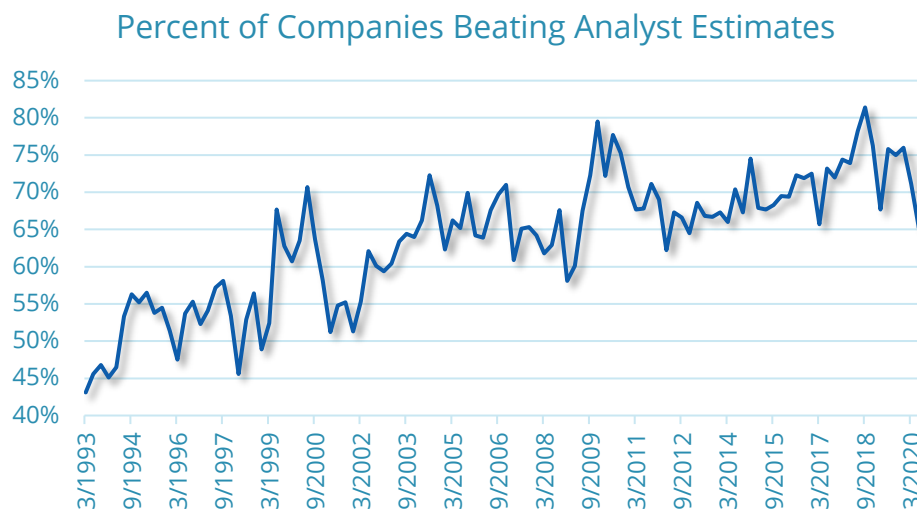
⁴ Q3 CNBC | SurveyMonkey Small Business Survey

⁵ "2020 Findings from the Diary of Consumer Payment Choice", Kim, Kumar, O'Brien, Federal Reserve Bank of San Francisco July 31, 2020

⁶ Coinflation.com

things.⁷ First, the lack of visibility and guidance from corporate America or by analysts. Second, the extraordinary extent to which corporate America has embarked on cost cutting initiatives (people, travel, real estate etc.) given the uncertainty of the pandemic. Whether in the name of operating leverage or simply survival, the response has benefited shareholders, in the near term at least. However, one study⁸ in particular looked at a sample of recessions and evaluated 4,700 public companies' performance 3 years prior to recession, during recession, and 3 years after recession. The result? "Companies that focus on cutting costs and cut costs faster than the competition don't necessarily flourish when the recession ends."⁹ Researchers found that only 21% of these companies fared better than competition when times got better. Granted this is unlike prior recessions but we suspect the same will hold true when examined 3 years from now.

CHART OF THE WEEK



Source: Bloomberg LP, Clearstead, data as of 11-August

With over 90% of the S&P 500 having reported Q2 earnings, the percentage of companies beating analysts' estimates is at an all-time high – nearly 82%.



Carl Tippit, CFA
Head of Investments
Clearstead



Aneet Deshpande, CFA
Chief Strategist
Clearstead

Information provided in this article is general in nature, is provided for informational purposes only, and should not be construed as investment advice. These materials do not constitute an offer or recommendation to buy or sell securities. The views expressed by the author are based upon the data available at the time the article was written. Any such views are subject to change at any time based on market or other conditions. Clearstead disclaims any liability for any direct or incidental loss incurred by applying any of the information in this article. All investment decisions must be evaluated as to whether it is consistent with your investment objectives, risk tolerance, and financial situation. You should consult with an investment professional before making any investment decision. Performance data shown represents past performance. Past performance is not indicative of future results. Current performance data may be lower or higher than the performance data presented.

⁷ Factset Earnings Insight, Bloomberg LP, CNBC.com

⁸ "Roaring Out of Recession." Gulati, Nohria, & Wohlgezogen, Harvard Business Review, March 2010

⁹ <https://www.businesstoday.in/magazine/cover-story/ranjay-gulati-on-companies-cutting-costs-amid-slowdown/story/201818.html>

Operation Warp Speed¹⁰

In partnership with the HHS, CDC, FDA, NIH, BARDA, DoD⁹ and private enterprise with a goal to deliver 300 million vaccinations by January 2021. Focusing on development, manufacturing, and distribution, progress can be seen below.

- (A) 14 candidates chosen from 100+ candidates in development.
- (B) 14 to be narrowed to the most promising 7 candidates across a range of technologies.
- (C) Randomized trials for the most promising candidates.

	Development	Manufacturing	Distribution
March 2020	HHS announced \$456 million for Johnson & Johnson vaccine candidate.		
April 2020	HHS announced up to \$483 million for Moderna's vaccine candidate. An additional \$472 million of support followed in July.		
May 2020	HHS announced up to \$1.2 billion in support of AstraZeneca and University of Oxford's joint vaccine development.	Development agreements with AstraZeneca, Moderna, and Johnson & Johnson to include investments for manufacturing capabilities.	DoD and HHS announce \$138 million contract with Apjject for 100 million prefilled syringes across the U.S. by YE 2020.
June 2020		HHS announced task order with Emergent BioSolutions to advance domestic manufacturing capacity - investments made up to \$628 million.	DoD and HHS announce \$204 million to Corning for expanded manufacturing to produce 164 million Valor Glass vials per year (as needed). HHS also announced \$143 million to SiO2 Materials Science to produce up to 120 million (per year, as needed) of the company's glass-coated plastic container.
July 2020	HHS announced: \$450 million in support of Regeneron's anti-viral antibody treatment, \$1.6 billion to support Novavax vaccine candidate, \$1.95 billion to Pfizer to support vaccine candidate, \$2 billion to support GlaxoSmithKline and Sanofi joint investigative adjuvanted vaccine.	HHS announced task order with Texas A&M and FUJIFILM to advance domestic manufacturing capabilities - investments made up to \$265 million.	
August 2020	HHS announced \$1 billion in support for Johnson & Johnson vaccine candidate and \$1.5 billion to Moderna vaccine candidate.	HHS announced Grand River Aseptic Manufacturing Inc. awarded \$160 million for manufacturing capacity.	

¹⁰ Health and Human Services (HHS), <https://www.hhs.gov/coronavirus/explaining-operation-warp-speed/index.html>

⁹HHS= Human and Health Services, CDC - Center for Disease Control and Prevention, FDA = Food and Drug Administration, NIH - National Institute for Health, BARDA = Biomedical Advanced Research and Development Authority, DoD = Department of Defense