THE WEEKLY NOTE

A market commentary.

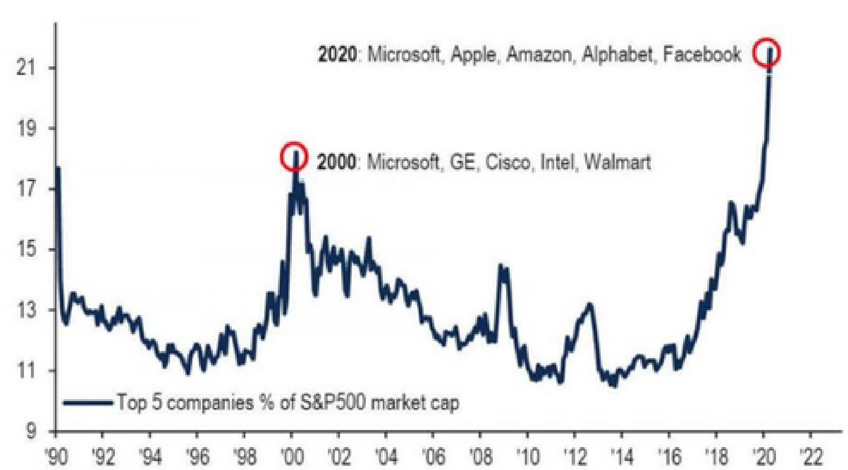
VIZIONARY WEALTH MANAGEMENT

TECH TITANS SUPPORT REST OF THE MARKET

Monday, May 4th, 2020

Microsoft, Apple, Amazon, Facebook & Alphabet (Google) account for over 20% of the S&P 500's weighting. These 5 companies have become a disproportionate weight in the index, which is why their results and commentary were justifiably put under the microscope last week. Luckily, all five had healthy balance sheets flush with cash and low debt coming into this crisis. Their stability may be one reason why the overall market seems to be brushing off the terrible economic news and also why these companies have been able to actually gain market cap share amidst the market selloff.

Chart 2: S&P500 now more concentrated in the 5 largest stocks than ever



Source: BofA Global Investment Strategy, Bloomberg

Their first quarter earnings were, for the most part, better than expected. Despite better than expected revenue and earnings, Apple opted to pull guidance* for the upcoming quarter amidst the uncertainty, a trend that has become more popular in recent weeks. In fact, less than 10% of companies in the S&P 500 have chosen to issue guidance for the second quarter.

The five tech leaders are benefiting from very strong balance sheets (high cash, low debt), high profitability, and resilient revenue. It is the companies that had more cyclical revenue, high debt levels and low profitability that have fared the worst in recent months. Several companies have had to file for bankruptcy protection in recent weeks, including Diamond Offshore Drilling, Frontier Communications, J. Crew & Pier 1 Imports, to name a few.

It could have been worse but there has been an unprecedented amount of corporate debt issued in March and April to buy companies time. Supported by the Federal Reserve's bond market intervention, investment grade issuance totaled **a record $235 billion in March and over $200 billion in April.** Even junk bond issuance bounced back in recent weeks as the market gained a footing, helping the most troubled companies.

Many companies are also opting to cut or cancel their dividend payments altogether, a risk for those companies that retained shareholders principally for their dividend payment. According to S&P Global Intelligence, 83 companies have suspended or cancelled their dividends in 2020, the highest number going back to 2001. **Only 55 companies had done so over the past ten years.** A further 142 companies have lowered their dividend payment, the highest total since 2009. As is the case for most crises, the weak companies become casualties and the strong become stronger. Balance sheet quality will continue to be paramount in the months to come.

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