



**MEDALLION**  
WEALTH MANAGEMENT

**September 2020 Market Commentary**

**Winner Takes It All**



*The gods may throw a dice  
Their minds as cold as ice  
And someone way down here  
Loses someone dear  
The winner takes it all  
The loser has to fall*

By ABBA - <https://www.youtube.com/watch?v=92cwKCU8Z5c>

Before you say anything, I'm not an ABBA fan (not that there's anything wrong with that) but living in a house with three females Mamma Mia seems to play on a loop, so every now and then you can't help but get an earworm. And nothing seems to describe today's equity market and economy better than "***The Winner Takes It All***" and "***The Loser Has To Fall***".

Covid-19 has been an economic accelerant; trends that were gradually occurring naturally have now been thrown into hyper-drive. For many years now corporations and individuals were moving more and more of their lives online and into the cloud. Automation was accelerating, remote learning was increasing, and online entertainment and shopping were growing. What Covid-19 did was accelerate those trends by at least five to ten years.

We've known for years that Apple, Microsoft, Amazon, Google, Facebook, Netflix, etc. were taking market share from entrenched companies, but Covid-19 really showed

us the extent of this revolution. The table below shows the top two companies in each sector of the S&P 500, it's weighting in the S&P 500 as well as it's weighting in their respective sectors.

**S&P 500 Sectors and Sector Winners as of 8/26/20**

	<b>Percent of S&amp;P 500</b>	<b>Percent of Sector</b>
<b>Info Technology</b>	<b>28.51%</b>	
Apple	7.17%	25.11%
Microsoft	5.83%	20.42%
<b>Health Care</b>	<b>13.88%</b>	
Johnson & Johnson	1.40%	10.05%
United Health Care	1.02%	7.33%
<b>Consumer Discretionary</b>	<b>11.51%</b>	
Amazon	5.01%	24.75%
Home Depot	1.09%	12.63%
<b>Communication Services</b>	<b>11.33%</b>	
Alphabet (Google)	3.39%	22.59%
Facebook	2.54%	24.62%
<b>Financials</b>	<b>9.59%</b>	
Berkshire Hathaway	1.45%	15.10%
JPMorgan Chase	1.05%	10.92%
<b>Industrials</b>	<b>8.04%</b>	
Union Pacific	0.46%	5.72%
United Parcel Service	0.39%	4.93%
<b>Consumer Staples</b>	<b>6.85%</b>	
Procter & Gamble	1.19%	17.41%
PepsiCo	0.67%	9.76%
<b>Utilities</b>	<b>2.83%</b>	
NextEra Energy	0.48%	16.79%
Dominion Energy	0.23%	8.06%
<b>Real Estate Inv. Trusts</b>	<b>2.60%</b>	
American Tower	0.38%	14.65%
Prologis	0.26%	9.99%
<b>Materials</b>	<b>2.52%</b>	
Linde PLC	0.46%	18.29%
Air Products & Chemicals	0.22%	8.94%
<b>Energy</b>	<b>2.34%</b>	
Exxon Mobil	0.59%	23.53%
Chevron	0.55%	21.75%

Apple, Microsoft, and Amazon have become behemoths. Technology is nearly 30% of the S&P 500 and Apple and Microsoft account for nearly half of that weighting. Berkshire Hathaway is the largest Financial but a quarter of its value can be attributed to its ownership of Apple stock!

Amazon is in Consumer Discretionary and accounts for 25% of that sector, with Home Depot at a distant number two. Tesla, which isn't even in the S&P yet, will probably be added over the next month. When it does it will be the seventh largest company with a market capitalization of \$400 billion and a weight of 1.40%, it will displace Home Depot as the number two in Consumer Discretionary, and will account for about 16.50% of that sector.

The big haven't just gotten bigger, they've gotten HUGE. The top 34 stocks in the S&P 500 now account for 50% of the index's value, leaving the other 50% to the remaining 466 companies. Here's an example; a media conglomerate like ViacomCBS used to be an industry leader, today it is only 0.05% of the S&P 500. In a calm day of trading their new media competitors, Amazon, Netflix, Google, or Apple could see their market-cap weight in the S&P 500 fluctuate by 0.05%. In other words these stocks move more in a day than what ViacomCBS is worth!

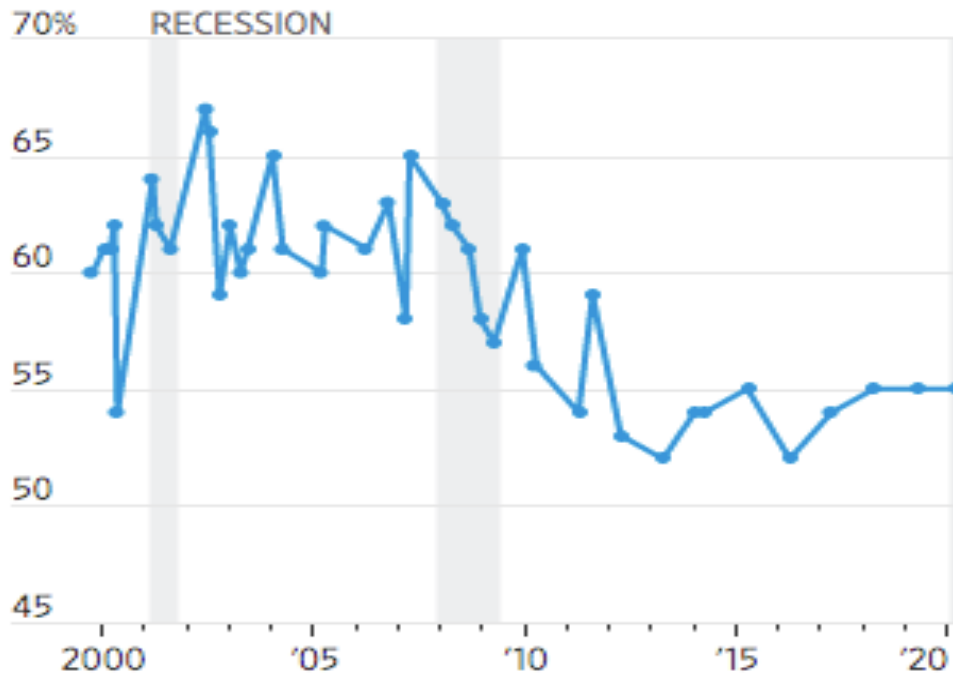
There is a good reason why these winners continue to see their market capitalization grow, it's because their revenue and earnings are growing much faster than others. In fact, during this pandemic they have all seen their revenues and earnings accelerate. We may be in a recession, but for these companies we are in a boom.

Capitalism requires winners and losers, but the gap forming today seems to be more of a yawning void. Covid-19 has accelerated the collapse in revenues of the losers while also accelerating the surge in revenues to the winners. Add to this the Federal Reserves "zero interest rates forever" policy and it's easy to see why.

Everyone loves a winner, especially newer investors looking to join the game. While many new investors have been gravitating towards owning (or trading) these winners, unfortunately many Americans have not participated in the markets relentless climb to new highs. As the chart below shows, over the last twenty years the percentage of Americans invested in the stock market has dropped to just 55%.

## Losing Share

The percentage of Americans saying they own stocks has fallen since the 2008 financial crisis.



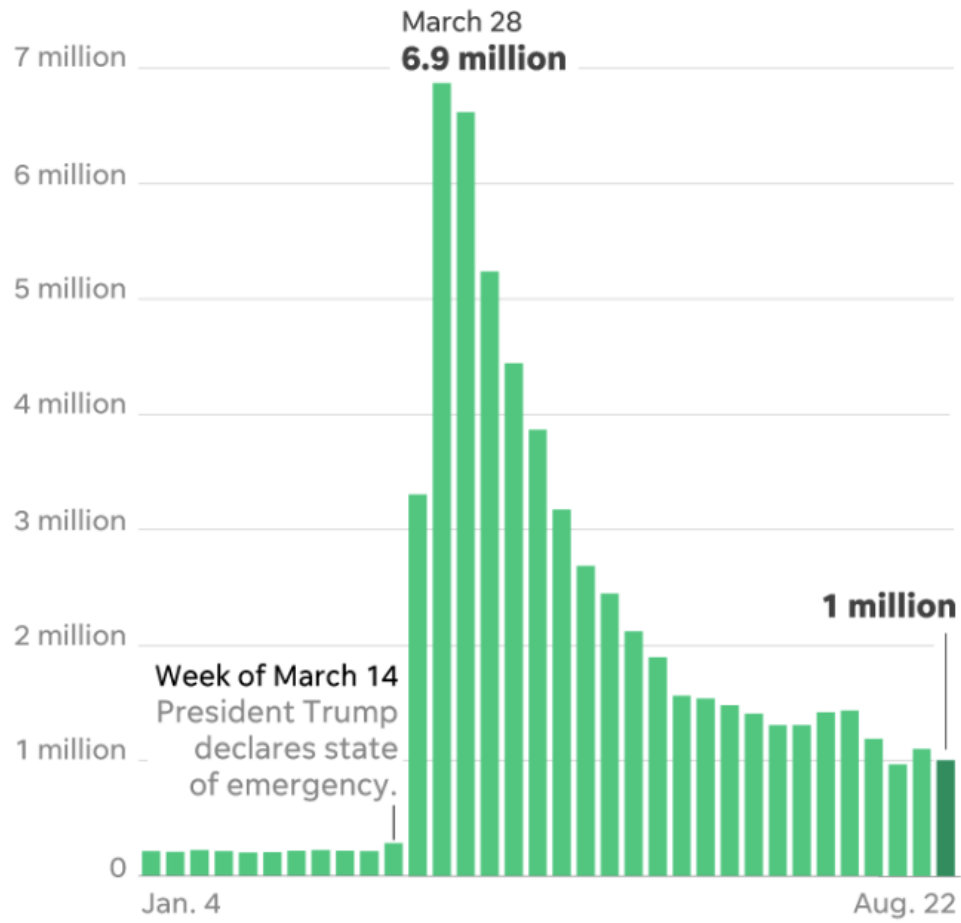
Source: Gallup telephone polls, most recent of 2,027 adults conducted March 13–20 and April 1–4; margin of error:  $\pm 3$  percentage points

This is the other void developing. Just like the stock market, the Covid-19 pandemic has also accelerated the widening gap between rich and poor. Since this recession started in March 58 million people have filed for unemployment for the first time, which far exceeds any period since the 1930's Great Depression.

Prior to the pandemic numerous survey's indicated that more than 70% of American workers were living paycheck-to-paycheck, without the ability to save. Today it is more likely to be benefit check-to-benefit check.

## In 23 weeks, 58 million workers filed for unemployment; jobless claims decline, but still more than 1 million

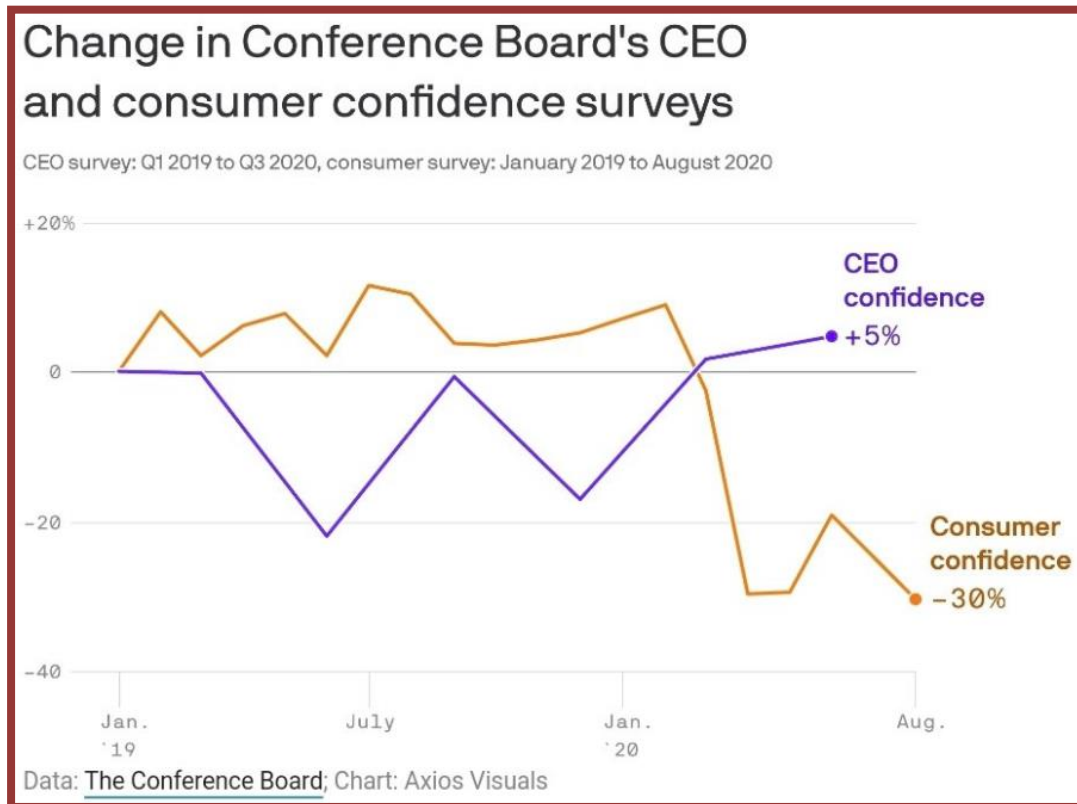
Jobless claims for the week ending:



SOURCE Department of Labor  
George Petras/USA TODAY

There has been much talk about what shape this recovery will be. Will it be a sharp V, a W, or a Nike Swoosh? Lately, another more troubling letter has emerged, the K recovery. In a K recovery the winners are on the arm, they can work from home, they can buy homes at record low interest rates, and they see their investment portfolios rise to record highs. Unfortunately the arm of the K is being supported by the leg of the K. The individuals and companies that are clearly losing ground during this pandemic.

The chart below graphically shows this K formation. CEO confidence has bounced while Consumer Confidence continues to slide. CEO's confidence has improved now that they have plans in place for how they are going to cut jobs and spending while restricting wage growth. In other words, in order for the arm's confidence to be sustained and grow they must push the leg further down.



I really want to be optimistic, I want to believe that treatments and vaccines will shortly make Covid-19 just another flu that we barely worry about. But as a risk manager I can't help but think about the long-term damage that has transpired in the last several months. How much damage has been done to our capitalistic ideals and will increased civil unrest be lasting in nature?

From an investment perspective our portfolios continue to be tilted to the growth oriented winners on the equity front. We realize that many of these stocks look stretched from a valuation perspective, but many of the value alternatives are seriously struggling fundamentally. On the fixed income front we are looking for ways to achieve some yield in this zero rate world. That generally means carefully moving down in credit quality but focusing on those companies that are taking advantage of low rates to refinance some of their higher cost debt.

***“The winner takes it all  
The loser has to fall  
It’s simple and it’s plain  
Why should I complain”***

Be careful out there,

Chris Wiles



*Where Trust is Earned*

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