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Market Observations: Seems A Bit Topy

- **Economic Data:** The number of people applying for unemployment benefits fell below 1 million last week for the first time in five months. The number is still historically high. The pre-pandemic record for weekly jobless claims was just shy of 700,000 BUT it's the second week in a row that jobless claims have dropped significantly after plateauing between 1.3 and 1.8 million for weeks.
- **Earnings Scorecard:** In terms of Q2 earnings, the percentage of companies reporting actual EPS above estimates (83%) is above the five-year average. If ~83% is the final percentage for the quarter, it will mark the highest percentage of S&P 500 companies reporting a positive EPS surprise since FactSet began tracking this metric in 2008.
- **Market Performance:** The S&P 500 index is trading at/near all-time highs which is remarkable given the massive sell off back in March and subsequent economic headwinds. Not to be ignored though is the overwhelming influence that stocks like Apple, Amazon, Facebook and Microsoft have on the index.
- **Valuation:** A majority of companies suspended buybacks in Q1 (falling to just \$30bn on net in Q2, down from \$175bn in Q1). In Q2, however, a number of companies have resumed buybacks or at least indicated that they may do so opportunistically.
- **SEC:** On July 10, the commission said it wanted to raise the threshold for filing the 13-F quarterly disclosure form, which is mandatory for investors who manage over \$100 million, to \$3.5 billion. The S.E.C. says this would eliminate about 90 percent of all 13-F filings. This proposal has been met with significant support and opposition from institutional and retail investors respectively.

Fund Flows and Investor Sentiment: Return Of The SPAC!

- Asset flows have followed some consistent patterns since the market's turmoil in February and March 2020. Investors continue to **look toward taxable-bond funds while turning away from U.S. equity** and international-equity strategies.
- There have been 107 IPOs priced, raising nearly \$36 billion year-to-date. **The Renaissance IPO index has returned approximately 40% more than the S&P 500 YTD.**
- Of particular note is the **abundance of SPAC new listings** which have received impressive levels of investor demand, including from retail.
- For our readers who are less familiar with this product, **Special Purpose Acquisition Companies (SPAC)** possess no initial assets or operations and raise capital through an IPO. The IPO proceeds are held in a trust for up to a defined period of time for the purpose of acquiring a private business, known as the "De-SPAC Transaction".
- Otherwise known as "blank check" companies, SPACs usually feature well known financial and industry professionals as the Sponsor(s) with a focus on a specific sector or acquisition type.
- **SPAC activity in 2020 has already exceeded 2019 levels**, which itself was a record-breaking year for total capital raised.
- The previous wave of SPAC offerings in the mid to late 2000s was a tale of few winners and several losers as more than most were unwound at the maturity date. This recent batch of highly valued stocks will certainly factor greatly in the M&A market as it begins to open back up in the U.S. Fortunately for the shareholders, they do have some control over the deal's consummation.