THE DANA VIEWPOINT

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Dow: 25,548

A Tour of the S&P 500

Like most aspects of life since the outbreak of COVID-19, this Memorial Day weekend was unlike those in the past. The majority of us did not travel, swim or go to the beach, cook out with friends, or hug our parents or grandparents. Our entire investment team looks forward to a time that they can analyze business prospects and make investment decisions without considering the far-reaching effects of the virus on society. There is still much that we don't know about the virus even as case levels plateau and decline in many areas of the country that were hit the hardest. We are moving into a phase where government directives will play a smaller role in the fight against the virus, and personal decisions and responsibility will play a larger role. As more people are free to interact and resume their normal schedule, will they do so, or will behaviors and economic decisions be altered for a long period of time? As we move into this next phase, just because we are free to do more, it does not mean we will. Nevertheless, we are creatures of habit; we just don't know if most will resume their old habits or the new habits molded by COVID-19.

Since travel is limited, let's take a virtual tour of the S&P 500 index. Many clients have asked us how the index can be down less than 9% this year through May 22nd when the total number of Americans receiving unemployment benefits has gone from two million to twenty five million in less than three months and the unemployment rate has reached 14.7% and could hit 20% in May. The S&P 500 is a capitalization weighted index; the largest companies by market capitalization, or total value of common stock outstanding, comprise the largest segment of the index. The five largest companies, Microsoft, Apple, Amazon, Google, and Facebook, make up about 20.6% of the index. The smallest 350 companies also make up 20.6% of the index. The largest companies have generally fared best during this crisis, and many smaller companies have fared worst.

If we look at the twenty-four industry groups that make up the index, it becomes easier to see how COVID-19 has affected some segments of the market far more than others. The three largest industry groups are software and services, media and entertainment, and pharmaceuticals and life sciences. These three groups comprise almost one-third of the index by market capitalization, and all three groups have positive performance for the year to date period. The fourth largest group is retailing. Most perceive retailing as one of the sectors that has suffered most since March, but the three largest companies in this group are Amazon, Home Depot, and Lowes, and all are up for the year. These companies and industry groups could be labeled the "haves."

The energy group, which includes Exxon, Chevron, and ConocoPhillips, and represents less than 3% of the S&P 500 index, is one of the "have nots." Real estate has also suffered, but that industry group also represents

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less than 3% of the index. The transportation group includes both trucking companies and airlines, but is less than 1.7% of the index. Hotels, restaurants, and cruise lines represent one of the hardest hit groups, but that group also makes up less than 1.7% of the index. These four groups contain most of the companies that were most harmed by the COVID-19 outbreak, but they represent less than 10% of the S&P 500 index.

Another way to understand the dichotomy of the haves and have nots is to compare the S&P 500 capitalization weighted index with the equal weighted index. Year to date, the commonly cited cap weighted index is down about 8%, while the equal weighted index is down almost 16%. Only about one-third of the individual stocks in the index are up more than the overall index. Over half of the companies in the index are down more than 16%, so if you chose stocks by throwing darts at a list of the companies in the index, you would most likely be disappointed with their performance this year. Another way to understand the performance differential due to size is to look at Ford and General Motors. They are perceived to be large companies when viewed in terms of their revenue or number of employees. Apple and Microsoft are each 23 times larger than Ford and General Motors combined when measured by market capitalization.

The fixed income markets have continued their measured recovery since the end of March. The yields on mortgages, municipal bonds, and corporates are as attractive as they have been in years when compared to Treasuries. It is likely that the Federal Reserve will keep rates low again for an extended period of time, but as markets stabilize, there is room for yields on many fixed income securities to fall and total returns in this area of the market should still be positive for the year and higher than the current yields. Over the last few weeks, even lower-rated companies have been able to issue new securities at higher yield levels, and these bonds have also typically increased in price in the secondary market. These bond issues have also helped to strengthen company balance sheets without the issuance of dilutive common equity shares.

The markets are said to be forward looking. We believe that is true, and we hope that the higher market levels of the last two months portend a successful recovery from the trauma and uncertainty of this spring.

We hope you all continue to stay safe and healthy.

Random thought: "How very little can be done under the spirit of fear"

-Florence Nightingale

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DANA Investment Advisors

Supporting our Front Line Workers

Now more than ever, Dana believes it's important to give back. This past month, we wanted to do something to assist those helping our most vulnerable through these uncertain times. Our employees raised funds and partnered with a local manufacturer to secure personal protection equipment for those on the front lines. We donated more than 1,300 shields to local hospitals, nursing homes, and law enforcement agencies defending against the coronavirus.