**Indiscriminate Selling**

Last week was ugly. The S&P 500 Index has declined 12.76% from its highs literally seven trading days ago (February 20th). Other than cash, gold, a handful of biotech companies with promising Coronavirus vaccines (like Moderna Inc.) and video conferencing companies (like Zoom Video Inc.), there was virtually nowhere to hide.

We would argue the selling was indiscriminate. Globally, investors were in total "risk off" mode. Even Bitcoin is down 10% since February 20th.

To find out whether the sell-off was indiscriminate, we looked at the performance of 10 random companies in the S&P 500 Index. Below is the performance of the 1st, 50th, 100th, 150th, 200th, 250th, 300th, 350th, 400th, 450th, and 500th largest company in the index since February 20th, 2020 through today.

| | | |
|---|---|---|
| 1st | Microsoft | -13.49% |
| 50th | Thermo Fisher Scientific | -14.41% |
| 100th | Intuitive Surgical | -13.16% |
| 150th | Analog Devices Inc | -11.98% |
| 200th | Zimmer Biomet Holdings | -14.92% |
| 250th | Verisign Inc | -10.17% |
| 300th | Equifax Inc | -12.26% |
| 350th | Citizens Financial Group | -17.37% |
| 400th | AES Corp | -19.99% |
| 450th | Ralph Lauren Corp | -11.93% |
| 500th | Alliance Data Systems Corp | -15.27% |
| | Average | -15.50% |
| | S&P 500 Index | -12.76% |

These companies range from software to devices to clothing and banking. All are down more than 10%.

Let's profile five of these to see if the sell-off makes sense in the context of the Coronavirus.

**Microsoft (down 13.49%)**

Microsoft Corporation, the US's largest public company develops, manufactures, licenses, sells, and supports software products. The Company offers operating system software, server application software, business and consumer applications software, software development tools, and Internet and intranet software. Microsoft also develops video game consoles and digital music entertainment devices.

It trades with a forward P/E ratio of 28 so it is expensive relative to the market but its earnings per share have doubled in 4 years.

Will people buy less software as a result of the virus? Will companies move to the cloud less? Buy less video games?

**Intuitive Surgical (down 13.16%)**

Intuitive Surgical, Inc., the country's 100th largest company designs, manufactures, and markets surgical systems. The Company offers endoscopes, endoscopic retractors and disectors, scissors, scalpels, forceps, needle holders, electrocautery, ultrasonic cutters, and accessories during surgical procedures. Intuitive Surgical operates worldwide.

It trades at a forward P/E ratio of 39, more than double the market so it is expensive. It too, however has doubled its earnings per share in 4 years.

Will hospitals buy less surgical and medical equipment due to the virus? Will people have surgery less?

**Zimmer Biomet Holdings (down 14.92%)**

Zimmer Biomet Holdings, Inc., number 200 in the S&P 500 Index, designs, develops, manufactures, and markets medical equipment. The Company offers orthopedic, dental, and spinal reconstructive implants, as well as bone cement and related surgical products. Zimmer Biomet Holdings serves patients worldwide.

Zimmer trades at a discount to the market with a P/E ratio of 16 perhaps because its earnings have stagnated over the last 4 years.

Will the virus cause people to think twice about knee and hip replacements?

**Equifax Inc (down 12.26%)**

Equifax Inc., the US 300th largest public company, is best known as a credit agency. It brings buyers and sellers together through its information management, transaction processing, direct marketing, and customer relationship management businesses. The Company serves the financial services, retail, credit card, telecommunications, utilities, transportation, information technology, healthcare industries, and government.

With a P/E ratio of 25, it trades at a premium to the market. The company has been out of favor since its massive data breach in 2017.

If more and more people contract the virus, will they use less credit?  Would companies care less about the credit quality of folks applying for loans and credit cards?

**AES Corp (down 19.99%)**

The AES Corporation, number 400 in the S&P 500 Index acquires, develops, owns, and operates generation plants and distribution businesses in several countries. The Company sells electricity under long-term contracts and serves customers under its regulated utility businesses. AES also mines coal, turns seawater into drinking water, and develops alternative sources of energy.

The company is inexpensive, with a forward P/E of 14.43 and a 3.4% dividend yield.  Its earnings per share grew by 10% last year and is expected to grow revenues by 7% in 2020.

Will folks drink less water or use less energy due to the virus?

**Alliance Data Systems Corp (down 15.27%)**

Alliance Data Systems Corporation, at number 500 in the S&P 500 Index, provides data-driven and transaction-based marketing and customer loyalty solutions. The Company offers a portfolio of integrated outsourced marketing solutions, including customer loyalty programs, database marketing, consulting, analytics and creative, email marketing, private label, and co-branded retail credit cards.

It trades at roughly one-third of the market's valuation with a forward P/E of 6.  It sports a hefty 2.9% dividend but the shares are down by roughly 50% over the last year.

Will companies offer less loyalty programs and care less about data due to the virus?

**Buy or Sell?**

Stock prices should reflect the future earnings of the underlying business.  Perhaps each of these companies was too expensive leading into the sell-off.  But I find it hard to believe that future earnings are materially different today versus seven trading days ago for each of these disparate businesses.

So are stocks on sale?

Steve Haberstroh
Partner
February 29th, 2020