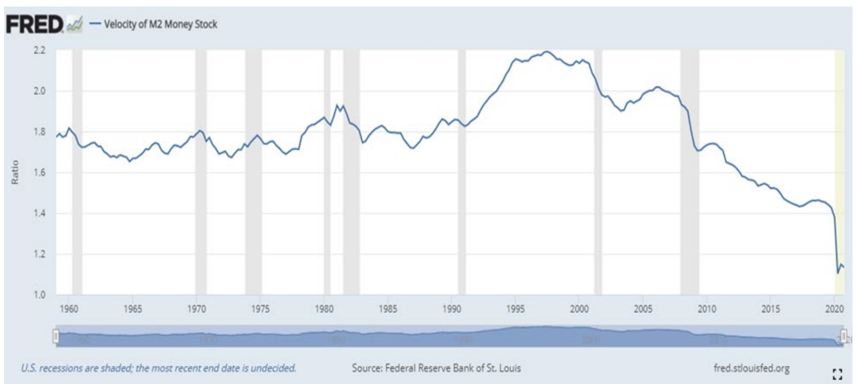
BLOG POST
Analyst Corner
Part 1
05/19/2021

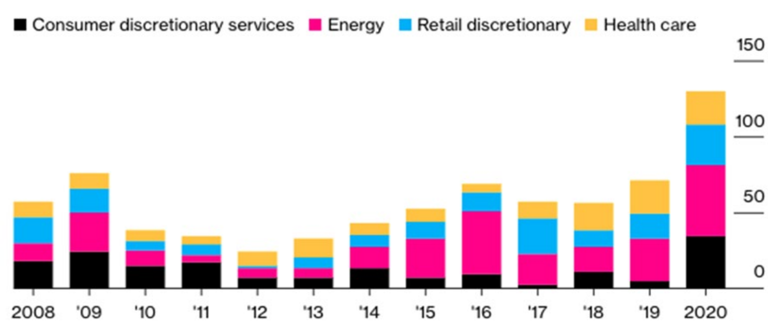
Macro View – Spending Slow Down

The St. Louis Fed chart on the velocity of money referenced in the Moving the Markets section was so dramatic, it is worth sharing in this section. The definition according to the Federal Reserve Bank of St. Louis is the frequency of at which one unit of currency is used to purchase domestically produced goods and services during a given time period, communicated as a ratio. As the velocity of money increases, more transactions are occurring within the economy. While money supply grew dramatically in 2020, GDP collapsed around covid, triggering the sharp decline in the velocity of money as depicted in the chart. While money is not being used for goods and services, demand for risk assets may indicate that the additional currency in the system may be going towards investment in equities, housing, and commodities.



Taking Stock – Zombie Apocalypse

Zombie companies are defined as companies that have reached debt levels that require government bailout to survive. Further, the companies cannot afford to pay the interest on the debt that is on the books. According to Bloomberg, zombie companies' debt levels had eclipsed over $2tt by January 2021. The main lifeline is through the Fed purchasing corporate bonds, giving companies access to credit. Covid and government support greatly multiplied the number of zombie companies, leaving analysts speculating on the impact to the rate of economic recovery. The Bloomberg chart shows bankruptcy filings for public and private companies with liabilities greater than $50mm concentrated across the industries most impacted by covid: consumer discretionary services, energy, retail discretionary, and health care. There was a surge in bankruptcies among large companies, yet smaller company bankruptcies dropped in 2020 (Bloomberg) because of government aid to small businesses.



Source: Bloomberg
Note: Reflects Ch. 11, 7 filings for public and private companies with liabilities >$50M