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## While retail companies flounder, technology names fly

◆ Some 111 large companies have filed for bankruptcy protection in the US since 31 March.

◆ Most were in the retail, leisure and energy sectors.

◆ The latest to ask for court moratoriums include Brooks Brothers, Sur La Table, Fairway Market and Chuck E. Cheese.

◆ Meanwhile, Amazon, Facebook, Google and Microsoft have added a combined US\$1.4 trillion in market cap since the end of March.

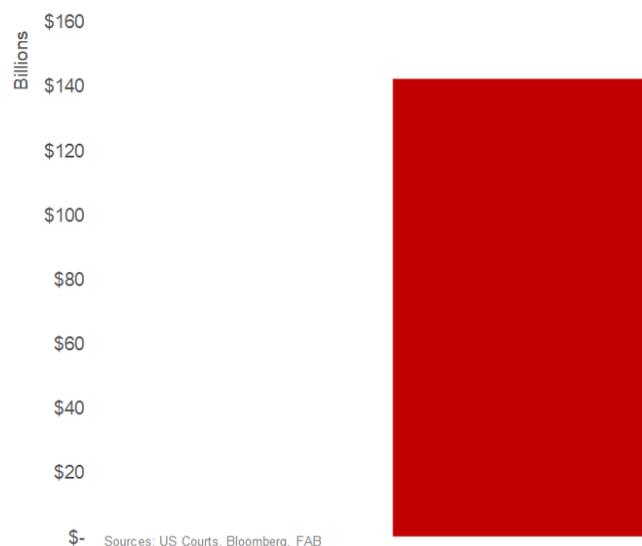
◆ FAB AAC remains overweight high-quality investment grade bonds.

Those invested in the Nasdaq Composite index might not have even noticed, but a significant part of the US economy has crumbled in the past three months. At least 111 large companies with assets adding up to US\$142.3 billion have filed for bankruptcy protection. The list includes households names such as J.Crew, JC Penney, Hertz Rent-A-Car, Chesapeake Energy and, today, Brooks Brothers.

In the same timespan the combined market cap of Amazon, Google, Facebook and Microsoft has increased by US\$1.4 trillion as investors bet that the future lies in online shopping and advertising.

The dichotomy is the personification of the global dynamic that was laid bare and accelerated by the lockdowns caused by the pandemic. Brick-and-mortar retail companies, such as GNC or Sur La Table, which were already struggling to compete with their electronic peers, were given the death knell by the lockdowns.

Assets of companies that filed for bankruptcy in the US since 31 March



Meanwhile, online retailers were taking an increasing share of people's shopping lives. Advertising has also moved from the silver screen to the mobile, with online ad spending surpassing television and traditional media for the first time last year.

Similarly, energy companies such as shale exploration outfits in the US, had been suffering from excessive leverage, built when oil prices were much higher.

However, not all the companies that filed for bankruptcy protection recently were so troubled. Many were in the travel and leisure or in the entertainment business. While some may have had high leverage, such as Hertz, most probably could have navigated the storm, had it not completely closed their businesses for weeks as it did.

The unprecedented amount of stimulus pumped into the system by central banks and governments stopped this from being even worse, but the pain is not over yet.

### Companies with more than US\$142 billion in assets have filed for bankruptcy in the US

In the 2008 crisis, bankruptcies began to rise together with unemployment in the second quarter of 2007. In those three months, 1,574 companies sought protection from creditors. The number of quarterly filings peaked two years later, with 4,348 companies seeking bankruptcy protection in the second quarter of 2009.

In the first quarter this year, 2,062 companies had filed for moratoriums, the highest number in three years. The aggregate tally for the second quarter will only be known when the US Courts Administration releases its numbers later this month. Given the number of people still unemployed, that number may not yet be the peak. Technology, meanwhile, is likely to continue to power ahead.

# Investment Strategy Update

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