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Global Market Strategy – May 2021

Blow-out reporting quarter and ho-hum response

Does the US stockmarket have a feeling of exhaustion? Maybe it is rather pausing for breath after what has been a remarkable run since March last year.

US stocks reported record earnings from the first quarter, and although the SP500 and the Nasdaq reached new highs, volatility is negligible (less than 20 on the VIX). The Nasdaq is now up for six straight months, its best stretch for more than three years.

Apple reported its best ever results, with every product line achieving double digit growth and margins over 50%. The company announced increased dividends to shareholders via $90 billion of share buybacks, yet the market's reaction was to mark the shares down. It's true though that Apple has come to be used as a banking home for many investors, who 'park' capital in Apple shares and then withdraw it when they wish to finance a share position elsewhere or an alternative capital expense.

Only Facebook, up 6% on the back of its results, brought a smile to their shareholders' faces. Amazon's stellar results (sales up a staggering 44% year on year, and unsurprisingly a record profit) saw its stock rise 1% but the rest of the Nasdaq names were flat or down after their earnings announcements, proving either that the good news was priced in already and/or the market needs a pause while it considers what comes next. New price targets for Amazon from the analyst community see the stock moving from the current $3,500 to as much as a headline-grabbing $5,500, although most analysts are in the $4,300-4,600 range. Netflix was the one tech giant which truly disappointed Wall Street. It's revenue grew by 24% year on year, and its earnings beat analysts' estimates, but its subscriber numbers were down on its prior guidance and the stock fell as much as 11% at one point.

For the moment, the bond sell-off which took place in March has largely evaporated. Despite continued talk (and evidence, most notably in stocks, commodities and real estate) of the threat of inflation in America, the Fed is determined to hold fast on any interest rate moves until unemployment figures improve. Gold again had a lacklustre month, although it did post its first monthly gain for the year.

Gold futures, June contract, 1 year, US dollars per troy ounce (Source: marketwatch.com)

Rick Rieder of BlackRock believes there is 5-10% upside from current US stock levels still to come this year, although there may be a pause in coming weeks before momentum picks up again later in the year.

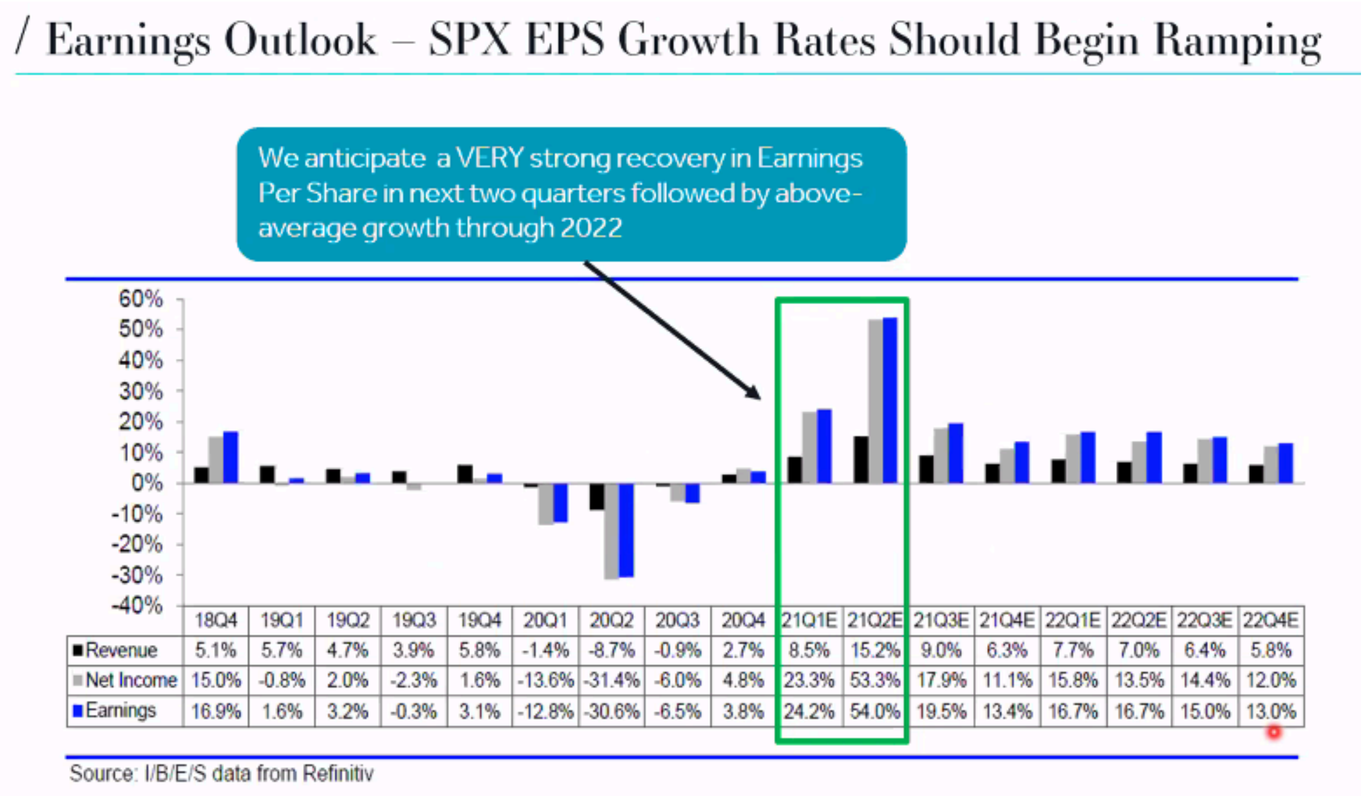
Fundstrat's Tom Lee predicted in early April that the SP500 could reach 4200 by the end of the month. It closed at 4181 on Friday, and he now believes that such is the wave of pent-up activity that a figure of 4400 on the S&P is quite possible before the Summer, coinciding with a probable developed world limited 'reopening' to overseas travel, assuming covid cases are suppressed and a fourth wave proves unfounded.

Tom Lee's boldest call is a one hundred percent increase by 2022 in the stock prices of most cyclical stocks which do well when the economy is booming, in other words the likes of Nike, Starbucks, Carnival and other names associated with discretionary spending. Since the global extra savings stockpile as a result of pandemic is estimate to be $5.4 trillion, the call is not so extraordinary.

Economists expect the US to grow 6.3% by the end of 2021, obviating the need for any more stimulus. A growth rate of a more normal 3% is expected to resume for 2022 but if US earnings rise by a predicted 26.5% overall in 2021, it's hard to make a case for backing away from risk assets providing there is no wage inflation - and there's unlikely to be because we are in a time of 'underemployment'. There are those who are unemployed because companies have had to reduce their workforce, and there are those who have employment but the degree to which their employer can engage them is limited at the current time. This situation has led to many more would-be entrepreneurs looking to see how they can develop their own business so they are no longer reliant on an employer.

Canaccord in their conference call in late April, reiterated their comments from last month that bonds are a bad bet. Yields are likely to rise as paper sells off amid the threat and then the reality at some point, of higher interest rates.

The major plays of the pandemic, tech and healthcare, are making way for energy and financial stocks. All the leading oil producers were up an average of 8% last week. With the US economy contributing toward 25% of world GDP, the US market continues to be a huge focus of investor activity. The SP500 is up 85% since the March 23rd low of last year, led by the direction of corporate earnings and economic activity, which will continue to expand. 2022 should see double digit earnings growth from the US, and although, understandably, not as breathtaking as this year, continuing high corporate earnings figures should be more than enough to keep providing upward momentum to the stock prices of those companies taking advantage of the new digital age and a reawakened consumer. "If there's a market pullback, I want to put money to work", said Canaccord Genuity's chief market strategist, Tony Dwyer last month.



	18Q4	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4	21Q1E	21Q2E	21Q3E	21Q4E	22Q1E	22Q2E	22Q3E	22Q4E
Revenue	5.1%	5.7%	4.7%	3.9%	5.8%	-1.4%	-8.7%	-0.9%	2.7%	8.5%	15.2%	9.0%	6.3%	7.7%	7.0%	6.4%	5.8%
Net Income	15.0%	-0.8%	2.0%	-2.3%	1.6%	-13.6%	-31.4%	-6.0%	4.8%	23.3%	53.3%	17.9%	11.1%	15.8%	13.5%	14.4%	12.0%
Earnings	16.9%	1.6%	3.2%	-0.3%	3.1%	-12.8%	-30.6%	-6.5%	3.8%	24.2%	54.0%	19.5%	13.4%	16.7%	16.7%	15.0%	13.0%

Canaccord Genuity conference call slide from Tony Dwyer, US Chief Market Strategist (April 23rd 2021)

The global recovery is just getting started, according to the above slide. If first quarter numbers hugely surprised on the upside, second quarter earnings figures should be even better. 2019 was a good year for the global economy as a whole, but when compared to the forecasts for the rest of this year and next, it pales into insignificance. The huge amounts of government stimulus from all major central banks will take time to enter the global economy as companies and individuals weigh up how best to spend it, and with inflation unlikely to be a threat to businesses and the consumer until unemployment levels are much reduced, there should be considerable opportunity for good equity market returns, not just from the US.

The UK is probably the most undervalued equity market in the world, and Asia, including China, is the one area which has the genuine ability to provide investors with 100% returns over a 5 year period, which is the holy grail for those saving for their retirement, planning ahead for school fee payments, or those saving for a second home etc. However, high returns come with a high risk warning. Investors need to have an overall balance to their portfolio, established through careful fund and fund manager selection, and regular biannual reviews. Remaining with a fund out of loyalty or from not wishing to admit a wrong selection was made in the first place, can be very costly not only in the returns derived but also in time. Those who can should take advantage of tax wrappers early in the tax year so their money is working for them sooner rather than later.

Favoured investment plays:

Nil risk:
Cautious risk: Cash
Balanced risk: **Managed / Multi-asset funds**
Market risk: **Multi-asset funds, UK equity**
Adventurous risk: **Asia,** Europe, **Japan, US equity**,
Speculative risk: **Technology, Healthcare, Platinum, Emerging Markets**

Disclosure:

Nicholas Chappell has the following personal investment exposure: Technology (all US, including green energy & fintech) 23%, China 10%, Asia 9%, Global Equity 20%, UK Equity 10%, European equity 10%, US Equity 4%, US smaller companies 1%, Emerging Market equity 8%, Platinum 4%, Cash 1%

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