



CONWAY • JARVIS LLC

Investment Outlook

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Update

Consolidation of Growth Stocks Looming

We see the recent consolidation of large-cap tech stocks as the beginning of the shift of investor capital from growth to select value sectors that we commented upon last week. The pendulum won't swing from growth to value overnight. It will occur in fits and starts as rationality returns to valuations and news of the virus charts a course for the economy. Financial performance of the market leaders will be revealed in the current and upcoming earnings seasons. So far, results have generally exceeded expectations. We have some concerns that trend may not be sustainable due to the lingering effects of the virus.

The recent surge in cases presents the prospect that eradication of the virus is unlikely and that a modicum of control is the best we can expect. The Fed said as much in its meeting this week as it defined its role as one of economic support to efforts of healthcare companies and professionals in containing the virus. That raises doubts for us as to whether earnings will support current valuations if the effects of the virus extend into and through 2021.

Given that level of uncertainty, we see stock prices of some of this year's big winners as possibly being capped for an extended period. We think any announcement of an effective vaccine could trigger a blow-off to the upside in stock prices that sets the stage for a market correction. The current consolidation we're seeing could become a full retreat by investors to more rational P/E valuations.

That's reason enough for us to begin to trim a few of the over-weighted positions in the big winners in portfolios and start nibbling at names we see in sectors that will benefit from pent-up demand in the post-vaccine period. Of course the optimal timing might be difficult but rebalancing for diversification's sake usually pays off in the long-term. Regardless, we'll still be holding equal-weighted positions in the companies that have kept portfolios afloat throughout the crisis. As always, contact us with questions or comments.

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