Investment Strategy Update

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Stock splits, NASDAQ earnings, and the need for hedges

- **The S&P 500 closed higher for the 5th month; stock splits drove the NASDAQ**

- **The dollar index is trading below the 92 level, with gold re-approaching $2,000/oz**

- **Copper ($3.05/lb) is responding to low global inventories and dollar weakness**

- **The FAB AAC is for the time being remaining slightly underweight in global equities, and overweight in IG bonds and gold**

Investors with good exposure to global equities continue to benefit, led by the NASDAQ - however, they should begin to watch for a few signs of over-exuberance. In the FAB Global Investment Outlook published in January we advised full commitment to technology stocks. That has worked - admittedly helped by the unpredictable shot in the arm that the New Economy received from events around reactions to the coronavirus. After the announcements of stock splits last night by Tesla and Apple (up 12.6% and 3.4%) following announcements of stock splits - 5 for 1, and 4 for 1 respectively - we expect other companies to do the same thing. All students of markets know this is just a restructuring of a company's share capital, and that nothing fundamental actually changes. However, academic studies show there is usually a beneficial effect on the adjusted stock price. Mainly retail investors are put off by high numerical stock prices, meaning that they can only buy a small number of shares. There is also the totally cosmetic effect of seeing lower stock prices, ex-split. Accordingly the increases in prices of Tesla and Apple last night - when the majority of the market and certainly the S&P 500, closed lower – will have been helped by the anticipation

Chart : NASDAQ Composite Index Earnings Revision 2021

of new incremental buying.

Today's chart shows how the estimated earnings for the NASDAQ Composite (mainly technology companies, but also including some biotech and other sectors) have moved for the 2021 year. Very early in the year the trend was positive, but as soon as the seriousness of Covid-19 began to be understood, estimates fell – only to recover as it was appreciated how our lives and business would change - and that many of these changes are permanent. Markets discount the future, looking between 9-18 months ahead, and it is 2021 estimated earnings and beyond that are important. The Bloomberg consensus of earnings for the NASDAQ stands at 388.29 for 2021, equivalent to growth of 32.5% over the forecast for 2020, and resulting in a prospective P/E of 30.3 times. NASDAQ earnings will indeed likely fall by close to 10.6% in the current year - but that should much more than be made up for by the end of next year. Earnings growth estimated at 19.3% in 2022 results in a prospective P/E of 25.4 times for that year, and by the second quarter of next year investors will have 2022 earnings in the frame. **Individual stock selection will be crucial, but genuine growth deserves high valuation multiples.**

Returning to what we wrote in the January Outlook, one of the main risks we identified was that of a 'melt-up' in stock prices, and we continue to be wary of that possibility - perhaps for instance if numerous stock splits do occur and retail investors get misled by them. We even mentioned the word 'bubble' in one of these Dailies the other day. All of a sudden there are numerous new investors who believe it must be easy to make money in stocks. Coming back to the 'melt-up' point, naturally we didn't expect to see a bear market quite so soon – nor for it to be followed by the fastest resolution of a bear market in history. Those of you who read our Jackson Hole report a few days ago will hopefully agree with some of the potential red flags discussed. **Hedge positions in gold should be firmly retained, even if equities continue to go up. Indeed, in part because of that.**

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