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Being a 'Growth At a Reasonable Price' investor – and in tech

◆ The S&P 500 was 0.8% up to a new record (3,526.65); the NASDAQ rose 1.4% to a record

◆ Short-term downward momentum in the Dollar Index (92.58) appears almost exhausted

◆ Crude (Brent is \$45.66) is well balanced; higher OPEC+ supply is offsetting firmer demand

◆ The FAB AAC remains slightly u/wt in global equities, and o/wt in IG bonds and gold

Chart : Oil Price (Brent)



The recent downtrend in the dollar on its index has been beneficial to US exports, and to the translation of foreign sales and earnings into dollars. Although international trade is at an early stage of recovery as the coronavirus grinds on, we are linking this with yesterday's good US manufacturing data. The ISM Manufacturing PMI came in at 56.0 for August, above Bloomberg expectations of 54.8, and continuing a good recovery off the April low of 41.5. The matching data for the services sector is due out late tomorrow (3rd), with expectations averaging 57.0, following a reading of 58.1 for July, and up from the low of 41.8 in April). Readings above 55 for either of these data series are really very good, historically, with postings of about 60 typically being the best possible. So US equities liked the manufacturing number, and it will be interesting to see how the services number comes in. In pre-Covid-19 times, manufacturing tended to be 13-14% of US GDP, with services being 70-75%, and the balance being government-related. **The 'swing' manufacturing states are critical for Trump in November if he is to win.**

In yesterday's discussion about NASDAQ Composite valuation we ran out of space and wish to briefly

continue this. We have in recent years found that the FY2 'PEG' ratio (i.e. the PE-to-Growth ratio for the following financial year) tends to gravitate to around 1.30 times. Accordingly, taking one thing with another, a broad fair valuation in P/E terms for the average tech stock is 30% above its estimated growth rate for FY2. The average PEG ratio for the S&P 500 is higher, but although tech earnings have above-average growth, they are riskier. While stock selection is critical, we would note that for the NASDAQ Composite Index the prospective P/E and growth for 2021 are 30.8 times and 31.3% respectively, generating an FY2 PEG of 0.98. Seasoned GARP ('Growth At a Reasonable Price') investors in tech like to be able to buy stocks at a P/E ratio no greater than 30% above their growth rate one or two years out. In line with the adage 'the market always goes further than expected' (in either direction), despite cries of 'bubble' - and a correction being possible - tech stocks may well have further to run. Also, sheer momentum as a factor can be very powerful, as currently. **Protestations that what has happened in technology stocks is essentially**

based on Covid-19 and a flash-in-the-pan appear wide of the mark

Lastly, in yesterday's note we mentioned the need for investors to be aware of certain risks, including the kinds of things that could go wrong for the US Fed following the restatement of its policy goals. Certainly the risks of a policy misjudgement are there, potentially magnified by the massive amounts involved, and the Fed could be left hopelessly behind the curve. The more such risks are discussed, of course, the less of a risk they become, as investors will be intuitively expecting them. We know that - as mentioned on today's global call - we can be assured of a second wave of the coronavirus, so investors have started planning for it - indeed it will be one of the reasons why the NASDAQ has continued upwards. In a sense, therefore, these become insurable risks - like a lower dollar - because we think we already know about them. Or the chance that Donald Trump retains the White House. **At the risk of sounding like gold bugs, perhaps gold alone takes care of the uninsurable/unknowable risks.**

Investment Strategy Update

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