

Biden Era Stock Market will Be Different | according to Barron's Magazine, Leslie P. Norton

Description

The Biden Stock Market Won't Be Like the Trump Market. What to Expect.
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It's time to buy cyclicals and small-caps, says Savita Subramanian, Bank of America Merrill Lynch.

Biden's stock market to be different? "We're going to see less-great market returns, but probably a bigger return in the economy overall."

"We're looking for 3,800 on the S&P 500. It's a very tech-growth-heavy benchmark. We're looking for S&P earnings to grow by about 20% this year. Obviously, we're expecting to see some multiple compression. We're expecting to see a very strong economic recovery. It's hard to be bearish, given all the stimulus."

"Here's why we're not bearish: Interest rates are super low, U.S. large-caps offer great yields, relative to bonds, and the Biden administration is laser-focused on the economy. It's hard to see a recession-driven bear market."

What would make you more bearish?

"If we saw interest rates rise meaningfully from here."

"A big portion of the investor base today is retirees looking for income, forced to buy the S&P 500. Today, close to 70% of stocks pay a dividend that's higher than the 10-year Treasury, which is very close to a record high. [The 10-year currently yields 1.12%.] If rates rise to 1.75%, which our economist is expecting, that proportion drops to 44%. And all of a sudden, that story vaporizes. That's the swing factor. And that's one reason we're less optimistic about equities."

So, what should investors do?

Focus on GDP-sensitive areas of the market that haven't done well for almost a decade. Our sector overweights include financials, energy, industrials, and health care.

Based on our credit-card data for 2020, unlike in the usual economic recession, spending trends remain strong. We had the fastest bear market. The Fed, fiscal policy, and Corporate America basically stepped up and staved off what could have been a deeper recession. Spending took place in home goods and the higher-end consumption areas of the market. Those areas could be at risk in 2021. Our sector underweights are communication services, which are half-growth, half-bond proxies; real estate; and staples.

"In 14 of the past 14 recessions, the recovery was led by value and cyclical. So, we're going to see a value cycle. Growth stocks are overly discounting this low-rate, low-growth environment. An

easier call to make than value is another area nobody wants to touch â€” smaller companies, because of liquidity, because of the oligopolistic market. We could be at the start of a longer-lived small-cap cycle, which tends to last eight to 10 years.â€•

Letâ€™s talk about ESG.

â€œWeâ€™ve really seen a demonstrable and well-articulated pivot of Corporate America in terms of how theyâ€™re aiming to please. Theyâ€™ve gone from shareholder to stakeholder returns. Thatâ€™s huge. Theyâ€™re articulating and essentially promising us they care about the communities in which they operate, their employees, and customer satisfaction beyond the bottom line.â€•

â€œCompanies have realized that if they donâ€™t publish a corporate sustainability report, theyâ€™re going to trade at a discount to their peer that does.â€•

Thanks, Savita.

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