

March 5, 2021

## **When Good News is Bad**

The recent sell-off in technology and growth stocks has been attributed to a sharp rise in interest rates as the Ten-Year U.S. Treasury Bond Yield rate rose from 1.0% to 1.6%.

A similar, though more severe reaction, was seen in the “Taper Tantrum of 2013”, when the Federal Reserve announced their intent to begin unwinding stimulus by reducing monthly to \$75 billion, from \$85 billion, a relatively minor step.

At the time, unemployment was at a five-year low of 6.9 percent, core PCE inflation was 1.6 percent, and the Fed’s bond portfolio was nearing \$3.75 trillion.

Technology stocks sold off. Apple, for example, declined 44% from September 2012 to April 2013 (\$25 to \$14), then rose to \$29 by November 2014 and currently trades at \$118.

The current sharp rise in interest rates is being driven by a view that:

- a. The economy is in the process of recovering from the Covid-19 shutdown
- b. Pent-up economic activity (particularly travel, leisure, and dining will be strong)
- c. An enormous government stimulus package will be passed and drive consumer spending
- d. The onset of inflation

All of which will lead to an economy that can stand on its own, lessening the need for the Fed to maintain low interest rates. Thus, it would seem that signs of strong economic improvement would be supportive of growth equities.

The growth stock sell-off, in our view, is being driven by the following perceptions:

- a. These stocks were the prime beneficiary of the Covid-19 Shut-Down
- b. The reopening of the economy will reduce the need for their services
- c. Shut down businesses, such as restaurants, hotels, cruise ships, etc., simply are very cheap and investors are taking gains from tech stocks to buy value stocks

After all, does a 60-basis point rise in interest rates really lessen the value of leading technology companies in cloud computing, internet commerce, 5G Wireless technology, internet security, self-driving automobiles, etc.?

The answer in our view is no. Companies that are on the forefront of transforming business, communications and commerce will continue to create shareholder value and outperform for decades to come.

In summary, we view the recent sell-off of growth stocks as temporary and an opportunity to add to positions of companies that will continue to drive and shape the economies of the future.

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