



What to Make of the Rotation Trade

Over the last several weeks, Growth Stocks sold off while Value Stocks rallied, in large part due to rising interest rates and stimulus expectations resulting in a Rotation Trade.

In a prior email, we predicted Growth Stocks would bounce back despite a rise in the ten-year Treasury Yield, pointing out that transformational companies will outperform over the long run. This event has since begun and will likely continue.

Many Investors are likely contemplating the following questions:

- Have Value stocks come too, far too fast, and will they need time for earnings to catch up to their valuations?
- Was the rally in Growth stocks in 2020 justified or will the momentum continue to unwind?
- Are Value and Cyclical stocks at the beginning of another leg up or are they due for a pause?
- Are Companies that were decimated by Covid-19 (e.g. Travel, Lodging, Dining, etc.) positioned to restore business to pre-Covid levels and benefit from pent up demand?

Below you will find comparisons of stock performance, earnings growth, and sales growth for High Growth Companies and Value Companies:

HIGH GROWTH COMPANIES

Company	Industry	Stock Return since Pre-Covid	Est. 2021 Sales vs. 2019 Sales	Est. 2021 EPS vs. 2019 EPS
Zoom Video	Application Software	236.77%	510.33%	726.02%
Pinterest	Interactive Media	199.67%	120.60%	1,810.00%
NVIDIA	Semiconductors	67.67%	100.64%	184.90%
KLA	Semiconductors	67.27%	46.42%	91.98%
Fortinet Inc	Cybersecurity	61.10%	41.25%	96.21%
Veeva Systems	Health Care Tech	59.70%	61.02%	147.35%
Synopsys Inc	Application Software	42.35%	19.96%	71.66%
Advanced Micro	Semiconductors	40.07%	100.30%	267.35%
ServiceNow	Systems Software	38.87%	65.73%	70.65%
Adobe	Application Software	16.78%	36.14%	90.42%
Median		60.40%	63.37%	121.78%

VALUE AND CYCLICAL COMPANIES

Company	Industry	Stock Return since Pre-Covid	Est. 2021 Sales vs. 2019 Sales	Est. 2021 EPS vs. 2019 EPS
Ralph Lauren	Apparel Retail	96.29%	-31.51%	-16.72%
Caterpillar	Construction Machinery	56.14%	-16.97%	-28.00%
Bank of America	Diversified Banks	8.73%	-25.04%	-13.52%
American Express	Consumer Finance	7.35%	-15.39%	-20.56%
General Electric	Industrial Conglomerate	5.87%	-16.69%	-59.07%
Marriott	Hotels & Resorts	2.20%	-36.90%	-49.93%
Las Vegas Sands	Casinos & Gaming	-10.61%	-37.22%	-78.29%
American Airlines	Airlines	-11.37%	-43.51%	-260.46%
Delta Air Lines	Airlines	-17.80%	-45.28%	-132.50%
Royal Caribbean	Cruise Lines	-29.99%	-75.96%	-247.42%
Median		4.03%	-34.21%	-54.50%

In conclusion, we believe that while most businesses hurt by Covid-19 will recover, their ability to reach Pre-Covid earnings may take several years.

Therefore, we suggest Investors:

- a. Buy Great Growth Companies and hold them despite the inevitable (and sometimes significant) volatility that will occur.
- b. Use sell-offs to add to positions and invest hibernating cash or proceeds from low-yielding and declining bonds.
- c. Be prepared with a Tracking List of exceptional companies that you may have missed along the way.
- d. Resist the casino-like urge to trade in and out to chase retail fads and trends. Only sell companies when they have lost their competitive edge or when they face imminent external threats to their ability to execute and grow.

Sincerely,

Bradford Stanley, CFA
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