SWITCHEROO?

The stay home economy delivered unexpected and impressive stock market gains last year, especially in the USA. Anyone who perused a financial newspaper or listened to CNBC knows the bulk of those gains were derived from Technology and E-commerce companies. Many of the standout performers were companies that many of us barely knew – the most obvious being perhaps Zoom, whose name has now, much like Google did, become a verb.

Stock market performance in early 2021 has shown a dramatic switch in leadership. Energy and Financials were the big (understandably) laggards last year, <u>BUT in the first 2 weeks of January,</u> they have gained close to 13% and 5%, respectively, while the Communications sector, where Facebook and Google are major components, is down over 3% and the FANG companies have lost about 5%. If you are not aware of the FANG synonym, where have you been hiding over the last decade or so? But, if the members elude you, they are Facebook, Amazon, Netflix and Google. Apple and Microsoft are also in the negative column so far this year, with losses over 4%. As for the much lauded ZOOM shares, they have declined over 40% in value since October, before bouncing some 13% this week.

So are we seeing the start of a major shift in leadership? Interest rates are rising and interest rate spread is a huge component of Banks' profitability, plus vaccines may speed up a return to some sort of (new) normalcy in the economy. So quite possibly these sectors, along with other Covid depressed industries, may well be the new winners. However, while the new Biden administration has promised trillions in further aid, let us not forget a major tenet of his campaign was a renewed focus on green energy and a reduction in pollution and environmental damage from fossil fuels and fracking. A potential thorn to the major banks is that Elizabeth Warren will run the Financial Institutions Subcommittee which oversees the banks and the Federal Reserve. Meanwhile, Bernie Sanders will take control of the Senate Budget Committee, giving him the opportunity to be a big influence on the Democrats tax and spending plans.

Thus, perhaps this rotation to the laggard sectors is part of a final market gasp ending the rally of 2020? As I wrote last week, "*My expectation is that once the new administration takes over, investors may take on a **'show me'** stance, and that means any disappointments could result in notable selling. Thus, I would not be surprised to see lower prices in many of the currently <u>over-loved</u> sectors by the second quarter."*

Overall, last week was generally a losing one, as optimism over President-elect Biden's proposed $1.9 trillion stimulus plan gave way to questions around bipartisan support. The COVID-19 vaccine rollout continues to be slow, while case counts continued their unabated rise. Plus the reintroduction of even more lockdowns worldwide and re-imposed travel restrictions elicited renewed fears of a slowing of an economic recovery.

Bottom line, I repeat last week's sign off, "*Prudent money management says keep an appropriate cash percentage on the sidelines for potential 'bargains'."*