# GLOBAL MARKETS FORUM

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# Q&A-U.S. equities still in bear market territory, better "value" in growth stocks: Carlton Neel, Chaikin Analytics

Recent gains in U.S. equities are only part of a bear market rally, and the market will likely be range-bound until investors get more clarity on company earnings, **Carlton Neel, CEO of Chaikin Analytics**, told the Reuters Global Markets Forum on Tuesday, May 5.

"Growth sectors" like technology, healthcare, and communications offered better value, while changing consumer behaviour after coronavirus-prompted lockdowns indicated a gloomy outlook for sectors like travel and retail, Neel said.

Following are edited excerpts from the conversation:

**Q: Has a bottom been made in US equities? Or do you see more pain ahead?**

A: I guess that's the biggest question on everyone's mind- "has the bottom been made"? The reality is nobody knows, but I still think this move off the bottom is part of a bear market rally.

We broke through the 50% retracement at roughly 2800 on the S&P and basically got to the 61.8% retracement last week when we hit 2940, where the market seems to have failed- at least for now. I'm skeptical that the market will be able to move substantially higher in the near term. However, the bearish sentiment is still high in most surveys, which probably makes it hard for the market to really hit an air pocket in the absence of another exogenous shock.

**Q: What major portfolio shifts do you see coming as lockdowns start getting reversed?**

A: Clearly the Covid-19 "crisis" is changing the way people interact, spend their time and money, and thus invest. I think one aspect that is rational about this market is that large cap tech is outperforming. The FAANG stocks are definitely benefitting from the massive "stay at home" orders. At the moment, even as lockdowns are reversed, we still see areas of the market such as healthcare and technology benefitting. While people will attempt to "get back to normal", that will still look very different that it did pre-virus. Consumers will behave differently - maybe mandated by the government - around restaurants, travel and leisure. So, we would be focusing our investments on areas of relative strength and better fundamentals.

**Q: Where do you see the best opportunities for value?**

A: Ironically after a career of being a growth at a reasonable price "GARP" oriented portfolio manager, I see better "value" in growth stocks. Our ETF rating system sees far more opportunity in growth ETFs rather than value. Areas such as energy, financials and industrials do not look attractive in our systems, whereas technology and communications, along with biotech and healthcare broadly look far more attractive. There is kind of a Peter Lynch elegance to the view here- the story fits, and both the fundamentals and relative strength are lining up here for those areas of the market.

**Q: What is your target on the S&P 500 from the current levels, and when do you see that being achieved?**

A: Unfortunately, I don't have a target, largely because I think it's a fool's errand to try and guess where the market will go in the absence of any clarity on earnings. Obviously if your time frame is infinity, you get long here and go to the beach. But most humans don't have that luxury of time and liquidity, so I would be relatively cautious here.

My near-term view is that we head lower and retest at least 2600, maybe even 2500. That would be typical of most bear markets. I also think with zero clarity on 2020 earnings, and very little to support any real view of 2021 earnings, that market is likely doomed to be very range-bound as news around the virus, and even more importantly earnings and unfortunately bankruptcies emerge.

**Q: Over the longer-term, do you see a significant increase in corporate downgrades, defaults and bankruptcies?**

A: Sadly, not even the longer-term, unless you mean the next six to nine months. I've said to people that my view is that the Fed is very capable of working with liquidity issues, but relatively poor at working with solvency issues.
So yes - the fact that J.Crew filed for bankruptcy and Norwegian Cruise lines is now worried about being "an ongoing concern" - I have little doubt many businesses will be highly stressed as their revenue dries up and the glacial pace of consumer behaviour returning to "normal" will be hard on a lot of businesses.

**Q: How do you see that filtering into or reflecting in the equity markets?**

A: It really already is filtering through.Only roughly 25% of S&P 500 stocks are above their 200-day moving average and transports are still getting killed. The stocks that are performing are in areas that make sense- technology, healthcare and some staples. Those are definitely the areas of relative strength and where we at Chaikin Analytics are focused.

**Q: Are you investing in gold at the current levels, and till what level do you see it rallying from here?**

A: [We are] bullish on a number of gold stock ETFs including RING and GDX, so for sure, I would be putting money into gold stock ETFs. I think the combination of higher gold prices, due to fiat currency explosion and lower energy prices, which is a huge input for gold miners, bodes well for gold miners.