

# HUDSON ADVISOR SERVICES, INC

## OUR VIEW OF THE MARKET

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We just finished a first half of the year which saw the S&P 500 post 34 record daily closes. The final day of the quarter was one of those closes with the S&P 500 at the record level of 4297.5. Like many investment professionals, we contemplate what to think of this situation. We liked the headline of one article which posed this question: “What should we expect if ‘peak everything’ has already happened and the markets feel the force of gravity again?”

On one hand, the mood should be ebullient. The rebound of the U.S. economy is undeniable. Corporate earnings have shined, and most S&P 500 companies have issued strong positive guidance on sales and earnings for the second quarter.

Nonetheless, there is considerable unease among the investor class. Many market analysts believe the economy’s rebound has been fully built into stock valuations. Given the current levels of the market, to many analysts, stocks seem priced for perfection. This means they may be challenged to go higher. More worrisome, it might not take much bad news to send stocks lower.

Three months ago, we wrote that the market was ready for a “pause” from the growth of the last year. We do think that some upward movement is still possible in 2021. We also think a bit more grounding – recognizing the forces of gravity – would not be a bad situation either. We are ready at Hudson Advisors to navigate across this somewhat unprecedented terrain -- managing client portfolios both defensively and with an eye to long-term opportunity.

**Equity Market:** Growth in stock prices was widespread in the second quarter led by the energy and finance sectors. Technology lagged for much of the quarter but finished strongly in June. Indeed, contrary to the usual pattern, both growth and value stocks performed well.

The Dow Jones Composite Average gained 3.55% for the quarter and 13.75% for the year-to-date. The S&P 500 was ahead 8.55% for the quarter and 15.25% for the year. The Russell 2000 index gained 3.92% in the quarter and was up 17.54% for the year. The Nasdaq Composite made up for its slow start to the year and was ahead 9.68% for the quarter and 12.92% for the year-to-date.

**Fixed Income Market:** Bond prices in the second quarter revealed some investors’ doubts about how strong the economy will be in the coming years. This trend was a definite change from the first quarter when the mood was highly optimistic but also anticipatory of an inflationary trend. The yield on the 10-year U.S. Treasury note (which moves inversely to prices) ended the quarter at 1.443%. That was up from 0.931% at the end of last year but down from 1.749% at the end of March.

### MARKET TRENDS

The accompanying chart summarizes stock and bond market prices for the second quarter and first half of the year. The second quarter saw stocks build upon the momentum of the preceding four quarters. Meanwhile, the bond market reflected some of the uncertainty about the future direction of the economy.

### MAJOR MARKET INDEXES

	YTD Return
Dow Jones Composite Average TR	13.75
S&P 500 Index TR	15.25
Russell 2000 Index TR	17.54
NASDAQ Composite TR	12.92
EAFE Index NR	8.83
Barclays Aggregate Bond Index TR	-2.58

Source: Morningstar® as of June 30, 2021

## THE OUTLOOK

**The Economy:** The U.S. economic recovery is fully underway. The forecast for expansion of GDP in 2021 is almost 7%. Data on hiring, consumer spending, and small business confidence have bounded back from their pandemic low points. This expansion is expected to continue in 2022 with GDP increased by 4.5% and employment levels fully restored to pre-pandemic levels by the middle of next year.

Looking to 2023 and future years, however, the outlook becomes more opaque. The impact of fiscal stimulus will have run its course. There is possibility that inflation may take hold in ways that compel the Federal Reserve to reverse its accommodative monetary policy. Many economists see GDP growth in 2023 falling back to under 2% in the pattern prevalent in the decade before the pandemic.

**The Market:** Some analysts have called this current period in the stock market as “fun in the sun.” Companies are starting to report 2Q earnings and the consensus forecast shows a 60% rise in year-over-year S&P 500 earnings per share. This prognosis explains much of the recent strong performance of the market. Healthy profit growth assuages some of the concern that stocks are overvalued. The S&P 500 P/E Ratio Forward Estimate is currently 21.70 down from 24.30 one year ago.

But 60% corporate profit growth for the second quarter is a moment in time. The outlook for full-year 2021 is in the 15% to 20% range. The number then falls to below 10% for 2022 and future years. This situation then feeds into the fear that some kind of unsettling news will spook the market and send stock prices lower. This news could include signs that inflation will be persistent not transitory, Congressional action to raise corporate and capital gains taxes, and, worse, resurgence of Covid from the Delta variant

At Hudson Advisors, we believe it possible the market could grow another 5% to 7% before the end of the year.

We also understand the concerns about a reversal in stock prices. The pullback in early July reflects the market's effort to find direction. On balance, we think it most likely the market will trade in its current range, and we will manage client portfolios in that context.

## OUR STRATEGIES

**Asset Allocation:** Most clients should stick to portfolio strategies previously identified. We advise against an increased allocation to equities at this time. We will be assisting some clients to rebalance portfolios where the recent run-up in equities has thrown off the optimal allocation.

**Preferred Equities:** As always, despite market conditions, we look for long-term equity opportunities. Our focus is on companies that can weather both the short-term period and flourish in a longer time frame. We want fundamentally sound companies with reasonable valuations and that pay dividends. In that context, we are looking at these sectors:

**HEALTH CARE:** This sector has interesting opportunities in biotechnology and in the variety of new treatments being developed for the aging population.

**FINANCIALS:** Somewhat higher interest rates may benefit the financial sector – and regional banks are appealing

**INDUSTRIALS/MATERIALS:** President Biden's plans for infrastructure investment, if enacted, should create opportunity for many companies in this sector.

**TECHNOLOGY:** We are holding but not expanding our allocation to the FANG stocks. On balance, despite all the oversight issues, the Biden era should be favorable to the big companies and the smaller innovators.

**ENERGY:** This sector did well in the second quarter and may present opportunities worth exploring.

**Other Assets:** We are not overly concerned about any period of sustained inflation. But our aversion to long-term bonds remains. We like maturities under two years and cash and alternative investments such as municipal tax liens and REITs.

Dow Jones U.S. Sectors Total Return (Percent Change for YTD, Ending June 30, 2021) <i>Source: Morningstar®</i>			
Oil & Gas	45.62	Consumer Services	9.09
Basic Materials	15.92	Telecommunications	1.39
Industrials	15.00	Utilities	2.64
Consumer Goods	6.67	Financials	22.10
Health Care	11.88	Technology	17.83

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**Top 25 Performing Stocks 2021 (2nd QTR) - US Listed companies with a market cap above \$5 Billion. Source: Telemet ©**

Issue	Name	Last	Mkt Cap	Net Pct YTD (%)	Industry Group
APP	Applovin Corp	71.66	15,937	6,856.80	IT Services
AMC	AMC Entertainment Holdings Inc	56.17	6,049	2,549.53	Entertainment
GPOR	Gulfport Energy Corp	64.46	10,309	2,020.39	Oil Gas & Consumable Fuels
PATH	UiPath, Inc	67.53	14,543	1,488.94	Software
GME	Gamestop Corp	210.4	13,886	1,016.77	Specialty Retail
S	Sentinelone, Inc.	42.95	176,586	724.38	Wireless Telecommunication Services
MSGP	MedSmart Group, Inc.	1.22	12,200	510	IT Services
FUTU	Futu Holdings Limited ADS	177.13	25,680	287.16	Capital Markets
QFIN	360 DigiTech, Inc.	40.8	12,306	246.06	Diversified Financials Services
FPCG	First Physicians Cap Grp Inc	1,500.00	15,873	211.85	Diversified Consumer Services
DEN	Denbury Resources Inc.	78.86	46,227	206.97	Oil Gas & Consumable Fuels
SIG	Signet Jewelers Limited	80.61	4,998	195.6	Specialty Retail
PLL	Piedmont Lithium Ltd ADR	77.21	8,248	190.81	Machinery
NTLA	Intellia Therapeutics, Inc.	158.02	10,702	190.48	Biotechnology
OAS	Oasis Petroleum Inc.	103.06	33,080	178.09	Oil Gas & Consumable Fuels
BNTX	Biontech SE	222.32	57,135	172.71	Biotechnology
BAK	Braskem SA	23.74	9,463	163.49	Chemicals
CLR	Continental Resources, Inc.	39.33	14,363	141.29	Oil Gas & Consumable Fuels
OVV	Ovintiv Inc.	32.54	8,453	126.57	Oil Gas & Consumable Fuels
RVLV	Revolve Group, LLC.	69.42	5,139	122.71	Internet & Direct Marketing Retail
TDC	Teradata Corp	49.68	5,415	121.09	Software
TPL	Texas Pacific Land Tr	1,597.78	12,392	119.78	Diversified Financials Services
MRNA	Moderna Inc.	229.12	91,596	119.32	Biotechnology
CAR	Avis Budget Group, Inc.	80.94	5,658	117	Road & Rail
ASAN	Asana, Inc.	62.69	7,100	112.13	Software

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QS	QuantumScape Corp.	29.03	8,384	-65.62	Electrical equipment
EDU	New Oriental Education & Techn	8.1	13,724	-56.43	Diversified Consumer Services
SRPT	Sarepta Therapeutics Inc	77.69	6,170	-54.43	Biotechnology
ABCL	Abcellera Biologics, Inc.	21.23	6,800	-47.24	Pharmaceuticals
CTK	CooTek Inc	1.65	5,174	-40.45	IT Services
OCFT	OneConnect Fin Tech Co Ltd	11.91	12,770	-39.57	IT Services
CD	Chindata Group Holdings Ltd	14.77	8,862	-38.36	IT Services
ATHM	Autohome Inc.	63.89	7,749	-35.87	Internet & Direct Marketing Retail
RARE	Ultragenyx Pharmaceutical Inc.	94.21	6,322	-31.94	Biotechnology
FSLY	Fastly Inc	59.9	6,837	-31.44	Software
VIPS	Vipshop Holdings Ltd ADS	19.31	13,695	-31.31	Internet & Direct Marketing Retail
ADPT	Adaptive Biotechnologies Corp	41.06	5,706	-30.56	Biotechnology
IONS	Ionis Pharmaceuticals, Inc.	39.67	5,594	-29.84	Biotechnology
NFE	New Fortress Energy LLC Cl A	37.65	6,645	-29.74	Gas Utilities
AYX	Alteryx, Inc	85.71	5,737	-29.62	IT Services
PDD	Pinduoduo Inc. ADR	125.68	156,583	-29.26	Diversified Consumer Services
U	Unity Software, Inc.	108.75	30,222	-29.14	Software
CIB	BanColombia S.A.	28.53	6,860	-28.99	Banks
QDEL	Quidel Corporation	128.24	5,427	-28.62	Health Care Equipment & Supplies
MRTX	Mirati Therapeutics, Inc.	161.32	8,168	-26.55	Pharmaceuticals
BAP	Credicorp Ltd	121.88	9,721	-25.69	Banks
TGTX	TG Therapeutics, Inc	39.1	5,496	-24.85	Pharmaceuticals
PLAN	Anaplan Inc.	54.18	7,842	-24.59	Software
BLDP	Ballard Power Systems	17.94	5,170	-23.33	Electrical equipment
FTCH	Farfetch Ltd. Cl A	49.00	17,131	-23.21	Diversified Consumer Services