

INVESTMENT COMMENTARY & OUTLOOK

July 24, 2019

Our growth stocks continue to steadily appreciate and exhibit significant relative strength compared to the S&P 500. In fact, our Large Cap Growth portfolio just posted its strongest outperformance relative to the S&P 500 and is leading all our other growth portfolios year-to-date, which are also having a good year. The portfolio turnover has also slowed, due to the recent relative strength that many of our stocks are exhibiting.

Another way to describe the current market is it is now like a garden hose that is being set on a narrower, more powerful stream. Now that former flagship stocks like Netflix are breaking down from disappointing sales and operating margins, new leaders are emerging and that is why our growth portfolios have performed so well in 2019. The money pouring into the stock market is now chasing fewer stocks and like that garden hose nozzle, the stream (institutional buying pressure) is even more powerful underneath many of our favorite growth stocks!

Navellier & Associates does not own Netflix in managed accounts and our sub-advised mutual fund. Louis Navellier's family does own Netflix in personal accounts.

While the S&P 500 is characterized by 4% forecasted annual sales growth and expectations for virtually no earnings growth due to contracting operating margins, our growth portfolios are characterized by much stronger forecasted annual sales and earnings growth as the following link illustrates:

www.navellier.com/projections

Furthermore, in the past three months the analyst community has revised their consensus earnings estimate up for our growth portfolios, while the S&P 500's earnings estimates have been slashed 3%. Typically, positive analyst earnings revisions precede future earnings surprises. The fact is that our fundamentally superior growth portfolios remain an oasis in an increasingly chaotic environment for the S&P 500.

The primary reason that the S&P 500 has posted a nice gain this year is that global interest rates have collapsed, which in turn has pushed Treasury bond yields drastically lower. The yield curve was technically "inverted" and one reason the Fed is cutting key interest rates at its late July Federal Open Market Committee (FOMC) meeting is that it wants to "un-invert" the yield curve, since it is bad for the banking industry it regulates. To the Fed's credit, they admitted that they were wrong in believing that inflation would reaccelerate, so they are responding properly to the latest economic data.

It has to be mentioned that while the fed funds rate is above the 10-year Treasury yield, the classic 2-10 year spread never inverted. This may have something to do with global quantitative easing (QE) policies that are turning rates negative in Europe and foreign QE money pushing the Treasury yields lower, which is somewhat different than the Fed over-tightening.

Inflation Has Cooled Due to U.S. Energy Independence

One reason that inflation is subdued is that the U.S. is now the largest crude oil producer in the world. So despite Russia and Saudi Arabia curtailing production, plus Iran and Venezuela being curtailed by sanctions, crude oil prices continue to meander lower during peak summer demand. When worldwide demand for crude oil declines in September as seasonal demand ebbs, we expect that crude oil prices may break \$50 per barrel. Naturally, lower crude oil prices act like a tax cut and put more money in consumers' pockets.

Longer-term, Europe has followed California and is now leading the green revolution, which is causing the sales of electric vehicles to soar, since combustion vehicles are increasingly prohibited from entering some European city centers on high pollution days. As a result, Audi, BMW, Jaguar, Honda, Porsche, and VW all now have electric vehicles for sale and will continue to capture substantial market share from Tesla. Worldwide gasoline and diesel demand is expected to peak in the upcoming years due to booming electric vehicle sales.

Navellier & Associates does not own Tesla, Audi, BMW, Jaguar, Honda, Porsche, and VW in managed accounts and a sub-advised mutual fund. Louis Navellier and his family do not own Tesla, Audi, BMW, Jaguar, Honda, Porsche, and VW in personal accounts.

The Impending Peace Dividend

We are often asked what could go wrong and negatively impact the stock market. Naturally, tensions remain high between Iran and the rest of the world. The pressure for Iran to return to the negotiating table continues to mount.

An unofficial meeting between Iran and the U.S. recently occurred in Iraq. President Trump said that a lot of progress had been made with Iran and reiterated that he was not looking for any regime change. It is clear that both the U.S. and Iran are talking. There is growing hope that Iran will cease its hostile actions in the Strait of Hormuz when it returns to the negotiating table, which is why crude oil prices remain soft.

A significant proportion of U.S. voters are very anti-war, so we do not expect that President Trump will get the U.S. into any protracted military action before the 2020 Presidential election. Furthermore, the economic sanctions that President Trump imposed on Iran, North Korea, and Venezuela have been effective, so hopefully any military action will not be necessary. As a result, a "peace dividend," similar to the end of the Clinton Administration could potentially boost the stock market in the upcoming years.

SUMMARY

Europe and Wall Street like to take the month of August off, so some "air pockets" can materialize and cause stock prices to fall, like Netflix recently demonstrated. Still, negative seasonality is not a guarantee. Last August was unusually strong due to the stock buy-backs that commence after every earnings announcement season winds down. The lower global interest rates, the more likely that stock buy-backs will persist. In fact, large multinational companies, like Apple and Google, are expected to keep issuing intermediate notes at interest rates well below 1% in Europe, so they can use that low cost capital to continue to buy their outstanding stock back. The fact is the \$207 billion in stock buy-backs in the S&P 500 during the first quarter is expected to pick up now that interest rates have fallen, so this August should be boosted by more stock buy-backs.

Navellier & Associates does not own Google in managed accounts and a sub-advised mutual fund, but does own Apple in managed accounts, but not in a sub-advised mutual fund. Louis Navellier and his family does not own Google, but does own Apple in personal accounts.

We do not expect that the European Central Bank (ECB) will significantly raise key interest rates in many years, maybe decades like Japan. Not only is the ECB boosting its quantitative easing, but its new leader, Christine

Lagarde, the former head of the International Monetary Fund (IMF), is set to replace Mario Draghi as head of the ECB on November 1st. Since Christine Lagarde has helped to provide relief to shattered economies with massive deficit woes while at the IMF, it is widely perceived that she will follow her ECB President predecessors and fight Germany's call for fiscal discipline within the EU.

Of all the reserve currencies in the world, namely the Chinese yuan, the Japanese yen, the British pound, the euro, and the U.S. dollar, the U.S. remains the oasis for international capital. In fact, at the Treasury auctions, there has been relentless buying pressure from international banks, so Treasury yields have fallen considerably. Since the U.S. has a stronger central bank, a stronger economy, and higher interest rates than the rest of the world, Treasury yields will likely remain low despite any deficit concerns.

In other words, between the current low interest rate environment and relentless stock buy-back activity, the stock market has a very good foundation. The leadership of the stock market has changed, become much more narrow and is increasingly gravitating towards our fundamentally superior growth and dividend stocks. Since the S&P 500's annual dividend yield is approximately 1.9% while the 10-year Treasury bond yields barely 2%, the stock market after taxes actually yields more than Treasuries, since interest income is taxed at a maximum federal rate of 40.8%, while qualified dividend income is taxed at a maximum federal rate of 23.8%.

Finally, we expect that the stock market will soon realize that the world is a very small place and that military conflicts are largely limited to tragic civil wars. President Trump may have surrounded himself with hawks and neo-conservatives, like John Bolton, but he is really an isolationist that just wants to force Iran to the negotiating table.

In conclusion, the stock market is going up because the S&P 500 provides a higher after tax yield than Treasury securities and bank deposits. Companies are taking advantage of low interest rates around the world and continuing to aggressively buy back their outstanding shares. Central banks around the world are in the midst of cutting key interest rates. Inflation has largely gone "poof" and disappeared, since the U.S. is now the largest energy producer in the world and controlling crude oil prices. The Trump Administration's economic sanctions are working and the end result may be a "peace dividend," since economic wars are more cost effective than military conflicts.

While the analyst community has been cutting their earnings estimate for the S&P 500, our growth portfolios are still characterized by positive sales and earnings. The choice is clear, our growth and dividend portfolios remain an oasis for investors and should continue to appreciate steadily in the upcoming months.



LOUIS G. NAVELLIER
CEO/Chief Investment Officer



MICHAEL J. BORGEN
Senior Portfolio Manager



MICHAEL GARAVENTA
Portfolio Manager



TIM HOPE
Portfolio Manager

P.S. Try out our [DIVIDEND GRADER](http://www.navellier.com) rating system at www.navellier.com. Over 1,500 dividend-paying stocks are rated WEEKLY. It's a free service and complements our existing Stock and ETF Graders.

Investment in equity securities involves substantial risk and has the potential for partial or complete loss of funds invested. Please read important disclosures at the end of this report.

Important Disclosures:

The views and opinions expressed are those of Navellier & Associates at the time of publication and are subject to change. There is no guarantee that these views will come to pass. Investment in equity securities involves substantial risk and has the potential for partial or complete loss of funds invested. Although the information in this communication is believed to be materially correct, no representation or warranty is given as to the accuracy of any of the information provided. Certain information included in this communication is based on information obtained from sources considered to be reliable. However, any projections or analysis provided to assist the recipient of this communication in evaluating the matters described herein may be based on subjective assessments and assumptions and may use one among alternative methodologies that produce different results. Accordingly, any projections or analysis should not be viewed as factual and should not be relied upon as an accurate prediction of future results. Furthermore, to the extent permitted by law, neither Navellier nor any of its affiliates, agents, or service providers assumes any liability or responsibility nor owes any duty of care for any consequences of any person acting or refraining to act in reliance on the information contained in this communication or for any decision based on it. Please obtain and review all financial material carefully before investing.

This communication has been provided to you for informational purposes only and may not be relied upon by you in evaluating the merits of investing in any Navellier investment strategy or composites. Past performance is not indicative of future results, and there can be no guarantee as to the accuracy of market forecasts. Opinions, estimates, and forecasts may be changed without notice. This material is not an offer, or a solicitation of an offer, to purchase any securities, including shares of any investment company. The views and opinions expressed are provided for general information only. The views and opinions expressed are those of Navellier at the time of publication and are subject to change. There is no guarantee that these views will come to pass.

The holdings identified do not represent all of the securities purchased, sold, or recommended for advisory clients and it should not be assumed that investments in securities identified and described were or would be profitable.

Dividend payments are not guaranteed. The amount of a dividend payment, if any, can vary over time and issuers may reduce dividends paid on securities in the event of a recession or adverse event affecting a specific industry or issuer.

FactSet Disclosure: Navellier does not independently calculate the statistical information included in the attached report. The calculation and the information are provided by FactSet, a company not related to Navellier & Associates, Inc. Although information contained in the report has been obtained from FactSet and is based on sources Navellier believes to be reliable, Navellier does not guarantee its accuracy, and it may be incomplete or condensed. The report and the related FactSet sourced information are provided on an “as is” basis. The user assumes the entire risk of any use made of this information. Investors should consider the report as only a single factor in making their investment decision. The report is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. FactSet sourced information is the exclusive property of FactSet. Without prior written permission of FactSet, this information may not be reproduced, disseminated or used to create any financial products. All indices are unmanaged and performance of the indices include reinvestment of dividends and interest income, unless otherwise noted, are not illustrative of any particular investment and an investment cannot be made in any index. Past performance is no guarantee of future results.

No Financial Advice: The views and opinions expressed do not constitute specific tax, legal, or investment or financial advice to, or recommendations for, any person, and the material is not intended to provide financial or investment advice and does not take into account the particular financial circumstances of individual investors. Before investing in any investment product, investors should consult their financial or tax advisor, accountant, or attorney with regard to their specific situation.