

INVESTMENT COMMENTARY & OUTLOOK

July 2020

Our stocks have rebounded impressively since late March, especially our growth stocks, which are now defensive compared to dividend stocks as they are less affected by COVID-related shutdowns. As always, we are entering the upcoming earnings announcement season “locked and loaded” with fundamentally superior growth stocks that are characterized by 21.2% average annual sales growth and 79.8% average annual earnings growth. Furthermore, in the past three months, the analyst community has revised their average consensus earnings estimate 15.2% higher, so we are expecting wave after wave of earnings surprises in the upcoming weeks.

The dispersion between growth and dividend stocks is likely to last as long as the pandemic is around despite very low interest rates for the foreseeable future. And the stock market will give a premium to companies that are less affected by the pandemic or in some cases have rising sales and earnings because of it.

There is a lot of confusion out there whether or not we are in a V-shaped economic recovery or a U-shaped recovery. In May and June, most of the economic news was V-shaped emanating from China, Europe, and the U.S. However, due to new coronavirus restrictions being re-imposed, many of us now anticipate more U-shaped economic news. Interestingly, the Fed is expecting a U-shaped economic recovery and has essentially thrown in the “kitchen sink” to try to firm up economic growth.

Specifically, the Fed, via its Federal Open Market Committee (FOMC) statement, recently confirmed that it will keep key interest rates low through 2022 and will continue to stimulate both the automotive and housing sectors, since they are both extremely interest rate sensitive.

The Labor Department has reported consecutive weekly declines in new unemployment claims for over three months. The bad news is that some weeks, economists have been forecasting lower unemployment claims, so the weekly unemployment numbers were not always well received. The total number of workers now getting unemployment benefits continues to fall steadily, but at a much slower pace than in previous weeks, which is raising fear that the U.S. economy may suffer permanent job losses, since the service sector, especially travel and leisure, continues to recover slowly.

Interestingly, there is a big real estate boom underway in the Mountain West. Lake Tahoe, Park City, and many towns in the Rockies are benefitting from folks fleeing city centers, since they have effectively proven to their employers that they can be more efficient working from home. It will be interesting to see if city centers will fully recover, now that many employees want to continue working from home. Naturally, many of our Large Cap Growth stocks are benefitting from the work at home explosion. Furthermore, our cloud computing stocks certainly make it easier to work at home and for companies to be more “virtual.”

THERE ARE SOME BUBBLE STOCKS THAT NEED TO BE “PRICKED”

A bit over a month ago, the 29 stocks in the Russell 2000 that traded under \$1 per share surged an average of almost 80% in just a week. Hertz was the “poster stock” during this low-price stock surge, since after filing for bankruptcy, the stock briefly surged from 0.816 cents per share to \$5.53 per share in just three days, despite the fact that the NYSE is seeking to delist the stock! The speculation in low-priced stocks triggered interesting comments from Leon Cooperman and Princeton Economist Burton Malkiel about millennial investors unwisely

speculating in low priced stocks and day trading. We don't believe this will end well for low-priced stocks, because the only thing that keeps stock prices rising is rising sales and earnings, not investor mania.

Our friends at Bespoke issued a great report that showed that through July 13th, the seven largest companies in the S&P 500, namely AAPL, AMZN, FB, GOOG, MSFT, NFLX & NVDA, as a group, were up 45% year-to-date, while the rest of the S&P 500 had declined 11%. The capitalization weighting of the S&P 500 is notorious for "blowing bubbles" under technology stocks, since back in March of 2000, approximately 54% of the S&P 500 was concentrated in seven technology stocks that eventually burst.

Navellier & Associates owns Apple, Amazon, Facebook, Google, Microsoft, Netflix, and Nvidia, in managed accounts. Louis Navellier & his family own Apple, Amazon, Microsoft, Netflix, and Nvidia.

This time around, even though the S&P 500 is blowing another bubble underneath more technology stocks (MSFT is the only technology stock that was included in the March 2000 bubble), we do not expect this bubble to burst. MSFT, NVDA, and some of the other stocks should post better than expected second-quarter results as well as positive third-quarter guidance. Other stocks with little earnings may not be as lucky.

As a result, a flight to quality will likely ensue, which is great news for our fundamentally superior stocks. As always, our best defense remains a strong offense of companies that should post better than expected second-quarter results and provide positive third-quarter guidance!

LOUIS NAVELLIER'S FORECAST FOR THE SECOND HALF OF 2020

July is historically a seasonally strong month. Investors are typically happy and in a good mood after the 4th of July holiday. Then the second quarter announcements commence in mid-July and since the good earnings come out early, the last two weeks of July are typically positive for the stock market. I have already observed that the analyst community was too pessimistic about the second quarter results, so I expect lots of big surprises. Even more important than the second quarter results is the third quarter guidance and I have noted that many companies are issuing positive guidance as they learn to cope with the Coronavirus.

August is a seasonally weak month, except in a Presidential election year. I expect that the stock market will "back and fill" commencing in the second week of August after the best second quarter results winddown. Furthermore, August is typically characterized by light trading volume as many on Wall Street are gone on extended summer vacations. Light trading volume tends to attract scam artists that try to manipulate stocks with false rumors or bogus research reports from short sellers. Frankly, I hate August and think the stock market should be closed for the entire month. Ironically, the stock market often meanders higher in August in Presidential election years as the candidates "suck up" to voters and boost consumer as well as investor confidence. This time around, I am patiently waiting and hoping that the candidates commence "sucking up" to voters.

September marks the return to higher trading volume, especially after Labor Day. This higher trading volume tends to amplify recent market trends, so if August was lackluster, then September could be tough month. The decision to reopen schools is already being debated amidst the Coronavirus and this debate will likely persist in school districts across the country. The quicker daily life gets back to normal, the more optimistic I expect investors to be. Distractions, such as whether or not schools should open remain, can hamper investor confidence. Fortunately, by mid-September, quarter-end window dressing typically boosts fundamentally superior stocks as institutional investors strive to make their portfolios more attractive for their quarterly reviews. Additionally, the 90-day smart Beta ETF realignment tends to naturally boost the strongest stocks at the end of the quarter.

October is actually a seasonally strong month in the past 30 years, despite the fact that October 1987 was a brutal month. The Presidential debates should be in full swing and the candidates should be "sucking up" to voters,

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.

which is good for both consumer and investor confidence. We should not be too distracted by the polls, since they were wrong four years ago. The path to the Presidency goes through several swing states, which will pick the winning candidate. Fortunately, by mid-October, the third quarter commencement season will commence and companies are expected to announce improving sales and earnings due to businesses learning to adapt to the Coronavirus. Furthermore, a Covid-19 vaccine should finally be available, which should help to boost both business and consumer confidence.

November will be highlighted by the Presidential election and let's hope for a decisive outcome, otherwise the election results may be endlessly contested. Investors do not likely uncertainty, so hopefully if there is an uncontested election, then the path for the U.S. economy will be much more certain. November is historically a seasonally strong month when an early "January effect" commences just before Thanksgiving. I should add that Thanksgiving is normally a happy time of year when we gather to meet with friends and family for food, football and libations. When people are happy, investors are happy and more confident, which is why November is a historically a seasonally strong month.

December is also a seasonally strong month as the holidays approach. Although December can be characterized by tax selling as investors often realize losses to offset their gains, if capital gain taxes are expected to rise in 2021, the year-end tax selling could be more robust than in previous years. The Coronavirus should be in remission by December and the most vulnerable, like healthcare workers and the elderly, should have been vaccinated. With Covid-19 finally defeated, the shackles on the U.S. and international economies will diminish, so prosperity should be rising and I expect a strong finish to the year. One thing the Coronavirus has taught America and the world is that it is against human nature to be locked up. As we get out and about, the "velocity" of money naturally accelerates and prosperity rises!

In conclusion, a Covid-19 vaccine, the school year, the Presidential election and the national mood during the holidays should set the tone for the second half of 2020. Amidst these distractions, our best defense remains a strong offense of fundamentally superior stocks. The crème a crème will be the companies that can sustain strong sales and earnings, regardless of a negative news media and questionable financial reporting. **The best "windows" for investors to add money will be mid-September (before quarter-end window dressing), mid-October (before the third quarter announcement season) and mid-November (before an early January effect).** Overall, thanks to fundamentally superior stocks, we can control our own destiny, regardless of seeming endless distractions and a negative media.

SUMMARY

Our dividend growth and conservative growth stocks are poised to continue to break out relative to the overall stock market. The low-price stock bubble was recently "pricked" and we expect that other bubble stocks may fizzle. As a result, a flight to quality will likely ensue, which is great news for our fundamentally superior stocks. As always, our best defense remains a strong offense of companies that should post better than expected second-quarter results and provide positive third-quarter guidance!

The debate about whether we are in a V-shaped or U-shaped economic recovery remains fascinating. However, based on consumer confidence, durable goods, retail sales, vehicle sales, housing starts, and building permits, it appears to us that the Fed's ultralow interest rate policy is stimulating sales, especially in the automotive and housing sectors. The Fed is also striving to fight deflation and since home prices keep rising, it appears to us that the Fed is on the right track to stimulate both consumer and investor confidence.

Speaking of consumer confidence, we expect it to continue to remain strong, since this year is a Presidential election year. It is impossible to be elected President unless the candidates "suck up" to voters and typically the most positive, inspirational candidate wins. We are all waiting for this "suck up" phase to commence, since it should help to boost the stock market as it historically does in Presidential election years.

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.

How we view the world is similar to how we deal with the coronavirus. We can choose to hide until there is a vaccine or we can get “out and about” with our face masks and social distancing. Fortunately, as investors, there is a silver lining, a critical path that we can follow, namely our fundamentally superior stocks that should post better than expected second-quarter results, plus issue positive guidance for the third quarter.



LOUIS G. NAVELLIER
CEO/Chief Investment Officer



MICHAEL J. BORGEN
Senior Portfolio Manager



MICHAEL GARAVENTA
Portfolio Manager



TIM HOPE
Portfolio Manager

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.