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INVESTMENT COMMENTARY & OUTLOOK

January 2021

The fourth quarter was the strongest quarter that we can remember for small-to-mid capitalization stocks. Essentially, many of our small-to-mid growth stocks "melted up" on light trading volume in an "early January effect." These small-to-mid growth stocks, as well as many of our international growth stocks, have continued to perform well due to the "real January effect" that is caused by higher trading volume and fueled by new pension funding.

Our growth and dividend stocks are "locked and loaded" for the upcoming fourth-quarter announcement season. The year-over-year comparisons are very favorable for the fourth quarter, the current quarter, and beyond. Currently, our growth stocks are characterized by unusually strong sales and earnings due to the fact that the pandemic accelerated technological changes. We should add that Corporate America is well represented in the Biden Administration, especially technology and pharmaceutical companies. There is no doubt that "globalists" are now in charge of the Biden Administration, so outsourcing to other countries is expected to pick up, which will help Corporate America temporarily boost their underlying earnings.

The U.S. dollar has declined 5.7% in the past year according to the WSJ Dollar Index. Typically, a weak U.S. dollar creates windfall profits for multinational companies. Approximately half of the sales for the S&P 500 are outside of the U.S., so a weak U.S. dollar helps to boost the bottom line for multinational companies. A global economic recovery, led by China, is now underway, which is why durable goods orders and global purchasing manager indices (PMI) remain strong.

In the wake of the shocking Capitol Hill protests and deaths, new media restrictions are now unfolding. This media suppression is naturally a sad development, but it is apparent that U.S. technology companies are bending over backwards to appease both China and the incoming Biden Administration. The recent aggressive actions by Amazon, Apple, and Google to destroy the Parler free speech application should be disturbing to everyone. In the end, the technology companies do not want to get hit with any antitrust action from the Biden Administration, so it will be interesting if their aggressive attempt to suppress opposing opinions, news, and free speech will win them favorable treatment on Capitol Hill despite both Democratic and GOP criticism.

The new Senate is now split 50-50, with incoming Vice President Kamala Harris being the swing vote. This effectively makes West Virginia Senator Joe Manchin the most powerful person in the Senate, since he will lead key swing votes. The good news is that Senator Manchin is not likely to agree to eliminating fracking, which will help to keep energy prices (e.g., natural gas) relatively low.

The key to American prosperity is to effectively turn the U.S. into a massive economic "free enterprise" zone. The stumbling block is that while some states, like Florida and Texas, are very pro-business, other states, like California and New York, continue to suffer from an exodus to more pro-business states. Companies like Goldman Sachs, Hewlett-Packard, Oracle, and Tesla are leading the flight to more pro-business states, with Texas clearly the biggest winner.

What really makes America great is that many of our 50 states are striving to lure business from other states with tax incentives, more educated workforces, as well as other benefits. Due to the precarious nature of the U.S. economy recovering from Covid-19, the Biden Administration must be careful not to increase income taxes for the first couple years, since they do not want to squelch any economic recovery. We do expect that Biden Administration will increase the SALT deduction to help residents in higher taxed "blue" states.

The Fed is sowing the seeds of inflation, since that is one of its policy goals, namely to get to 2% annual inflation. Since commodities are priced in U.S. dollars, commodity inflation is now brewing due to the recent weakness for the U.S. dollar. The Fed recently allowed the 10-year Treasury bond yield to rise above 1%, but has pledged to keep short-term rates ultra-low through 2023. The other reason that the 10-year Treasury bond yield rose was due to the perception that the Biden Administration would enact another stimulus package and substantially increase the U.S. federal budget deficit.

Overall, we are very optimistic for 2021. As millions more get vaccinated, states are expected to slowly, but steadily, lift their coronavirus restrictions. Due to favorable year-over-year comparisons, as well as higher trading volume due to new pension funding and other seasonal factors, we expect that the stock market will appreciate steadily through May. There could be some consolidation in mid-February as the fourth-quarter announcement season winds down, but otherwise, 2021 is shaping up to be a very strong year.

SUMMARY

The world has definitely changed in 2021, so we thought that we would highlight some of the biggest changes that we foresee for the upcoming months:

Change #1: China is now the leading economic engine in the world and has surpassed the U.S. as the most influential economy. Our trade deficit with China actually rose under the Trump Administration. The Biden Administration has already admitted that it wants to help China grow and prosper. The Globalist theory is that as China becomes more capitalistic it will naturally become more like Europe and the U.S. The problem is that China does not just want to prosper, but to dominate five key industries in conjunction with its 2025 plan and to boost its national esteem.

Change #2: The Biden Administration will be pushing a Globalist agenda and is being led by some influential technology companies as well as European allies. This means that outsourcing to the lowest cost provider will prosper regardless of borders. There is no longer an America First agenda. China will continue to influence our universities, our technology companies, and wield influence. Due to a weak U.S. dollar and the perception that a Biden Administration will be more friendly to China, we remain especially bullish on the Chinese stocks in our portfolios.

Change #3: The U.S. dollar will remain weak due to out-of-control spending and massive federal government budget deficits. A weak U.S. dollar causes windfall profits for multinational companies that dominate the S&P 500. Although a weak U.S. dollar can help make the U.S. more competitive, it is also inflationary longer-term, since commodities are priced in U.S. dollars.

Change #4: The coronavirus has accelerated the work at home trend, boosted productivity, and has caused technology companies, like Hewlett-Packard, Oracle, and Tesla to move their headquarters to Austin, Texas, since Texas was much less oppressive than California during Covid-19. Furthermore, Goldman Sachs is relocating its asset management division to Florida from New York. What really makes America great is that our states compete with each other and the most favorable states for business are booming.

In the current environment, our best defense remains a strong offense of fundamentally superior stocks. As an example, our average Large Cap Growth stock is characterized by 36.3% annual sales growth and 227.7% annual earnings growth. The average third-quarter earnings surprise was 22.6% and with the analyst community revising their earnings estimates upward by an average of 10.4% in the past three months, the fourth-quarter announcement season is shaping up to be simply spectacular.

At Navellier, we are immensely proud of the forecasted sales and earnings for our portfolios, which is why on our website, we publish weekly updates to show (1) Portfolio Fundamentals, (2) Earnings Scoreboard, and (3) Sales & Earnings Projections. In general, the year-over-year sales and earnings comparisons are going to be especially favorable in 2021 due to the coronavirus hindering economic growth in the first half of 2020.

We expect that there will be minimal media criticism for the first 100 days of the Biden Administration. The primary topic will likely be distributing the vaccines to protect Americans. Hopefully, the vaccines will provide hope for millions of Americans cooped up in their homes. However, the changes to our economy are expected to be permanent, even after most vulnerable Americans get vaccinated. Overall, many of our growth stocks are prospering from the work at home trend and leading the U.S. productivity miracle, so we are very optimistic for 2021.

LOUIS G. NAVELLIER
CEO/Chief Investment Officer

MICHAEL J. BORGEN
Senior Portfolio Manager

MICHAEL GARAVENTA
Portfolio Manager

TIM HOPE
Portfolio Manager

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1 East Liberty Suite 504 Reno Nevada 89501

800-365-8471 • 775-785-2300 • www.navellier.com