Haven Global Partners, LLC
Market Outlook: April 2021

2021: What a Difference a Year Makes!

The first quarter of 2021 saw a continuation of the rally that began at the end of March of last year. A sense of euphoria has taken hold of global equity markets. There is a strong desire on the part of market participants to move beyond the panic of the pandemic and rally. There is a case to support this way of thinking. All over the world, doctors are figuring out better ways to treat COVID patients and to top that off there is now a bevy of vaccines to prevent further spread of the Coronavirus. Surely this combination will allow us to get back to something approximating normal economic activity.

There is another side to the argument, though. There has never been an event like this, what would have to be called a self-induced recession all over the world. Economic activity screeched to a virtual standstill. In order to stop the rampant spread of the deadly disease associated with the Coronavirus, elected officials around the world did their best to slow down the human interaction which caused the disease to spread. Unfortunately, it is that same human interaction which makes our global economy run. Rather than a supply problem at the heart of this pandemic-induced recession, there was a demand shortage, or outright demand stoppage. So, where to from here then? Will investors be rewarded for courageously buying any dip in prices of the tech stocks that corrected in the wake of the news about the arrival of the first vaccines, or will the economy surprise to the upside rewarding investors who bought cyclicals betting on a robust re-opening? We are facing a stock market tug-of-war between those who have bought cyclical stocks and believe the global economy is destined to recover robustly and those who own the lockdown stocks which benefit from a stay-at-home economy because they do not think that citizens are going to go right back to their old way of doing things. Market direction as well as sector leadership hang in the balance.

From the bottom on the 23rd of March of last year global stocks have rallied remarkably! The ACWI ex-US index was up 73% from that day through the end of the first quarter of this year. Emerging Markets were up 78% over that period while the developed markets excluding the US were up 70%. Developed small caps were even better, up 91% during that period. The sector breakdown looks exactly as you would expect it to look in the wake of a massive risk-on rally. Information Technology stocks led all sectors with a return of +105%. That performance was closely followed by Materials up 98%, Consumer Discretionary +85% and Industrials up 80%. Financials and Energy were up 68% and 67%, respectively. The laggards were the usual suspects that trail in a robust market run-up. Staples was the worst sector up “only” 34%, Health Care stocks rallied 39% and Utilities were up 42%.

In our approach to investing, we strive to identify divergences, or differences between what we perceive to be the underlying fundamentals of a company and how the market is pricing that company’s shares. Our strategy is to take advantage of those divergences by buying shares in the companies that are trading at what is in our opinion a large enough discount to be worth trying to exploit. This current market is loaded with opportunities, a virtual stock picker’s paradise as leadership has broadened out. During the period marked by dominance of a very small number of (mostly) tech stocks, it was much more difficult to beat benchmarks. Now, the leadership is more spread out, good stock picking matters more in markets like these.

According to recent developments, the most important commodity in the world right now does not seem to be oil or even water but rather semiconductor chips. Semiconductors are in everything we use from cars to coffeemakers and of course computers and the world's most advanced weapons. All the leading countries in the world want to manufacture their own semiconductors, and the recent shortage of semiconductors which has led to production shutdowns in some sectors of the global economy has their governments even more worried. That is because the global semiconductor industry has very few players and as such could come to represent a significant risk to any government that could not get the semiconductors that it needed when it wanted them. This has led to a burgeoning "semiconductor nationalism" in which a small number of countries are deciding that manufacturing their own semiconductors is nothing short of a matter of national security. These countries intend to invest quite heavily in building the infrastructure required to make semiconductors themselves. Such investment is likely to lead to more revenue for a small number of companies involved in the manufacture of semiconductors, and we are invested in those companies and have been for some time now.

In an expensive market it does not take a lot to spur a flight to quality. That is something we think investors will need to keep an eye on going forward. We saw a dramatic change in market leadership in February as a significant rise in US Treasury yields seemed to sap the global market of its appetite for risk. This was particularly true in Emerging Markets, where currencies and stocks traditionally have a strong inverse relationship with Treasury yields and the US dollar. EM risk assets may not be spared additional underperformance if developed governments continue with their excesses in fiscal and monetary policy, as the EM governments are not in a position to match such largesse. Bond market selloffs have a nasty way of revealing unexpected fault-lines.

The rotation into cyclicals has happened. Will it continue to carry the day? Will the vaccine rollout be successful? It appears to be going quite well, thus far, especially in the US. Can that continue? Will consumers go back to their pre-pandemic routines? Will there be enough vaccine soon enough to create herd immunity in the entire global community before variants create enough of a problem to upend the recovery? Is there any case at all to expect a reversal from this march to the new normal? And if so, does it make sense to own defensives in the event this recovery is overturned? Watch this space; we will know soon.