

2nd Quarter 2021 Market Overview The Next Big Thing



My son, Jack, is a new investor and he recently asked me, “Dad, what is going to be the next big thing?” This is a meaningful question to address as we move to the second half of 2021.

Over the past year, many candidates emerged as “Big Things” and investors frantically chased these aspirational investment ideas.

First, it was the work-from-home stocks, last year, such as Zoom Video. Then came Tesla, as it soared. Certainly, technology, software, and internet commerce stocks had steep climbs. The vaccine raised the prospects for economic reopening, boosting travel and energy stocks. Then, there was the Gamestop-AMC melee’. Investors fell in love with solar, battery, and electric vehicle companies. SPAC stocks were caught in the whirlwind based on mere aggressive forecasts. Artificial intelligence stocks caught a wave of popularity. Crypto had its frenzy. Now, even space travel is deemed investable.

The problem is that most of these these moves were short lived and the gains quickly evaporated. Following the surge came a plunge.

This should serve us warning to beware of the “Next Big Thing”.

Everything happening in the financial markets, like the Fed printing money, has been whetting the risk appetite for investors.

This money does not stick, however. No sooner do the floodgates open into “The Next Big Thing” than the plug is pulled and “look out below”.

Just as important as the next “Big Thing”, is; what will crack next?

“....So many Worries and So few Declines”

Stocks posted their fifth consecutive quarterly gain and closed out the first half of the year at a record levels.

The economy has emerged from the pandemic and most believe it is still gaining in pace. Signs of a robust economy abound. Entering the second quarter, inflation was the key concern, but

lately, many key prices of materials like lumber, copper, and agriculture commodities have softened and taken the edge off inflation worries.

While the S&P 500 gained 8.1% for the second quarter, leaving the bulls in solid control, there is growing concern that further gains for the broad market will be hard fought.

In spite of the strength during the second quarter, it has not been straightforward, for the stock market. Banks and energy stocks led the way into May. It was interpreted that a robust economy would favor banks and energy over technology. In May, the NASDAQ fell 7%, led by precipitous drops in tech giants, Amazon and Apple. In June, the reverse happened as the NASDAQ rebounded. Also adding to confusion was that stocks recorded both their single best week *and* worst weeks in June, dating back to last October.

Additional unease stems from the bifurcation in the market. Sectors advance or decline at the expense of each other of each other. For example, tech stocks rise as bank stocks fall. Or, vice versa.

Since stocks are now in their second year of recovery from the pandemic, strategists are pointing to the second year, following a recovery, to be a rougher time for the market. There is a growing sentiment that the economy's rebound has been priced into this market.

Peregrine Holdings and Strategy

Client accounts hold a diversified basket of investments which should provide adequate protection from a downturn in the overall market and, at the same time, offer prospects for long term growth.

Our food, drugs, household products, and utilities holdings yielded disappointing results in the second quarter, but these are expected to fare better in the third quarter.

During the second quarter, we realized long term gains in our holdings of the I Shares Corporate Bond that we bought at the outset of the pandemic, last year. We also sold our holdings of Lyondell Basel Chemicals for a substantial gain in response to market volatility in May.

In the initial weeks of July, a proper pullback can allow for good entry points to the best areas of the market.

Dan Botti
Investment Manager 7/12/2021