

Market Update

10th September 2020

There has been considerable attention recently on the strong rally in US stocks which have comfortably outstripped European markets. The current valuations of technology companies have come under particular scrutiny. The US certainly enjoyed a very robust earnings season but despite this, some valuations now appear challenging. Apple is a prime example. This stock is up 60% this year and is now the world's largest company. Indeed, the market cap of Apple is now greater than that of the combined valuations of all companies within the FTSE 100, which is quite remarkable. Furthermore, the top five largest US stocks now trade on a price-to-earnings ratio of 44 times, this compares to the tech bubble in 1999, when the top five stocks hit 50 times. There is a great deal of good news baked into these share prices and should there be any shortfall in future earnings, these valuations could be put under pressure.

Tesla is another example of a runaway stock this year which has marginal profits on a price-to-earnings ratio in the region of 1,000. What is perhaps more surprising is that it is now the world's ninth largest listed company, despite the fact that Tesla only produced its first car 12 years ago.

Over the last few days there has been some speculation over the drivers of the strong rally in these stocks. There have been some significant transactions in the options market which could be behind some of the price moves we have seen. Interestingly, Nasdaq, the leading exchange for technology firms, experienced a sizeable reversal towards the end of last week which saw it down around 7% over last Thursday and Friday. It will be interesting to see how it will perform as we move into a new week with the US returning from the Labor Day holiday and whether there are any indications of a period of retrenchment. Our portfolios continue to be invested in a broad range of assets, so we are not overly concerned by these moves, nor were they wholly unexpected.

Jason Broomer, Investment Director

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