NAHMANI GRUNDER
WEALTH MANAGEMENT & MULTI-FAMILY OFFICE

Market Update

3rd of September 2020

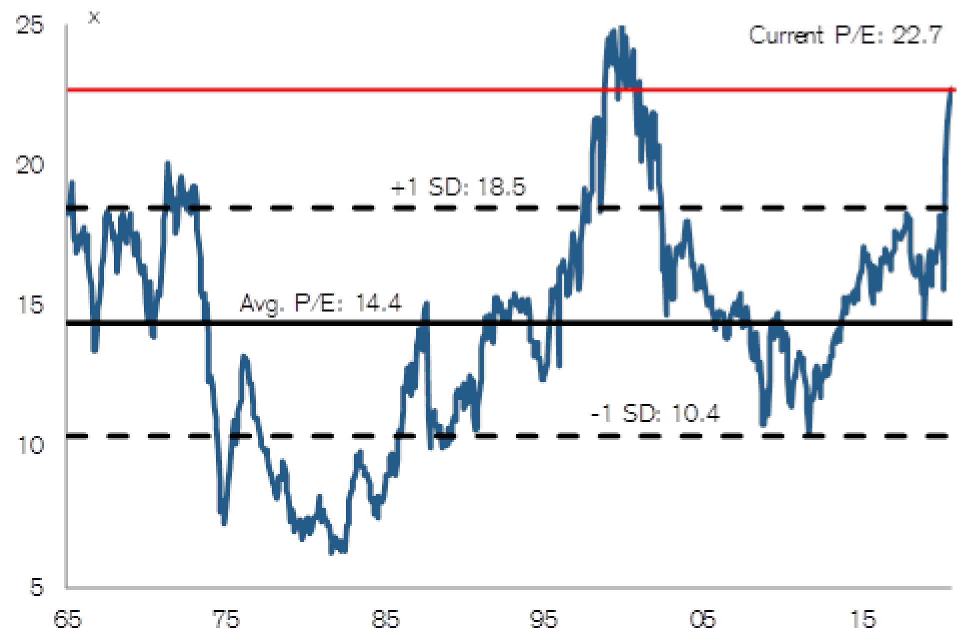
Dear Investor,

Our last Market Insight piece was published on 6 August 2020. Since then, risk assets, and especially equity markets, have continued their decisive grind higher with returns for the month of August ending up to be the best August in the last 25 years. As you know, **we have been a strong advocate of higher valuation multiples in equity markets, and especially the S&P 500 since April**, on the back of our confidence that FED would expand its balance sheet as the lender of last resort, while keeping its commitment to leave rates at zero well beyond the corona crisis. In the mean-time, Q1 and Q2 2020 earnings have come in better than expectations, especially in the Technology sector, further cementing our original thesis that S&P 500 EPS in 2021 would already normalize back to the 2019 level. **Our original S&P 500 target of 3,300 – 3,600 by mid-2021 was based on an implied P/E 2021 of 22.0x**, a clear- re-rating from the 2015 – 2019 P/E average of 18.2x.

As you see from the graph on the next page, **this is exactly what has happened since the corona-crisis crash in February and March 2020, with the S&P 500 experiencing an unparalleled P/E valuation expansion. On a next twelve month (NTM) basis, S&P 500 is now at 22.7x, which is now the highest level it has been since the 1999 dotcom bubble**. In the mean-time, S&P 500 closed last night (close of 2 September) at a level of 3,580, already at the high-end of our mid-2021 target range but 9 months ahead of time. **On our estimates, S&P 500 is now trading at a P/E 2021e of 21.6x, and we believe the air is getting thinner now for further multiple expansion at these levels.** .Our target P/E 2021 of 22.0x is based on a nominal 10-year Treasury yield of 0.75% and an equity risk premium of 3.8%, which is on par with the last 10-year average.

In the perennial fear / greed cycles that are so prevalent in markets and investor psychology, we can now see clear signs of the pendulum swinging into greed territory. Moreover, we continue to think that the period between Labour Day (7 September) to US Presidential elections (3 November) will be much more treacherous and volatile period for markets, compared to the calm waters of May to August. As such, **we have tactically decided to take equity risk out of our portfolios this week and lock in some profits** ahead of this period. Our clear Technology bias has helped our returns significantly in 2020 so far, but in that regard we also think it is time to move to the sidelines in the key Software segment, which has seen its valuation multiples double over the last 5 months. This valuation problem in Software is even more critical in the second-tier names, and thus the most fertile place to look for names to take profits in. Software has been a clear beneficiary of the corona crisis and the resulting impetus to accelerate digital transformation with enterprises, but in most places, this is more than priced into stocks at this stage, in our view.

S&P 500 Next Twelve Months P/E multiple



Source: Nahmani Grunder

S&P 500 EPS and current-year P/E multiple progression, 2015a – 2021e

S&P 500 EPS per calendar year with P/E bands							
	2015a	2016a	2017a	2018a	2019a	2020e	2021e
Operating EPS	118.20	119.08	132.95	162.91	164.58	130.3	164.5
Growth (YoY)		*0.7%*	*11.6%*	*22.5%*	*1.0%*	*-20.8%*	*26.3%*
Price low	1867.6	1829.1	2257.8	2351.0	2447.9	2237.4	
Price high	2130.8	2271.7	2690.2	2930.8	3240.0	3580.8	
Price close	2043.9	2238.8	2673.6	2506.9	3230.8	3580.8	
P/E low	15.8	15.4	17.0	14.4	14.9	17.2	
P/E high	18.0	19.1	20.2	18.0	19.7	27.5	
P/E close	17.3	18.8	20.1	15.4	19.6	27.5	21.8
P/E range	15.8 - 18.0	15.4 - 19.1	17.0 - 20.2	14.4 - 18.0	14.9 - 19.6		

Source: Nahmani Grunder.

All the best,

The Nahmani Grunder Investment Team