

ECONOMY

Beach sector portfolio turns heads

THINK STRATEGICALLY:

What is Stock Rotation and Its Significance for You

Stock Rotation Demystified

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Typically, most people think of stock rotation as a way of lessening losses, most notably as a practice in the retail and hospitality industries. For example, restaurants and supermarkets will move products with an earlier sell-by date or perishables such as seafood to the front of a shelf or in the menus as a special, so they sell first.

Pretty much a first-in-first-out (FIFO) type of process. Well, we are using the same analogy for the U.S. stock market. The current market conditions have stock rotation written all over as the economy recovers, job growth takes hold and companies see more significant than expected earnings. We have seen investors rotate their stock holdings, selling those sectors most favored during the pandemic, such as tech companies and communications, and buying those shunned during the pandemic, such as entertainment, airlines, cruise lines, car rentals and hotels.

To drive home our point, we will highlight our Beach Sector portfolio choosing the six companies with the best returns. This portfolio has 12 stocks and all have recently seen triple- or double-digit growth.

Beach Sector Stocks: Performance from March 23, 2020 to March 19, 2021

Avis Budget Group (CAR) achieved a 412.30 percent yield, which exceeds all indexes, and closed at \$67.43.

Royal Caribbean Group (RCL), achieved a 226.01 percent yield, which exceeds all indexes, and closed at \$90.72

American Airlines Group (AAL) achieved a 146.03 percent yield, which exceeds all indexes, and closed at \$24.93.

Carnival Corp. (CCL) achieved a 143.70 percent yield, which exceeds all indexes, and closed at \$28.96.

Intercontinental Hotels Group (IHG) achieved a 131.27 percent yield,

which exceeds all indexes, and closed at \$69.64.

Marriott International (MAR) achieved a 119.01 percent yield, which exceeds all indexes, and closed at \$152.28.

For example, had any investor purchased 2,000 shares of Avis Budget Group (CAR) stock on March 23, 2020, at \$13.40, a \$26,800 investment, and sold it last Friday, March 19, 2021, the net gain would have been \$108,060, or a 412.30 percent return on investment.

Week in Markets: Pandemic Anniversary and 100 Million Vaccines Goal Reached, Wall Street Mixed

Tuesday, March 23 marked the anniversary of the pandemic, the exogenous shock that made the stock market touch bottom and, with it, ended the shortest bear market in history.

Since that terrible period, most stock and long-term bond yields have increased as the world's economic recovery became not a dream but a dramatic reality.

As the Federal Reserve announced that the temporary change to its supplementary leverage ratio, or SLR, for bank holding companies would expire as scheduled on March 31, the impact on bank holding company stocks was immediate.

Thus, we decided to analyze the performance of the Birling Capital U.S. Bank Index.

The Birling U.S. Bank Index had a strong 2020 among the top six bank holding companies.

We analyzed their stock from their lowest point in the pandemic, or March 23, 2020, to March 19, 2021—one year. The index's performance is 60.71 percent, which lags significantly compared with the Dow Jones Industrial Average, which reached 77.93 percent.

The Birling Capital U.S. Bank Index (BCUSBI) includes the following

institutions, ranked according to their performance compared to the Dow Jones Industrial Average:

Morgan Stanley (MS) achieved a 198.2 percent yield, surpassing both the BCUSBI and the Dow Jones, closing at \$82.94.

Goldman Sachs (GS) achieved a 155 percent yield, surpassing both the BCUSBI and the Dow Jones, closing at \$344.20.

Bank of America (BAC) achieved a 113 percent yield, surpassing both the BCUSBI and the Dow Jones, closing at \$38.53.

Citigroup Inc. (C) achieved a 106.3 percent yield, surpassing both the BCUSBI and the Dow Jones, closing at \$73.01.

JPMorgan Chase (JPM) achieved a 96.31 percent yield, surpassing both the BCUSBI and the Dow Jones, closing at \$155.14.

Wells Fargo & Co (WFC) achieved a 56.95 percent return, lower than the BCUSBI and the Dow Jones, closing at \$39.63.

Bank holding stocks can be outstanding long-term investment opportunities, but they are not suitable for all investors. Bank stocks are in the middle of the risk spectrum. Banks with their exposure to all kinds of industries are bound to be hit by the occasional recession and are very sensitive to interest rate fluctuations and credit defaults, among other risks. We suggest that every investor reviews whether investing in this sector fits their overall financial goals and investment strategy.

Weekly Market Close Comparison	3/19/21	3/12/21	Return	YTD
Dow Jones Industrial Average	32,627.97	32,778.64	-0.46%	6.60%
Standard & Poor's 500	3,913.10	3,943.34	-0.77%	4.18%
Nasdaq Composite	13,215.24	13,317.86	-0.77%	2.54%
Birling Puerto Rico Stock Index	2,496.45	2,518.24	-0.87%	22.07%
U.S. Treasury 10-Year Note	1.74%	1.64%	6.10%	0.80%
U.S. Treasury 2-Year Note	0.16%	0.14%	14.29%	0.75%



The Final Word: Which are the Driving Forces and What should Investors Expect

Some of the driving forces that have pushed stocks to new records include the outsized fiscal stimulus, the broad measures implemented by the Federal Reserve and the gradual reopening of the economy. As these forces combine to support the world's largest economy, they will continue to provide broad support, fueling the current bull market's second year.

Let's look at the facts:

The U.S. economy ended 2020 with 4.1 percent GDP, and the Fed just projected a rise of 6.5 percent.

While new unemployment claims and the unemployment rate remain high, with nearly 9 million Americans out of the workforce, the projection is the numbers will likely continue to decline; however, with so much

digitization, combined with remote work, we will not know the true figures until at least the third quarter of 2021.

A key statistic to consider is that the services sector makes up 70 percent of the U.S. labor force, and the sector is seven percent down from its 2019 numbers.

Another positive factor is the massive vaccination efforts that President Biden has pushed ahead. We must report that last Friday, the president's goal of vaccinating 100 million Americans was accomplished more than a month earlier than planned. The president has now set the goal of 200 million by April 30.

Francisco Rodríguez-Castro is president and CEO of Birling Capital LLC. Think Strategically® is a publication by Birling Capital LLC that summarizes recent geopolitical, economic, market and other developments. This report is intended for general information purposes only and does not represent investment, legal, regulatory, or tax advice. Recipients are cautioned to seek appropriate professional counsel regarding any of the matters discussed.