Lead Left Interview – Stephanie Link

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This week we chat with Stephanie Link. Stephanie is a managing director and equity portfolio manager for TIAA Global Asset Management. She manages large-cap equities primarily based in the US. She is also a CNBC contributor and appears regularly on *Closing Bell* and *Halftime*.

The Lead Left: Stephanie, what do you see when you look at the markets today?

Stephanie Link: Beginning last July, the shift we've seen in sectors and rotation is absolutely incredible. We expected 2016 to start soft, then recover, but we got it in spades. We knew there was a potential for resumption of growth. But if someone asked, "Do you realize you had a Trump portfolio?" The answer was no.

There's been, of course, a balance sheet shift. The Bank of Japan and the European Central Bank have made significant changes on the policy front. Over the last several years, Global Central Bankers focused on monetary policies which drove rates lower – in some instances record low rates. What changed – and it began in July of 2016, was the shift in tone from doing just monetary policy programs worldwide to one that would accompany fiscal policy initiatives. And that led to the bottoming in rates – again in July of 2016. Rates have rallied over 100 bps from the lows, optimism has risen about improving global rates, and cyclical stocks have outperformed. That includes financial services, materials, industrials, technology and value (vs. growth) stocks.

TLL: What do you think of the Trump rally? Is it sustainable?

SL: We did see a nice high at the end of the fiscal year. Now the onus is on the data. We need to see better economic data then improved earnings for higher market moves. So far [the data] has shown improvement and that the recovery is gaining momentum. There is real improvement in global PMIs, ISMs, capacity utilization levels and industrial production. Consumer sentiment and confidence is at or near record highs.

TLL: What's the news coming from earnings reports?

SL: We're now starting to hear from companies. So far we've heard things are pretty good across the board, though not great. And as you'd expect, the manufacturing side of things sounds like it is beginning to recover. Companies such as Alcoa, Caterpillar, Cummings, Rockwell Automation, are showing signs of life. We were speaking to the CEOs of Honeywell and 3M recently. They said that since Trump has been elected, small and medium size companies seem to be more optimistic. The question is will this translate into sales? That's the big question, in my view. We'll continue to follow up on the macro data and listen to what the companies have to say about business trends – especially forward looking guidance.

While manufacturing has seen a slow recovery, it's just 12% of the US economy so we really need the consumer to remain strong (70% of US GDP) – and that should be the case given lower unemployment and improving wages. But for the most part consumer companies report later in the season so we have to wait that one out for now.

TLL: So what kind of worries are present out there?

SL: Well, consumer activity and wages are okay. Jobs are okay, although there has been a massive shift in consumer behavior and therefore, for the consumer companies. For example, department stores can't keep up with Amazon. Consumers are also spending on experiences, latest Smartphones, going out to eat vs. say, apparel. So, spending is very particular. There are winners and losers. But clearly as inflation rises and interest rates increase the impact to the consumer will have to be watched very carefully. If the moves are gradual, that should be fine.

I do worry that we don't know what the policies of this administration will be. And have the growth expectations out there gone "too far, too fast". Earnings are looking good early on, and more are beating their estimates. And the recovery in earnings within the energy sector, which is 9% of the S&P 500, should also be a nice tailwind for overall earnings. That will be beneficial for confidence.

But at 18x forward estimates, the market isn't "cheap" and as growth and inflation creep higher, the question will become what earnings multiple do you pay for those earnings. I think to worry about that now is premature – but it is something I worry about.

TLL: When have you seen a time period comparable to what we are going through now?

SL: We've never seen this massive monetary policy before. It is really a unique time. There's been such slow growth out of the recovery, so you won't see an escalation of inflation. It will be a gradual recovery. You're dealing with a still depressed global economy. They are easing, we are tightening. So we will need to watch that closely.

TLL: Given rate expectations, what's your view on bonds?

SL: Good question. Will we see the great rotation out of bonds into stocks? If not, where will the cash come from for stocks? Investors have been trained after a 30-year bond rally to stick with them. And for the most part I don't think people will completely change their allocation away from bonds to stocks. Perhaps changing their duration or reducing their allocation gradually. But until interest rates (the Treasury bond) get over 5% – it's premature to think for bond holders to run for the hills.

To be continued the week of Feb 27

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