
D.F. Dent All Cap Growth Strategy

October 2020 Commentary

In the third quarter of 2020, the S&P 500 continued its historic recovery following the pandemic-induced 35% decline in February and March. While the second-quarter U.S. economic contraction was the sharpest on record, markets have regained their footing. The round trip from record high, to bear market territory, and back to new highs was the fastest in modern history. There are a variety of factors that have contributed to this epic snapback. Perhaps most important was the early, sustained, and powerful response from the Federal Reserve and the U.S. government. Short-term interest rates fell to almost zero percent, and the Fed flooded markets with liquidity. These actions by the Fed, along with fiscal stimulus by Congress, pushed the value of financial assets higher. Another powerful force has been the continued strength of mega cap tech stocks – the FANMAG stocks (Facebook, Amazon, Netflix, Microsoft, Apple, and Google) are up an average of 42% year-to-date through 3Q20, significantly outperforming both the broader market and the average stock’s return. While the market recovery has been mighty, it has also been quite narrow.

Market Thoughts

We expect that the coming months could see a continuation of the increased volatility that began in September. In our view, investors will be grappling with the upcoming election, the potential for a COVID-19 resurgence in the fall and winter months, and questions around potential incremental fiscal stimulus. The U.S. election, while providing plenty of drama and sound bites, will also have implications on a variety of factors that are important to investors, including taxes, fiscal stimulus, regulation, and foreign affairs. Any uncertainty regarding the ultimate election outcome could spur additional volatility.

At the same time, we also see potential positive catalysts. First, the successful passage of further stimulus funds would likely reassure markets. Second, any news of a successful COVID-19 vaccine may spur a positive market response. Most experts expect this is likely in 2021. However, as markets are typically forward looking, the market may anticipate a vaccine well before any announcement and respond accordingly. When that transpires, there may be a change in leadership in the market, away from the “pandemic trade” and in favor of a “re-opening trade,” which will likely benefit some of the companies that have lagged this year.

We continue to “stick to our knitting.” We are invested in best-in-class companies with strong management teams that we believe can weather this challenging environment. Our meaningful investments in life sciences companies have benefited from research brought about by the pandemic, which we believe will continue for years to come. While tech valuations appear stretched for some companies, we continue to own best-in-class technology companies with stellar management teams that we believe will be long-term secular winners. We are sizing our positions appropriately for the levels of risk we see and remain cognizant of diversions between price and value.

We are, and always will be, stock pickers. We will invest in companies where we see good growth prospects and valuations that are not excessive. We believe this strategy will serve us well over market cycles, regardless of shorter-term market movements or longer-term changes in market leadership.

We hope you and your families are well and are finding silver linings in what has been a very challenging year. D.F. Dent colleagues recently shared their own silver linings with each other. They ranged from the opportunity to be at home to

witness a child's first steps, to reconnecting with family members, to extra time to repair a broken fence. We are looking forward to a socially distanced volunteer event together in October.

As always, please feel free to reach out to us with any questions or concerns. We welcome the chance to discuss your portfolios or simply just to say hello. We appreciate the confidence you have placed in D.F. Dent and Co and will continue to work diligently on your behalf.