

Citi Private Bank sees modest overall market gains in 2021, but loves these ‘unstoppable’ trends

By Patti Domm
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U.S. large caps are likely to see modest gains next year as the economy recovers from Covid, but stocks that are caught up in “unstoppable” trends like green energy and 5G should outperform, according to Citi Private Bank.

“I think that U.S. large cap stocks have mid-single digit returns in 2021,” said Steve Wieting, chief investment strategist and chief economist at Citi Private Bank. Wieting said even after the more than 18% bounce in the small cap Russell 2000 in November, he sees it as an overweight and a sector that could outperform over the next 12 to 18 months.

Wieting said a portfolio of U.S. stocks should hold some pricier growth names and cheap cyclicals, which still have room to grow as the economy recovers.

Big Tech and the stay-at-home winners like Zoom have perhaps gotten expensive, according to the firm.

“Most impacted stocks in the U.S. from Covid are down 20% year-to-date, but the strongest beneficiaries are up like 50%. ... That’s 70% points of dispersion. At this point, we’re not going to overweight the Covid winners, but they may end up being long term outperformers,” he said.

Wieting said investors viewed technology as a defensive play during Covid, but he is now neutral on the sector. “We’re a little more cautious, neutral on large cap U.S. tech. We have defended buying them on sell-offs. Every time, they sold-off, they never did anything but outperform,” said Wieting. He said the higher growth stocks tend to be more interest-rate sensitive. “They performed so well this year that I would want to tactically shift elsewhere,” he said.

Wieting said health care is attractive and has been lagging. “Within growth, the thing that’s been left behind most is health care,” he said, noting medical devices and biotech are in that category.

“I’m advocating a long term overweight for the health care sector. At the wrong price, we wouldn’t but health care has been the steadiest outperformer,” he said.

Wieting said 2021 is a year when Covid-impacted sectors should heal, particularly in services sectors. Real estate investment trusts could also make a comeback.

“The highest quality retailing REITS I think can outlast this Covid shock. We’re not investing solely there. We’re investing in apartment REITs. My sense is there’s a balance here across real estate,” he said.

Wieting said trends he likes to follow now are related to 5G mobile technology and chips and other technology that goes into it. He also said the green trend hit a turning point.

“The cost of production and distribution of solar power on a kilowatt basis, a standard unit, is now cheaper with the decline in petroleum,” said Wieting.

“If you are in China, India or the United States, it becomes the cheapest way to generate a kilowatt of electricity,” he said. He added that the evolution and acceptance of electric cars is also an unstoppable trend.

With Covid depressing demand, traditional energy companies are the worst performers this year.