# BARRON'S

#### COVER

## **37 Stocks Poised to Emerge Even Stronger After the Crisis, According to Barron's Investing Experts**

#### By Lauren R. Rublin

Long ago, in a kingdom far away, people zoomed around in fancy sports cars, wore masks on Halloween, and worried that the national budget deficit would spell the ruin of America as we knew it. Today, we Zoom on laptops, wear masks every day, and pay no attention to the deficit, which reached a staggering \$2.7 trillion in the first nine months of the government's current fiscal year. The alternative to massive federal outlays to keep the economy afloat amid a global virus pandemic would be unthinkably worse, almost everyone agrees.

Everyone includes the members of the Barron's Roundtable, who applaud the moves taken this year by the Federal Reserve and the federal government to flood the financial system with desperately needed funds. To be sure, so much stimulus has distorted asset prices and lifted stock indexes to nosebleed levels, but our 10 panelists see no reason to fight the Fed. Someday, they figure, the economy will heal from this year's body blows, corporate losses will turn to profits again, and stocks will be valued according to traditional metrics, not pie-in-thesky expectations of untenable growth. The development of safe and effective treatments and vaccines for the deadly, disruptive coronavirus would go a long way toward hastening that day.

While the Roundtable crew confessed, in recent telephone check-ins, that they see little to like about the broad stock The following has been excerpted

market, they see much to admire in individual issues that have been left behind as the S&P 500 and Nasdaq Composite indexes have surged. Most of their favorite names these days are drawn from the tech, telecom, and health-care sectors.

Some are beneficiaries of trends accelerated by the pandemic, such as the growth of e-commerce and working from home, while others are plays on the economy perking up later this year or, more likely, next. Above all, these experts are looking for companies that have used today's dislocations to fortify and improve their businesses, with the aim of emerging stronger on the other side.

You'll get the goods on 37 promising stocks and funds in the edited conversations that follow. You'll also learn how some of the savviest investors are thinking about today's unprecedented challenges, and the opportunities they could create.

#### Rupal J. Bhansali

#### *Barron's:* Rupal, you're a value investor in a market that favors growth. How are you coping? Rupal J. Bhansali: It's all about the

power of good stock-picking. I see a di-

Rupal J. Bhansali's Picks
China Mobile CHL \$34.91
Telefonica Deutschland Holding 02D.Germany €2.70
GlaxoSmithKline GSK \$41.22
Gilead Sciences GILD \$76.35
Roche Holding RHHBY \$43.79
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Prices as of 7/2/2020 Source: Bloomberg

chotomy between the troubles on Main Street and the exuberance on Wall Street. Either the realities of Main Street will have to catch up with Wall Street's expectations or Wall Street will have to catch up with Main Street's experiences. I feel that the latter, not the former, will happen, which means a material market correction is coming. The Fed has averted distress, but has also subverted price discovery. The markets will eventually call the Fed's bluff.

Regulatory forbearance has allowed financial institutions to avoid incurring nonperforming loans, and the stimulus program has delayed the aftershocks of the current crisis. The Fed has backstopped

markets successfully for almost a decade. This was supposed to be temporary, but has become quasi-permanent. Japan tried this playbook many years ago, and it failed. Eventually, Japanese companies had to take the bitter pill and deleverage. Now, Japan has some of the strongest balance sheets in the world.

### What will finally knock the Fed off its current course?

I expect a reality check in the fall, as companies realize this recession will be more protracted and pronounced than they thought. That will cause a reset in

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We see two areas of future opportunity: telecoms and health care. China Mobile [CHL], a January recommendation, has sold off because of noise about delisting the U.S.-traded shares of Chinese companies. Shares now trade for nine times earnings and a 6% yield. I want all my stocks to do double duty: Ideally, they must offer income and capital appreciation. While China Mobile's shares have fallen 18% year to date, the fundamentals of the business haven't deteriorated. The stock offers tremendous value. The company has \$40 billion of net cash and is the largest wireless carrier in China, with 5G vet to come.

#### The stock has been sliding for several years. When will the market recognize this value?

Many emerging market stocks have been out of favor, as have value stocks. This has been an acute headwind for China Mobile. Growth stocks like Alibaba and Tencent have gotten a lot more mind share in terms of performance. But throughout this period of underperformance, China Mobile's business has gone from strength to strength.

Telefóica Deutschland Holding (O2D. Germany) is the third-largest wireless telecom carrier in Germany. It, too, yields 6%. Germany has among the lowest average revenue per mobile user in the developed world. Data usage in Germany is very low, partly due to demographics. Older people have less propensity to consume data. But it is inevitable that usage will rise, along with monthly bills. Telefóica Deutschland's growth isn't dependent on GDP growth or other externalities. It will grow by starting from a low base.

I have three health-care names. GlaxoSmithKline [GSK] yields almost 5% and offers single-digit organic earnings growth. Gilead Sciences [GILD] has a 3.5% dividend yield, with underlying growth coming from its core franchise in HIV and, potentially, remdesivir, a drug that could be used to treat Covid-19. Roche Holding [RHHBY] is a leading player in oncology. Telecoms and healthcare companies have strong balance sheets, strong market positions, and undervalued shares.

#### Why not pick Merck [MRK] or Pfizer [PFE]?

Glaxo, Gilead, and Roche are platform companies, as opposed to product companies. Their successor drugs come off the same mechanism of action and knowledge base as prior drugs. The risk of failure is lower, and the probability of approval is greater. We don't like Apple [AAPL], for instance, because it is a product company. If the next product doesn't sell well, that's problematic as earnings prospects become binary rather than bankable.

#### So far, the market has a different view of Apple—and Netflix [NFLX] and SoftBank Group, which you recommended shorting at the January Roundtable. Are you sticking with those shorts?

Yes. The fundamentals and share prices continue to diverge. In the case of Netflix, the future is riddled with competition, whether from Disney's [DIS] Disney+, or Amazon's Prime Video, or other streaming entertainment offerings. The revenue stream is fickle, not sticky. Subscribers can cancel at a moment's notice.

I believe there is a strong likelihood of a regime change in the markets. There are early signs of a reversal in many of the market's underpinnings, from lower inflation and tax rates to productivity gains, population growth, and global trade. Many longstanding positives could unwind in coming years and decades. On the political front, populism and nationalism are on the rise, and they don't tend to play out well for stock markets. Eventually, the stock market will reflect these things.

In the article Rupal Bhansali candidly discusses a number of her opinions. These opinions are current as of the date of the article but are subject to change.