Appian Asset Management

Monthly Monitor

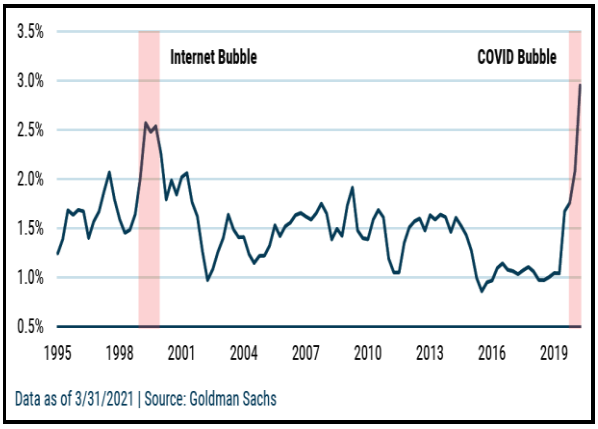
May 2021

The speculative bubble is bursting, could it take expensive 'Glamour' stocks with it?

There is a big difference between investing and speculation. Investing is taking part ownership of a asset and getting compensated via dividend income or share price improvement. A speculator is not interested in the long-term growth of business. They are focused on short term movements in price in the hope of selling for a higher price that they paid. They do not view a share as part ownership of a business rather a chip in a casino.

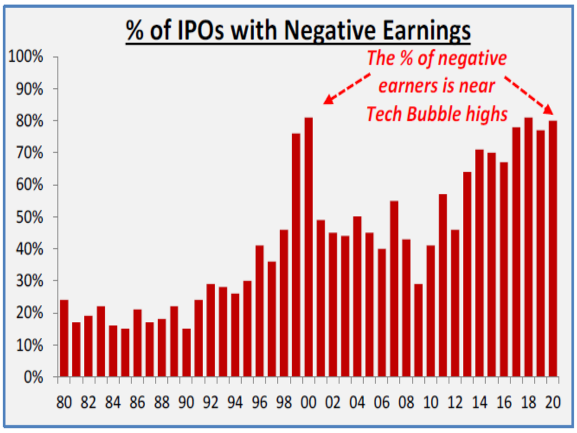
Speculation is part and parcel of markets in normal times. However, in 2020 and through to the first three months of 2021 a speculative bubble formed. This bubble has now burst. The bubble was driven by both policy drivers and behavioural drivers. The policy drivers included ultra-low interest rates, unprecedented fiscal stimulus, and unprecedented monetary stimulus. The behavioural drivers included excess savings with nowhere to spend, low-cost trading and millions stuck at home. The most visible excesses were in SPAC's (blank cheque companies), Non profitable technology companies, Crypto currencies, and stocks with high levels of short seller interest (e.g. GameStop). The charts below show the level of speculative excess.

SPAC Issuance



Source: Goldman Sachs

% of IPO's with negative earnings



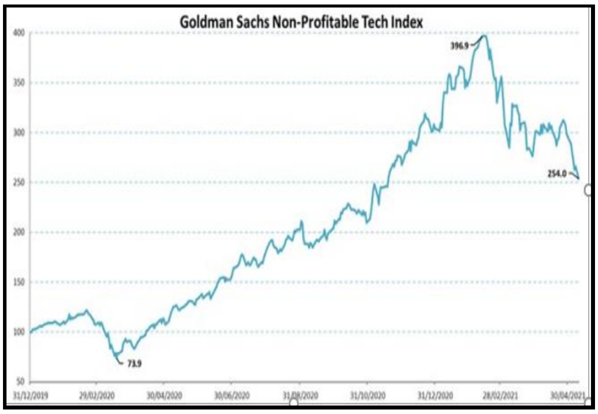
Source: Wolfe Research

42 Fitzwilliam Place, Dublin 2. T: +353 1 662 3001 F: +353 1 661 9871 appianasset.ie

Registered in Ireland No. 364773. Registered Office: 42 Fitzwilliam Place, Dublin 2
Directors: Eugene McCague, Patrick J Lawless, Enda McKenna, Jennie Power, Pat Cox, Greg M Lawless, Patrick A. (Tony) McArdle

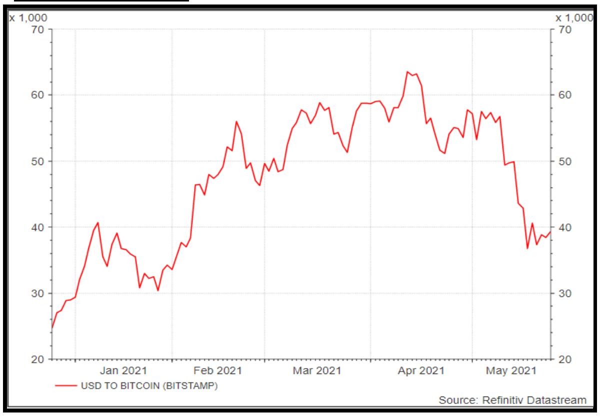
An important lesson from history is that all speculative bubbles end. And this one is ending too. They have plenty of room to fall further but the descent has begun. The GS index of loss-making technology companies has now lost 36% in the last three months. Bitcoin has lost over a third vs. the US$.

GS Non-Profitable Technology Index



Source: Robeco, Goldman Sachs

Bitcoin to US$



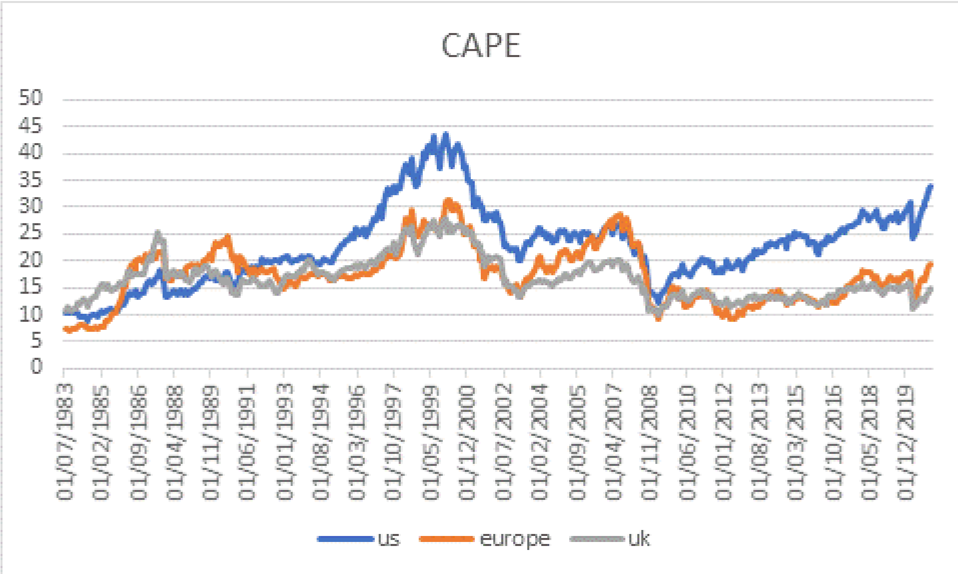
Source: Thomson Datastream

An important question to ask is 'does the sell of the extreme speculative areas leave the overvalued areas of the markets vulnerable?'. We believe the answer is 'Yes'. Glamour Stocks such as the US Mega cap growth names (Apple, Amazon, Netflix, Tesla etc.) have benefitted from the same policy and behavioural tailwinds. They are now trading on extreme valuations. A reversion to historic valuation levels would lead to potential significant losses for investors.

	S&P 500 Index		Individual Stock Median	
Valuation Metric	Current	Historical Percentile	Current	Historical Percentile
Forward P/E	21.1x	89%	23.9x	95%
EV / EBITDA	16.2x	98%	18.8x	100%
EV / Sales	3.5x	100%	5.6x	100%
Free Cash Flow Yield	3.7%	79%	3.3%	78%
Price / Book	4.5x	94%	5.5x	99%
U.S. Market Cap / GDP	242%	100%	NA	NA

Source: Wolfe Research

The good news is that there are plenty of opportunities outside large cap 'Glamour' stocks. We are finding opportunities in pockets of the US market including the Financials sector. We are also seeing good Value the UK and European markets where valuations overall remain attractive. Long term investors focused on valuation and underlying fundamentals will uncover such opportunities.



Source: Appian Asset Management

Registered in Ireland No. 364773. Registered Office: 42 Fitzwilliam Place, Dublin 2
Directors: Eugene McCague, Patrick J Lawless, Enda McKenna, Jennie Power, Pat Cox, Greg M Lawless, Patrick A. (Tony) McArdle

Appian
Asset Management

Monthly Monitor

Appian AM NAV's Fund Prices 30-04-2021

NAV		MTD	QTD	YTD	SI
		%	%	%	%
AMAF	170.1638	0.16%	0.16%	8.89%	70.16%
AGDGF	231.3854	0.53%	0.53%	16.34%	131.39%
AGSCOF	227.9926	4.70%	4.70%	18.94%	127.99%
AIF	127.9472	1.08%	1.08%	8.23%	27.95%
AELF	102.6395	-	-	-0.41%	2.64%
ABPF	126.69	-	-	2.44%	26.69%

Appian Asset Management Limited is regulated by the Central Bank of Ireland.

Warnings

- **If you invest in any of the funds you may lose some or all of the money you invest.**
- **Past performance is not a reliable guide to future performance.**
- **Appian Funds may be affected by changes in currency exchange rates**
- **The value of your investment may go down as well as up.**