Investor Beware: Growth Stocks Could Take Another Hit to the Chin

Description

The stock market has moved on from inflation jitters, and the surge in the 10-year U.S. Treasury note yield, which weighed most heavily on growth stocks. Today, rates have peaked and are likely to remain calm at around the 1.5% mark. To many, rate woes their implication on growthier stocks has been left behind in the first quarter.

Get ready for some serious volatility

The growth-heavy **Nasdaq 100** has posted a full recovery from its correction, and many folks are getting back into their favourite growth winners of 2020. But is it too early to conclude that the pain in growth stocks is over or that 10-year yields won't urge again?

Some people at **Wells Fargo** certainly seem to think so. Wells Fargo Securities' head of macro strategy Michael Schumacher recently told CNBC that yields could get back on the ascent again. Stimulus-induced inflation jitters and an overly dovish U.S. Federal Reserve could be paving the way for higher rates, perhaps much higher.

Rates have surged over 70% over the past year, and although they're taking a breather, there's no telling when it'll pick up again and what the implications will be for growth stocks. Schumacher thinks that the 10-year yield could ascend to 2.1-2.4% by year's end.

Will it shift to 2.4% 10-year yields this year? Such a move could be devastating for stocks, especially growth stocks, which could lead the next downward charge. In many prior pieces, I urged investors not to sleep on the descending bond yield, also noting that the odds of a continued rotation out of growth and into value was high.

Could another growth-to-value rotation strike?

The U.S. Federal Reserve chairman might be put between a rock and a hard place if rates were to surge to or even above Schumacher's target. Could he implement Operation Twist to cap yields? Or will he be comfortable letting the stock market retreat in response to aggressive action in the bond market?

Nobody knows. That's why I'm a huge advocate of diversification in a market environment like this. The appetite for risk-taking has climbed to unprecedented levels in recent months. There's a lot of margin debt, and I'm sure the Fed wouldn't mind if some of the froth were taken right off the top of this surging stock market.

If you're one of many beginners who finds that their portfolio is overweight in tech and growth stocks that won big in 2020, it may be time to take a little bit of profit off the table if you're light on value. Now, I don't think investors should panic at this juncture over the thought of rates north of 2%. Rather, I do think it's only prudent to be ready for whatever Mr. Market has in store for the rest of the year.

A value stock as boring becomes beautiful and growth stocks become turbulent

That means being ready for 2% or even 3% rates this year and a vicious growth-to-value rotation that could drag the Nasdaq 100 into bear market territory. **Fortis** is one value stock that I think could be a major beneficiary of a rotation back into value stocks. Fortis seems too cheap for its own good at this juncture, and I do think it will win the appreciation of investors in an environment where value, and not growth, investing is sexy.

Boring value stocks can be beautiful in such a wildly volatile environment. And it's tough to find a stock that's more boring than Fortis. If you're not prepared for 2-3% rates on the 10-year, now is as good a time as any to get ready, so you're not caught offside if bond yields were to surge again. Be contrarian and get ready for a bumpy rest of 2021.

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