

# Looking Ahead

## Investment Trends Across Equity Sectors



Health Care



Retail



Technology



Financials



Consumer Discretionary



Industrials

Perhaps never in our lifetimes has a turn in the calendar been as highly anticipated as the change to 2021. Although widespread consensus on many topics—political, social, economic, and environmental—may remain elusive, it is fair to say that few object to seeing 2020 in the rearview mirror. With the new year underway, our eyes are on several trends that seem meaningful to us, beginning, of course, with the rollout of COVID-19 vaccines. In this piece, portfolio managers from our various equity teams share their views.



## Health Care

**A**mid an alarming spike in COVID cases in recent months, we are heartened by the fast pace of clinical trials, their success in producing what appear to be safe products with high indicated efficacy, and early regulatory approvals of several vaccines. While the pace was slow at first, the speed with which these vaccines proceeded is remarkable by a variety of measures. The schedule of rolling out the vaccines suggests that a large portion of the population will have an opportunity to begin building immunity within a matter of months. Although it is far too early to declare victory in the battle against COVID-19, the advances made in research and testing techniques suggest there will be further opportunities in the pharmaceutical, equipment and supply chain subgroups within health care where so much of this innovation and critical infrastructure buildout continue.



## Retail

**W**e are hardly the only investors to notice and course-correct for the evolving patterns of consumer behavior that have either been triggered or accelerated by COVID. Online shopping existed long before this virus, of course, but we believe the convenience and ease with which much commerce can be accomplished with little or no exposure to traditional retail outlets is here to stay. The focus on consumer spending has emphasized the home environment. While this trend will continue, at some point in the not-too-distant future, travel, shopping, and recreation opportunities will once again feel safer. Being out among other people in larger groups will not carry the risk and stigma it has of late. Notwithstanding, the return of shopping in person will not likely derail the conversion in overall consumer spending to online.



The deployment of vaccines will further enable more normal utilization patterns within the health care system. While the sector adapted to the evolving conditions induced by COVID, in part thanks to increased uptake of digital tools such as telehealth platforms, a recovery of volumes will be welcomed by medical device, biopharmaceutical, and hospital operators alike. That said, we are also focusing on the structural implications the pandemic may have with respect to access to care, site of care, modality of care, cost of care, politics of care, and coordination of care. Companies in the health care sector able to offer solutions which yield improvements across these paradigms are positioned to reap share in what is an increasingly complex but growing market.

— SBH All Cap team perspective



COVID has impacted every individual consumer in a unique way, whether it be from a physical, economic, social, or psychological perspective. While wallet share may shift between goods to services in the months and quarters ahead as the vaccines foster increased mobility, consumers will remain purposeful in their spend over the coming year. Whether it be deciding which sweater to buy or hotel to book, the decision will be determined by an evaluation of value, convenience, and brand strength. The brand owners and vendors who have invested in technology infrastructure, distribution networks, and marketing capabilities will remain best positioned to capture consumer loyalty on the other side of the pandemic.

— SBH All Cap team perspective

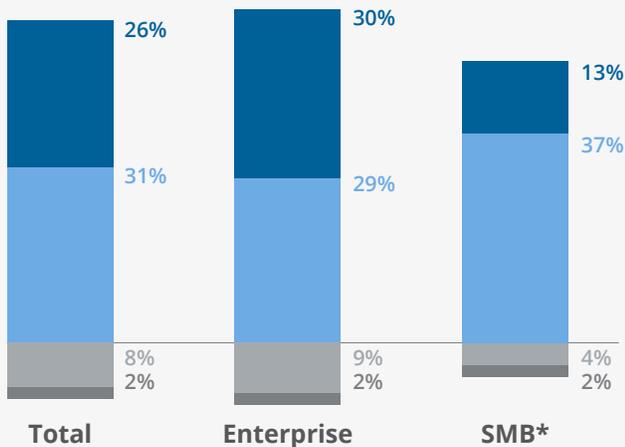


## Technology

Information technology has become indispensable. Tech is everywhere—at work, at home, at school (which for many have all been the same place), woven ubiquitously into our lives. The degree to which working from home—using technology that is accessible and reliable—was so readily accepted and embraced will prove to be a significant byproduct of the pandemic. This will have lasting effects on how office space is used, on how central business districts are organized, and where people choose to live. The cloud, which facilitates all this, is no longer an abstract concept—it is very real and has become a central strategic pillar for entities of all sizes. Data storage and analysis, artificial intelligence, and machine learning are all promising fields attracting significant amounts of both financial and human capital.

### Change from Planned Cloud Usage Due to COVID-19

% of Respondents



- Significantly lower than planned
- Slightly lower than planned
- Slightly higher than planned
- Significantly higher than planned

\*Small and medium sized organizations  
Source: Flexera 2020 State of the Cloud Report



The adoption of the cloud and digital technologies was inevitable, but the pandemic has created urgency for companies to pull forward these initiatives. This is not a one-time event in our opinion, but rather a realization of the trends we were already witnessing. In essence, this disruption is accelerating the difference between next-generation winners and losers in what otherwise would have occurred over the coming years. While the market certainly has a sense of euphoria in many high growth technology stocks, the next five years and beyond present an incredible opportunity for companies enabling this shift. One of the areas in technology we believe remains attractive are IT services companies that are helping enterprises develop next-generation software both internally and for consumer-facing applications.

#### — SBH Small Cap Growth team perspective

Within technology, we continue to look favorably upon the video game market. With more people staying at home, video gaming has been a growing source of recreation. As gaming software companies focus on their core business of development, they continue to outsource many services such as artwork, sound, testing and localization. We are finding opportunities to invest in companies who are benefiting from this trend by leading the consolidation of outsourced services to gaming software developers.

#### — SBH Fundamental International Small Cap team perspective



## Financials

**W**e are once again living in an ultra-low interest rate world. For banks, awash in low-cost deposits, the challenge is how to deploy that cash into attractive yielding assets, while at the same time maintaining credit quality in a slowly recovery economy. Insurers face a similar asset deployment challenge, taking policyholder premiums and investing in assets tied to the liabilities those policies create. Asset managers and other capital markets-related companies are among the more dynamic industry groups within financials, as the menu of available investment products continues to grow quickly. Mergers and acquisitions (M&A) in this space are picking up. Throughout the financials sector, increased operational efficiency, adoption of technology, and a focus on a consumer-friendly user interface are major trends we are observing.



## Consumer Discretionary

**W**ork-from-home came upon everyone suddenly a year ago, and it is likely this shift in work environment will persist after the pandemic passes. As a result, the aggregate discretionary spend that consumers allocate might tilt at the margin towards not only the home environment, but also interactive media and entertainment, durables, and of course online shopping. Within apparel, the already-established trends in "Athleisure" seem to have only gathered more momentum. Traditional global travel, including long haul flights and extended overseas recreation, might be slow to recoup from the shutdown triggered last spring.



The financials sector is comprised of many companies that rely on legacy business models with little innovation that are rapidly being disintermediated by newer entrants. However, one standout within the sector is the insurance industry, where companies are rapidly deploying new technologies leading to renewed growth and investment opportunities. Companies that are utilizing technology in new ways, applying data analytics, and creating better service models are disrupting the decades-old way of competing. We believe these companies can create significant value in the insurance industry.

— **SBH Small Cap Growth team perspective**



As the economic recovery continues in 2021, we believe consumers will begin to spend more in areas like online gaming. Live casino games are a form of entertainment that has gained in popularity through the pandemic as it requires no physical interaction. Unlike with traditional casinos and suppliers of live game content, there are opportunities for tremendous scale for online gaming operators as they can support an unlimited number of players at any time.

— **SBH Fundamental International Small Cap team perspective**



## Industrials

Within the traditional manufacturing space, trends like automation and IOT (Internet of Things) have been underway for some time, and COVID only accelerated that push. Much of the sector is still sensitive to overall GDP and corporate capital spending, with interesting dichotomies in spots like transportation (aerospace and airlines more pressured, while freight, rail and logistics—especially those tied closest to online commerce—are thriving). Traditional conglomerates might be spurred to further realign their portfolios of businesses. Industrial services and data vendor companies seem well positioned to help weave information into the fabric of business spending. Supply chains are a topic of intense scrutiny now, and we do not see that changing for the foreseeable future.



COVID clearly accelerated the move to e-commerce with record numbers of Internet purchases made globally over the most recent holiday period. As the movement of goods from these transactions continues to evolve, we are finding opportunities to invest in companies that are helping to transform the retail logistics chain through specialty services like the management of next-day delivery, pick-up and returns. As traditional retailers maneuver around multi-channel offerings, they are seeking specialty logistics providers to help them manage the dynamics of their quickly changing supply chain.

— **SBH Fundamental International  
Small Cap team perspective**

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