

# Post-Pandemic: Unmasking Quality Stocks

## Sector Report

### Buy-rated companies mentioned in this report:

- **Microsoft** (MSFT; \$329.01)
- **Paypal** (PYPL; \$191.14)
- **Amazon** (AMZN; \$3,350.44)
- **Tapestry** (TPR; \$41.65)
- **Alphabet** (GOOGL; \$2,887.99)
- **Meta Platforms** (formerly Facebook (FB); \$336.53)
- **Abbott Labs** (ABT; \$135.77)
- **Zoetis** (ZTS; \$225.12)
- **United Parcel Service** (UPS; \$217.29)
- **Southwest Airlines** (LUV; \$44.66)
- **Mondelez** (MDLZ; \$66.45)
- **Truist Financial** (TFC; \$62.35)
- **American Tower** (AMT; \$282.77)
- **Alliant Energy** (LNT; \$60.72)
- **Chevron** (CVX; \$121.43)

Source: Reuters. Prices and opinion ratings as of market close 1/04/22 and subject to change.

### For more information:

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Investors are looking ahead to a post-pandemic world as more of the population is vaccinated and economic growth is strong. While many aspects of life will be the same post-pandemic, some things will certainly be different. It will be a new normal, with a reshaped economy and some new habits. Trends that were in place prior to the pandemic, like online shopping, have seen accelerated growth, and new trends have also emerged, like working from home and increasing pet ownership. In addition, many activities that came to a halt or slowed during the pandemic, such as dining out and travel and leisure, are showing early signs of recovering. We think there are attractive investment opportunities within these changing trends.

**Technology:** We believe technology companies will continue to benefit from the adoption of digital services, such as digital payments, online shopping and video conferencing. We recommend **Microsoft (MSFT)** and **Paypal (PYPL)**.

**Consumer Discretionary:** COVID-19 has accelerated online shopping and some categories such as handbags are showing growth again. We recommend **Amazon (AMZN)** and **Tapestry (TPR)**.

**Communication Services:** Adoption of online purchasing and e-commerce increased during COVID-19. We believe this shift will drive increasing online ad spending with **Alphabet (GOOGL)** and **Meta Platforms (FB)**.

**Health Care:** The pandemic has not only impacted human health, but has also impacted the amount of spending on pet health care. **Abbott Labs (ABT)** and **Zoetis (ZTS)** are positioned to benefit.

**Industrials:** We believe growth in e-commerce will drive freight demand. We recommend **United Parcel Service (UPS)**. Airline travel is rebounding from COVID-19, benefiting **Southwest Airlines (LUV)**.

**Consumer Staples:** Emerging markets should benefit from vaccine distribution, which could foster increased spending on confectionary products. We recommend **Mondelez (MDLZ)**.

**Financial Services:** We believe that as the economy recovers, **Truist Financial (TFC)** is positioned to benefit. **American Tower (AMT)** will benefit from increased mobile traffic and the roll out of 5G (fifth-generation technology).

**Utilities:** Utilities tend to be less exposed to economic swings, so the reopening of the economy should have less of an impact on earnings growth. We recommend **Alliant Energy (LNT)**.

**Energy:** We expect oil demand to pick up but prices should remain range-bound. We think **Chevron (CVX)** is well-positioned to benefit from the continued recovery in oil demand.

Please see important disclosures and analyst certification on page 5 of the report.

## Technology

In our view, the shift to all things digital will continue and drive most of the growth in the technology sector. We believe consumers and businesses alike will continue to adopt digital services such as digital payments, online shopping, video conferencing and cloud services. While the growth rate in this trend could slow as things return to normal, we believe digital adoption will still be at the forefront and continue to take share from nondigital alternatives. Within the technology sector, we believe **Microsoft (MSFT) and PayPal (PYPL)** are well-positioned to benefit. Microsoft is the second-largest cloud-service provider and should benefit as more businesses shift their operations to the cloud and as the adoption of digital services increases globally. Furthermore, with many work-from-home arrangements remaining in place, this further increases demand for cloud services. In our view, PayPal remains one of the best-positioned companies to benefit from the accelerated adoption of e-commerce and digital wallets among consumers. In addition, PayPal continues to invest and build out related services, such as bill pay and subscription management.

## Consumer Discretionary

We believe the COVID-19 pandemic has accelerated growth for online shopping and has introduced many new customers to the online-shopping world. While we do expect growth rates to slow from levels experienced during the height of the pandemic as some customers revert to shopping in physical retail locations, we continue to expect that online shopping will garner a larger share of the overall retail industry for the foreseeable future. We believe companies with strong online platforms will gain share at the expense of smaller retailers that do not have the financial strength to compete effectively.

We expect **Amazon (AMZN)** to benefit from the shift to online retailing as well as continued growth within the cloud business. Online shopping currently represents only 18% of retail sales, and we believe this number will move higher over time. Also, we believe companies will continue to invest in cloud services to become more productive, and we believe this supports a solid long-term growth opportunity for the Amazon Web Services business.

The handbag business was severely impacted by COVID-19, but we are seeing sales recover, and we believe **Tapestry (TPR)** will benefit. Additionally, Tapestry has a strong online presence, and online sales are more profitable than store sales. We

believe online sales could approach 50% of total sales for Tapestry over the next five to seven years compared with 15% of sales in the most recent year ended June 30, 2020.

## Communication Services

We believe the COVID-19 pandemic accelerated trends that were already occurring across the communication services sector. During stay-at-home orders, consumers increasingly watched online video services and played video games as they sought in-home entertainment. User engagement on social-media platforms also increased as people tried to stay connected with family and friends. Working from home and the need for home-entertainment options have also placed increased value on high-speed Internet service via both wired and wireless networks. We believe that these trends will continue even as life returns to normal after the pandemic.

Within the communication services sector, we believe **Alphabet (GOOGL) and Meta Platforms (formerly Facebook - FB)** will benefit from these trends. Alphabet, the parent company of Google, is benefiting from increased viewing of video content and related advertising on its YouTube platform. The company's cloud-computing services are seeing increased demand as businesses adopt cloud computing to accommodate both home-based employees and growing online-customer interaction. Also, we feel that Google's core search business will benefit from the ongoing shift of ad spending to online platforms. Meta is seeing heightened user engagement on its social-media platforms and is benefiting from ad spending further shifting online. Also, the company is positioning itself for e-commerce with the Shops introduction, which allows businesses to build online storefronts that allow users to make purchases directly within Facebook and Instagram. It is also developing e-commerce capabilities in the WhatsApp messaging platform.

## Health Care

The pandemic has highlighted the importance of access to quality health care globally. We expect governments in emerging markets to increase health care spending to improve access to care. The pandemic has also accelerated the need for digital health care solutions. This includes virtual health care visits, easier access to data, and remote patient monitoring. Solutions used during the pandemic for drug development, such as artificial intelligence and the virtual aspects of clinical trials, could make the long process more efficient. **Abbott Labs**

**(ABT)** is well-positioned, in our view, to benefit from many of these trends that have been accelerated. Abbott makes remote-patient monitoring devices for cardiac patients and also specializes in glucose-monitoring products for diabetes patients. In addition, it has proven to be a leader in the development of diagnostic tests. The company also gets 40% of its total sales from emerging markets. The pandemic has not only impacted human health, but also animal health. With people spending more time at home, the amount spent per pet has increased, along with the number of pet adoptions. **Zoetis (ZTS)** is well-positioned, in our view, to benefit as more and more pets are treated as family members.

### Industrials

The impacts of the coronavirus have created opportunities within industrials. First, we believe working from home and continued rapid growth in e-commerce will drive sustained growth in demand for freight and logistics services, providing a positive backdrop for Buy-rated **United Parcel Service (UPS)**. UPS is the world's largest parcel-delivery network, and it moved nearly 25 million parcels per day on average last year. As e-commerce volumes continue to rise, we believe the company will be able to improve the efficiency of its delivery routes over time, which should result in higher profitability. Second, airline travel is rebounding from the lows caused by COVID-19, with domestic and leisure being leading categories. These categories align with Southwest Airlines' network and business focus. While it could take months or even years for travel to fully recover, we feel that Buy-rated **Southwest Airlines (LUV)** will benefit from improving travel trends given its position as one of the largest domestic airlines in the United States.

### Consumer Staples

COVID-19 vaccines are beginning to reach many emerging markets, and increased consumer mobility should follow. This may increase snacking opportunities outside the home in those countries. Additionally, the increased worldwide demand for goods overall post-pandemic may help the economies of emerging markets, as many manufacturing commodities come from those regions. Stronger economies often lead to better incomes and more purchases of affordable luxuries, such as sweets and snacks. Therefore, we are highlighting Buy-rated **Mondelez (MDLZ)**. Mondelez is a leading manufacturer of top confectionary and snacking brands, such as Cadbury and Oreo. We

estimate that it earns nearly 80% of its sales outside of the U.S. and about 40% of its sales in emerging markets.

### Financial Services

The pandemic has significantly impacted the financial services sector. From an earnings standpoint, banks were severely impacted, driven by the need to build large reserves for bad loans. Central banks responded to the developing crisis by lowering interest rates, which also pressured earnings. Signs of improvement have begun to materialize, including rising earnings, reductions in reserves set aside for bad loans, and increases in dividends and share buybacks. As we progress deeper into the economic recovery, we believe bank stocks could continue to deliver attractive total returns. For investors looking for additional exposure to financial services, we recommend **Truist Financial (TFC)**. We believe TFC is well-positioned to benefit from an improving economy and rising longer-term interest rates. In addition, we believe the company is on track to achieve significant cost savings from the merger between BB&T and SunTrust, which could support stronger earnings growth relative to banking peers. **American Tower (AMT)**, a cell-tower real estate investment trust, has benefited from growth in mobile-network traffic as wireless subscribers have been working from home and as individuals have been increasingly adopting digital services, such as video streaming and e-commerce, on their mobile devices. In our view, this bodes well for AMT, as wireless carriers throughout the world will need to add capacity on AMT's towers to support increased traffic growth and upgrade to 5G technology.

### Utilities

Utilities tend to be less exposed to swings in the economy, so we expect the reopening of the economy to have less of an impact on earnings growth than for more economically sensitive sectors. However, we believe utilities remain an important part of a diversified portfolio. Additionally, the underperformance of utilities relative to other sectors in the market recovery presents an opportunity for investors, in our view. We believe **Alliant Energy (LNT)** is well-positioned to grow earnings through investments in its utility infrastructure, including the increasing adoption of wind and solar power in its service territories. The company's earnings profile is composed primarily of regulated utility operations in the states of Iowa and Wisconsin. These states tend to provide favorable regulatory treatment for utilities.

Additionally, we expect Alliant to grow earnings at a rate above its peer-group average. We prefer more regulated utility companies because of the greater consistency in earnings and dividends they tend to produce.

## Energy

Global oil prices are back above pre-pandemic levels, reflecting improving demand, potential winter-weather fuel-switching demand, and continued producer discipline. In the near term, we expect oil prices to remain above the high end of our expected range given tight market conditions, highlighting the volatility of commodity prices. However, we believe that OPEC+ production increases, recovery of non-OPEC production, and a deceleration in the demand recovery will settle average oil prices within our long-term range of US\$45 to US\$65 per barrel in the U.S. We remain focused on owning stocks in the integrated oil subsector, such as **Chevron (CVX)**, and in the storage & transportation and refining & marketing subsectors over the long term, where companies have strong balance sheets that allow them to weather commodity-price volatility and support dividends.

While life post-pandemic will not be the same, the principles of investing have not changed. We recommend clients invest in quality companies across a variety of sectors that are well-positioned to take advantage of our reshaped economy.

The list below highlights Buy-rated companies. Each company has a solid financial position, strong management team, and what we believe is a sustainable competitive advantage.

## Maintaining Your Balance Through the Ups and Downs

While the impact from coronavirus on results will have a range of implications across different equity sectors in the near term, remember to focus your attention on time horizons much longer than four or even eight years. Your financial goals and investment strategy should remain top priorities, regardless of the near-term environment. By maintaining an appropriately diversified portfolio and staying invested for the long term, you can be in a better position to weather any uncertainty or market volatility that may arise.

**Please see the individual research reports for additional information, including disclosures, analyst certifications, valuation and risks specific to each company.**

Sector	Company Name	Symbol	Price	% off 52 Week High	Dividend Yield	Dividend Outlook	S&P/Moodys Credit Rating
Technology	Microsoft	MSFT	\$334.75	4.3%	0.7%	Rising	AAA/Aaa
Technology	Paypal	PYPL	\$194.94	37%	0.0%	No Dividend	NA/NA
Consumer Discretionary	Amazon	AMZN	\$3,408.09	10%	0.0%	No Dividend	AA/A1
Consumer Discretionary	Tapestry	TPR	\$40.81	18%	2.5%	Rising	BBB-/Baa2
Communication Services	Alphabet	GOOGL	\$2,899.83	4%	0.0%	No Dividend	AA+/Aa2
Communication Services	Meta Platforms Inc.	FB	\$338.54	12%	0.0%	No Dividend	NA/NA
Health Care	Abbott Labs	ABT	\$139.04	2%	1.4%	Rising	A+/A2
Health Care	Zoetis	ZTS	\$234.03	6%	0.6%	Rising	BBB/Baa1
Industrials	United Parcel Service	UPS	\$213.50	3%	1.9%	Rising	A-/A2
Industrials	Southwest Airlines	LUV	\$44.00	32%	0.0%	No Dividend	BBB/Baa1
Consumer Staples	Mondelez	MDLZ	\$65.97	1%	2.1%	Rising	BBB/Baa1
Financials Services	Truist Financial	TFC	\$60.40	8%	3.2%	Rising	A-/A3
Financials Services	American Tower	AMT	\$286.38	6%	1.8%	Rising	BBB-/Baa3
Utilities	Alliant Energy	LNT	\$60.85	2%	2.6%	Rising	A-/Baa2
Energy	Chevron	CVX	\$119.26	0%	4.5%	Rising	AA-/Aa2

Source: FactSet, S&P/Moody's, Edward Jones. Prices and opinion ratings as of market close 1/3/22 and subject to change. Past performance is no guarantee of future results.



## Analyst Certification

I certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers; and no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report.

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