



The new stock market generals

There is a stock market aphorism which says the generals get shot last. The phrase conveys the idea that a bear market cannot bottom until the largest stocks which drove the previous bull market lose significant value.

The generals have certainly been wounded in the US market over the past two weeks, with Meta Platforms, Amazon, Microsoft and Alphabet all falling sharply on the release of their latest quarterly results. These four stocks, together with Apple, accounted for about a third of the total return of the S&P 500 index for the five years up to the end of 2021.

This year, they account for more than a third of the index's slump. But not all of the largest companies in the S&P 500 index have done badly; four stocks out of the largest 30 have returned more than 40% over the past year. Let's take a closer look at these new stock market generals:

ExxonMobil

ExxonMobil is the largest direct descendant of Standard Oil, the petroleum monopoly founded by John D Rockefeller in 1870.

Today, the company is a vertically integrated oil and gas major operating across three divisions: upstream (oil and gas exploration, extraction and distribution); product solutions (downstream operations and chemicals manufacturing); and low carbon solutions.

ExxonMobil not only benefits from current high oil prices, but also from the global price surge in natural gas (previously supplied by Russia) due to Europe's scramble to stock up on reserves before winter arrives.

Last week, the company announced its highest quarterly net profit of \$20bn,



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nearly matching Apple's net profit for the same period. But before you rush out to fill up on ExxonMobil shares, don't lose sight of the industry's cyclicity – ExxonMobil shares only recently rose above their previous high, reached in 2014.

Eli Lilly

Founded in 1876 by pharmaceutical chemist Colonel Eli Lilly, the eponymous company was among the first to mass-produce both penicillin and the polio vaccine. It has attained particular success in the field of diabetes, which is still the company's primary profit generator via the sale of various insulin drugs. Other clinical focus areas include Alzheimer's disease, cancer, immunology and obesity.

Eli Lilly is also the world's largest manufacturer and distributor of medication – including Prozac – used in a broad range of psychiatric and mental health conditions. The company has a particularly impressive pipeline of new drugs being trialled at present, which has fuelled a sharp rally in its shares. Notwithstanding the market's excitement,

we find the current valuation a hard pill to swallow.

Chevron

As another direct descendant of Standard Oil, Chevron's cash flow is as strong as the flow of oil out of its wells.

More than 70% of the energy giant's profits are generated from upstream activities, that is, from extracting oil and gas out of the ground or sea. Huge projects in the US, Gulf of Mexico, Australia, Angola and Kazakhstan provide a steady stream of profits for Chevron to distribute to shareholders in the form of dividends and share buybacks.

The year 2022 is on track to be the 35th consecutive year in which Chevron has increased its annual dividend per share – quite a feat, given how cyclical the industry is. The stock is now the third-largest holding in Berkshire Hathaway's portfolio, after Apple and Bank of America. If it's attractive to Warren Buffett, who are we to argue?

AbbVie

Biopharmaceutical giant AbbVie has been a standalone company for only nine years. It was spun off from Abbott Laboratories in 2013. Its blockbuster immunology drug, Humira, has been the single best-selling drug in the US for the past few years, raking in about \$20bn annually.

AbbVie's suite of US patents protecting Humira are due to start expiring next year, opening up the market to biosimilar competition.

AbbVie has been an active acquirer of other leading drug companies over the past few years to diversify away from its reliance on Humira. The largest of these acquisitions, Allergan, added Botox to AbbVie's arsenal in 2020.

Together with other acquisitions in therapeutic areas such as oncology, neuroscience, virology and eye care, AbbVie has deftly prepared for a profitable future post-Humira. With a market cap of \$260bn, it might be the smallest of the four new generals discussed here, but in our opinion it ranks No 1 as an investment proposition.

Verster is CEO of Protea Capital Management