STOCKS

P&G, McDonald's Power Dow Rebound as Investors Play Defense

Global trade tensions have made investors shift from companies with the highest profit growth rates to those expected to hold up better in turbulent times

By Michael Wursthorn
Nov. 11, 2018 11:00 a.m. ET

Investors coming back to U.S. stocks this month are going retro.

Old-economy companies like Procter & Gamble Co. PG 1.15% ▲ and Walgreens Boots Alliance Inc. WBA -0.06% ▼ have surged in recent days, helping the Dow Jones Industrial Average to retrace much of its October market swoon and move within striking distance of its 16th record of the year.

The 30-stock index has added 1,300 points over the past two weeks, its best stretch since November 2016. After teetering on the cusp of correction territory late last month, denoting a 10% or more decline from a recent peak, the index is just 3.1% from its last record close in early October.

Bluster over trade on Friday from President Trump's trade adviser, Peter Navarro, halted the advance and weighed on trade-sensitive stocks like Caterpillar Inc. and 3M Co. MMM -1.46% ▼ , as well as the technology shares whose rapid gains fueled the market rally of the first nine months of 2018. Friday's declines show that concerns persist among investors about rising costs, the possibility for slowing U.S. economic expansion and friction with China, analysts and money managers said.

Beneficiaries of those trends include P&G, a Cincinnati household-products maker whose shares are up 0.6% for the year after a 12% advance over the past month. Investors have shifted from seeking out the companies with the highest profit growth rates to those that are expected to generate more stable earnings and issue large dividends, and tend to hold up better during turbulent economic conditions.

Walgreens has also added 12% over the past month, while restaurant chain McDonald's Corp. has risen 9.5% and retail powerhouse Walmart Inc. is up 8.7%.

The gains have come at the expense of technology companies and other fast-growing stocks that have seen their values erode since late September. Their selloff gained momentum through October as investors grew increasingly nervous that slowing sales growth among tech and internet giants like Apple Inc. and Amazon.com Inc. suggested these firms could have difficulty matching Wall Street's expectations in coming periods.

Continued weakness in those shares has limited the recent gains of the broader S&P 500 and the technology-heavy Nasdaq Composite, which are off 5.1% and 8,7%, respectively, from their recent highs.

"We're buying value stocks since it has a tendency to be a safer play and has dividends," said James Hayett, a financial adviser working out of Waukesha, Wis., who says clients have added stocks like Procter & Gamble and General Motors to their portfolios. “We’re not just jumping back into growth and technology stocks.”

Procter & Gamble, maker of Old Spice, Dawn and other household products, has seen its shares rise 0.6% for the year after a 12% advance over the past month. PHOTO: CHARLES KRUPA/ASSOCIATED PRESS

About $3.1 billion was pulled from technology funds last month, after more than $41 billion moved into such funds between January 2017 and September of this year, according to data compiled by Bank of America Merrill Lynch and EPFR Global.

Money that has flowed into equities has been directed toward value-oriented strategies that tend to favor consumer staples, financial stocks and other companies that the market had overlooked during the tech frenzy, money managers said. About $500 million flowed into health-care and consumer-focused stock funds in the week ended Wednesday, while most other sectors, including technology, financials and energy saw redemptions, according to Bank of America’s data.

Investors are “much more selective, finding names that have margin resilience today,” said Anik Sen, global head of equities at PineBridge Investments. “Input costs are rising in the U.S. and that’s a key concern right now.”

In addition to tariffs, firms are coping with higher labor costs, fueled by one of the tightest labor markets in decades. The Federal Reserve’s campaign to raise interest rates will also put pressure on profit margins, analysts said, making companies with high and stable profit margins more desirable for their resiliency.

“We continue to recommend owning ‘quality’ stocks that should outperform as the cycle matures and economic growth decelerates,” analysts at Goldman Sachs Group Inc. wrote in a recent note, saying that such companies are in a position to pass on their rising costs, helping them outperform the broad S&P 500 index.

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