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Bull & Bear

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Jason White on North America



As most indices and valuations alike continue to rise – particularly in sectors such as technology, but increasingly across the broad market – the bull market is showing signs of maturity. A richer market environment has some investors questioning whether there are still compelling opportunities for accelerating profit growth. As growth investors, we believe it is critical to take an agnostic view of profit growth.

We do not limit our definition of growth to traditional ‘growth’ sectors, nor do we limit it to the top line. Rather, we are looking for accelerating operating profits, wherever that may occur.

Another consideration is how early a company is in its profit cycle. At this point in the market cycle, there are certainly sectors in which the majority of profit cycles are much more mature. However, we are still finding some profit cycles nearer their first year, rather than their fourth or fifth – particularly in the financials sector.

One example is Webster Financial, which is in the relatively early innings of what we expect to be a multi-year period

of growth as it capitalises on both internal drivers and a relatively more cyclical backdrop. It owns one of the largest health savings account (HSA) platforms in the US.

Rising domestic healthcare costs have contributed to a modest, but likely growing, shift toward HSAs, which often incentivise consumers to make better-informed care decisions on price. Given the seeming shift in Washington towards a preference for HSA-funded healthcare spending, we anticipate Webster should benefit as accounts grow in both number and size. Furthermore, we believe the shift to consumer-directed healthcare spending through HSAs could ultimately be as significant as the shift from pension to 401(k) plans by corporations in recent decades.

Aside from its HSA franchise, Webster is a well-capitalised US regional bank that is poised to benefit from a less onerous regulatory environment, the potential for accelerating

Bull Points

Focus on healthcare spending drives growth in both the number and size of HSA accounts

An improved regulatory environment, tax reform and potentially rising rates drives accelerating profit cycles

Bear Points

Uncertainty surrounding the future of healthcare policy causes a delay in HSA uptake

Sluggishness in interest rates continues to weigh on financials’ fundamentals

economic growth, rising interest rates and tax reform in 2018.

Importantly, we believe Webster’s profit cycle is not dependent on widening spreads – though it would benefit should interest rates rise.

Jason White is portfolio manager of the growth team at Artisan Partners

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For the purpose of determining the Fund's holdings, securities of the same issuer are aggregated to determine the weight in the Fund. The holdings mentioned comprise the following percentages of the Funds' total net assets (including all classes of shares) as of 31 Dec 2017: Artisan Global Discovery Fund: Webster Financial Corp 2.3%; Artisan Small Cap Fund: Webster Financial Corp 2.9%. Portfolio holdings are subject to change without notice and are not intended as recommendations of individual securities. Securities named in the article, but not listed here are not held in the Fund as of the date of this article.

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