Weekly Update

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- Market's focus on interest rates = more market rotation
- Is the "trade-war" back?
- Hiccup in Housing? Probably not
- More dissention at the Fed, but that will not move rates
- The ECB has a tougher road to hoe
- Chart Crime of the week
- Happy St. Patrick's Day

	Last	5d %	YTD %	1yr %
SPX	3974	1.9%	5.8%	69.7%
QQQ	321.9	3.5%	2.6%	91.5%
US 10 YR	1.65%	1.52%	0.92%	1.19%
VIX	19.2%	22.6%	22.8%	76.5%
Oil	64.53	0.1%	32.8%	139.7%

*10yr and VIX are levels not changes
** Oil is front month futures, beware

The market's focus on interest rate continues which means the market's inner rotations continue. On the surface, Volatility is at its lowest level since the virus mania began a year ago. But correlations continue to grind lower. This means the stocks in the S&P 500 are acting more independently from the headline index (to be fair, even the level of Correlation in the market is masking some of the rotation which is sector based). Adding to the Volatility, we are seemingly getting conflicting data points, comments, or opinions constantly. It was just a few weeks ago that a poor 7-year Treasury auction was blamed for driving medium term interest rates higher. This week, Treasury had one of the strongest 20-year auctions in history. Just last week, the narrative being pushed was that the Fed had lost control of the Yield curve (it could keep short term rates low, but it could not control longer term rates). After today's FOMC announcement (no change in rates or bond buying), Fed Chairman Powell did not say much different than the ongoing theme. Yet, the market took it that the Fed did, indeed, know what it was doing and that there would not be runaway inflation (the Fed also jacked up its economic projections). Of course, the passage of Congress's latest free money give-away is more than helping the market. With estimates ranging from 40-70% of stimulus money going into the stock market, there is renewed optimism. And diving into the mumbo-jumbo world of technical/almanac analysis, there is a strong historical record of the Nasdaq experiencing a sustained bounce after a quick 10% correction like we saw from mid-February to early March.

Merrill Lynch might have summed up the recent mini-Taper Tantrum move in interest rates. The narrative can be Bond Vigilantes or the Fed losing control or whatever sounds good on TV. But supply and demand still tend to drive things. This chart shows it very clearly. The Treasury is issuing way more than the Fed is buying:

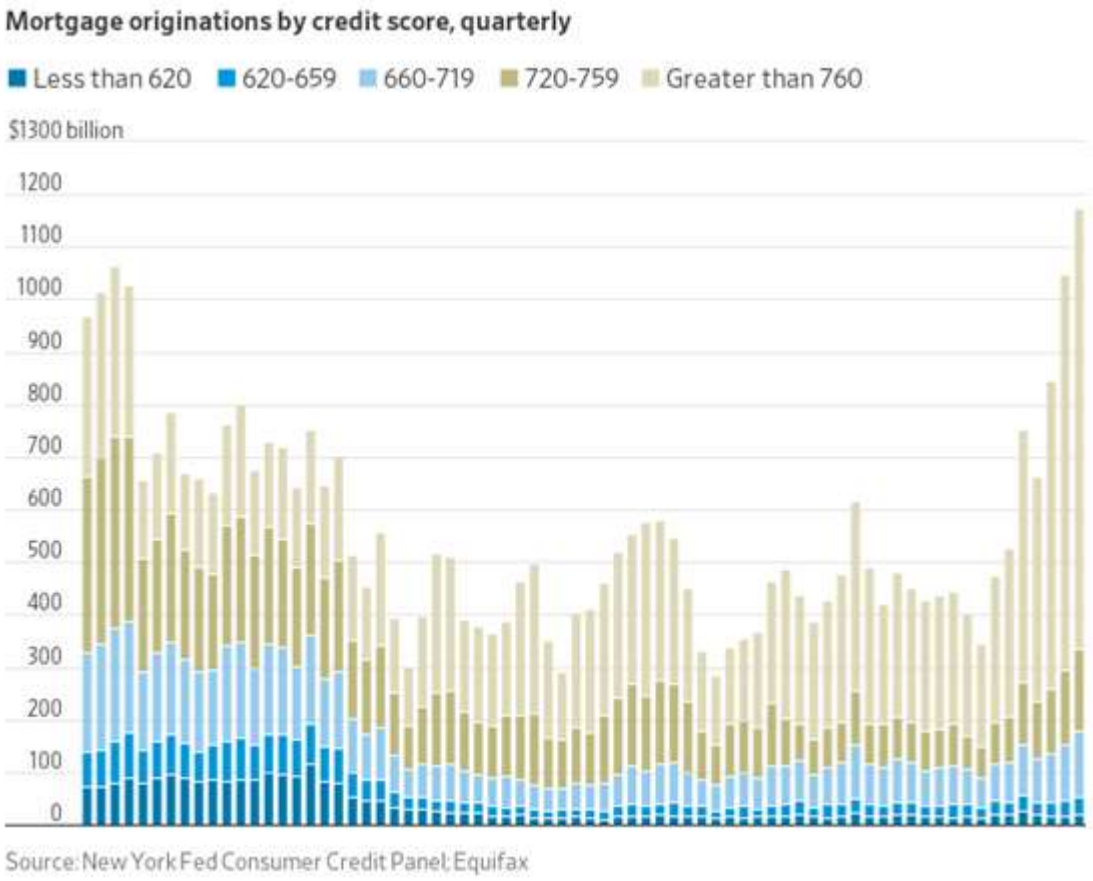
- Is the "trade-war" back?

Do not look now, but political tensions with China have been ratcheted higher (not that you would hear it from the MSM). With a ban on selling 5G equipment to Huawei, Biden has rekindled the "trade war" with China. We think this is the right move politically (sorry for that mild, personal, infusion). But we also think it could add another layer of uncertainty to a fragile market (pretty funny to call a market at all-time highs "fragile").

- Hiccup in Housing? Probably not

The Housing Market Index dipped a touch in March. This builder sentiment index seems to be stabilizing at a level about 15% above the pre-virus level. Further to this slight dip, Housing Starts and Permits for February both missed expectations. On Starts, other than a year ago, this was one of the sharpest drops since Housing peaked in early 2006. The same goes for Permits. This data is probably skewed by the wretched weather across Texas (and everywhere else for that matter). We suspect this data will normalize. If it does not, we might have to revisit our long Housing position.

JP Morgan echoed our sentiment about putting mortgage rates into perspective. Their research points to continued strength in Housing (rising demand with double digit earnings for another 1.5-2 years) unless rates quickly moved another 50-75bps (100 basis points = 1%). We will say one area of slight worry is the increase in "cash-out" refinancings in 2020. The total cash taken out of home equity in 2020 was $153b which was an increase of 42% vs 2019. The Wall Street Journal rightly reminds us that this was a major cause of consumer stress back in 2008 as home prices collapsed. Of course, in 2006, the cash-out total was about $325b. Moreover, the massive growth in mortgage originations lately has been driven by people with credit scores over 760 (the highest bucket for this data). This is a good chart except for the lack of a label on the x-axis. It is quarterly over about 18 years.



- More dissention at the Fed, but that will not move rates

While we were surprised at the market's reaction last week in punishing Fed chief Powell's lack of assertiveness with respect to calming the markets, we are equally surprised at the free pass the market extended to Powell this week. Specifically, of the 18 members of the FOMC (12 regional Fed presidents and six Fed Board of Governors…there should be seven but there is still a vacancy), seven now think there should be rate hikes before 2024. This is up from five members thinking this in December. And four members think the Fed should hike rates next year. And going back to 2023, two Fed members think the appropriate Fed Funds target rate should be 1.125% vs today's 0.125% (technically, today we have a range of 0.00% to 0.25%, the notion of a range came about with 0% interest rates). Nonetheless, the market has come to know over the years that the Fed chairman ultimately controls the outcome. We still believe that rates will be "lower for longer." Here is the dispersion of interest rate views by member.

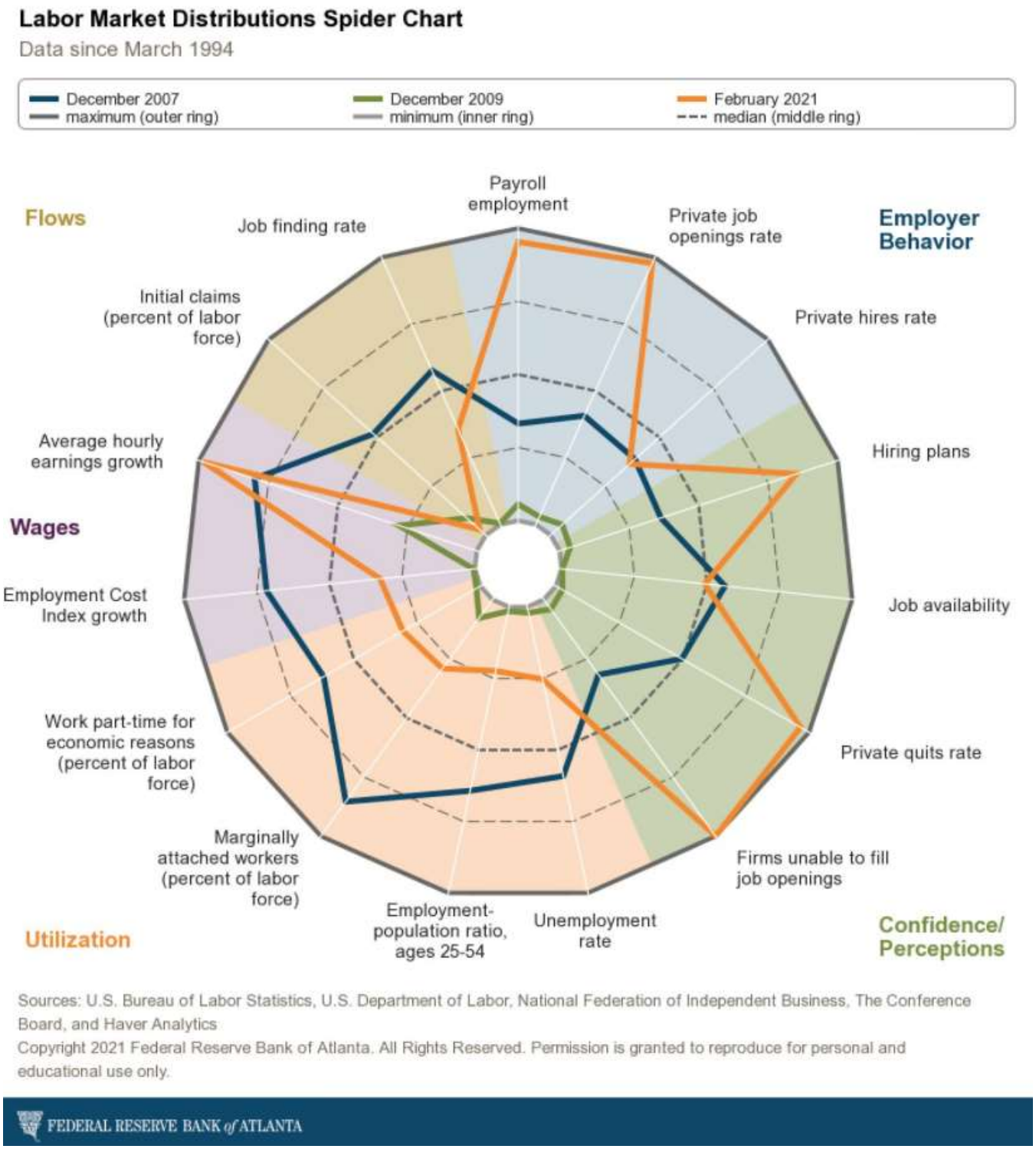
Midpoint of target range or target level (Percent)	2021	2022	2023	Longer run
1.125			2	
1.000				
0.875			3	
0.750				
0.625		1	1	
0.500				
0.375		3	1	
0.250				
0.125	18	14	11	

- The ECB has a tougher road to hoe

The market had the same reaction to ECB chief Lagarde as it did to Powell last week. Her comments were innocuous on the surface: She said an unchecked rise in bond yields could lead to a premature tightening. Maybe the market wanted actionable items put on the table instead of obvious, adverse hypotheticals? We suspect the market will not give her as much rope as it did Powell on his round #2. We think it boils down to Europe is in worse shape than the US. Nothing new there.

- Chart Crime of the week

We have an early front-runner for the Chart of the Year Award thanks to the Atlanta Fed. Tesla's financial statement are easier to read than this "Spider Chart."



- Quick Hits
  - There is a pending SPAC called Just Another Acquisition.
  - Argentina's total stock market value in USD has fallen 95% in three years.
  - Only 2.6% of corporate pension/retirement plans offered "ESG" funds.
  - The Biden admin is making it easier for retirement plans to invest in ESG funds.

- We should be in the lobbying business. Or the ESG business.
- The Texas Rangers will play with a full capacity crowd during the home opener.
- The Texas Rangers will have socially distanced sections for the other games.
- Prediction: The Rangers will not have to socially distance the few fans in attendance late in the season.
- There are no snakes in Ireland.
- The "business" reporter for the Washington Post asked Fed Chairman Powell what the Fed was going to do about low vaccination rates (voluntary) among minorities: "That's not for us to work on."
- There are 100 private "cloud" companies valued at over $1b.
- The average home price in New Zealand is $720k.
- Plug Power reported negative revenues for 2020 in a restatement of past financials. The company had given away stock warrants to elicit new customers. When the stock went nuts, these not-really-customers cashed in their warrants.
- Total miles driven in the US in 2020 dropped by 13%.
- Total traffic deaths increased by 8%.
- It is a federal crime to possess a walrus.

Trading: Our song remains the same: we added to whatever was weak in the rotation. Our long exposure has crept back up, so we might be getting close to layering back on some protection. This makes even more sense for us with headline Vol below 20%. Along these same lines, we have been adding to more of our thematic names instead of our long-term investment picks. We want to be on the right side of some of the more salient "factors" in the market right now. That is, we want to be long Recovery stocks, highly shorted stocks, economically sensitive stocks, etc. And we do not really care if they are bucketed as Growth or Value. We want a balance of both. We bought some more Energy, Financials, Retail – brick & mortar and e-commerce, Tech, Industrials, Health Care…pretty much the whole gamut. We even nibbled on some of our High Growth basket. But we are skewing additions to companies that generate strong cash flow (still ugly valuations…but better than the infinity multiple)

TSLAQ: Tesla announced it is raising prices after years of price cuts. Wow, perhaps a surprising burst of demand? Maybe. But we will bet it is a futile attempt to manipulate the stock price. Last Wednesday, Tesla's stock gained more value than twice the company value of Ford. Tesla made an official filing with the SEC adding the title "Technoking" to Elon Musk.

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