Weekly Update

10--Feb-2021

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- The market is back to marching higher
- Positioning is still stretched
- Stocks are still not reacting to strong earnings
- The only jobs being added are government jobs 🤮
- Inflation expectations are high, but there is no *consumer* inflation
- Is Biden's oil drilling ban driving prices higher?
- Chart Crime of the week

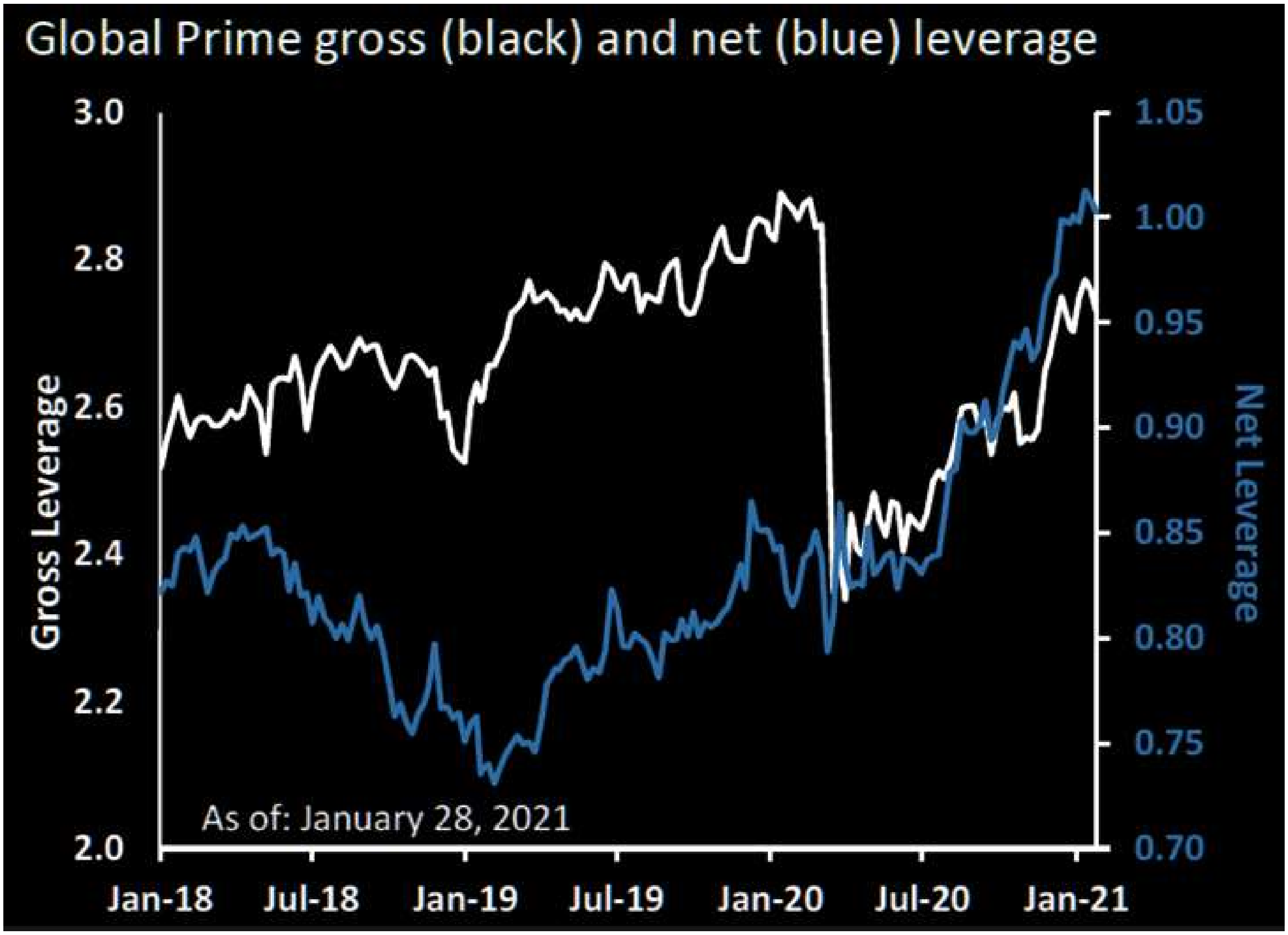
	Last	5d %	YTD %	1yr %
SPX	3910	2.1%	4.1%	19.7%
QQQ	332.8	2.0%	6.1%	46.2%
US 10 YR	1.13%	1.13%	0.92%	1.60%
VIX	22.0%	22.9%	22.8%	15.8%
Oil	58.39	4.7%	20.9%	18.4%

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

The market is back to marching higher. It is the usual suspects spurring on the crowd. Biden's $1.9t "stimulus" package is closer to becoming a reality. There was a brief glimmer of hope for prudence as some moderate Dems (including Larry Summers, see the * below for a little digression) spoke out against the need for "stimulus" and favored "targeted relief." Ha! The Fed reiterated its 0% rates forever pledge. The Reddit group has dusted itself off and is still buying stocks. Economic data looks pretty good if you ignore, gulp, Employment.

Merrill Lynch reported that its client flows are going into bond proxies and out of interest rate sensitive stocks: buying Utilities and selling Financials. The exception to this is on the corporate front as Financials have seen the largest buybacks in a year (of course, they had been frozen since March of 2020 and only recently unleashed). This means people think the 10yr interest rate has peaked (for now). Further to this, Big Tech is seeing renewed inflows based on its recent "underperformance." While Big Tech is certainly not seen as a bond proxy, it is considered a "long duration" asset which benefits from low interest rates (need low rates and time to capture the Growth). As for flows across the market, all broad asset classes are seeing inflows. To sum it up, the market is overcrowded, being pumped like crazy, but there is still some subtle rotation beneath the surface.

Last week we made the case that Goldman and Morgan Stanley are correct in their assessments that Gross Positioning at hedge funds is still extremely high (lots of leverage). JP Morgan has been the outlier in this argument as they claim leverage is actually low. Lo and behold, JP Morgan publishes a chart showing leverage is *high*! We cannot claim to be JPM insiders (we did work there early in the century), but we have heard that there have been warring factions within different strategists/departments at the firm. Perhaps this explains this apparent conflict. Whatever the case, we stand with the "the market is crowded" group.



- Stocks are still not reacting to strong earnings

The trend of poor reactions to strong earnings remains intact. Moreover, poor earnings have had better reactions (albeit still negative). Although there is a clear exception: a miss on revenues leads to the worst stock performance.

Here are the earnings growth rates of the eleven sectors. Energy had a bad quarter!

Sector	Today
Consumer Discretionary	-2.4%
Consumer Staples	4.9%
Energy	-103.3%
Financials	20.6%
Health Care	9.6%
Industrials	-39.4%
Materials	18.5%
Real Estate	-12.9%
Technology	18.7%
Communication Services	5.6%
Utilities	-2.7%
S&P 500	**2.8%**

Here is a snapshot of stock performance year-to-date. So much for that Energy earnings wipeout!

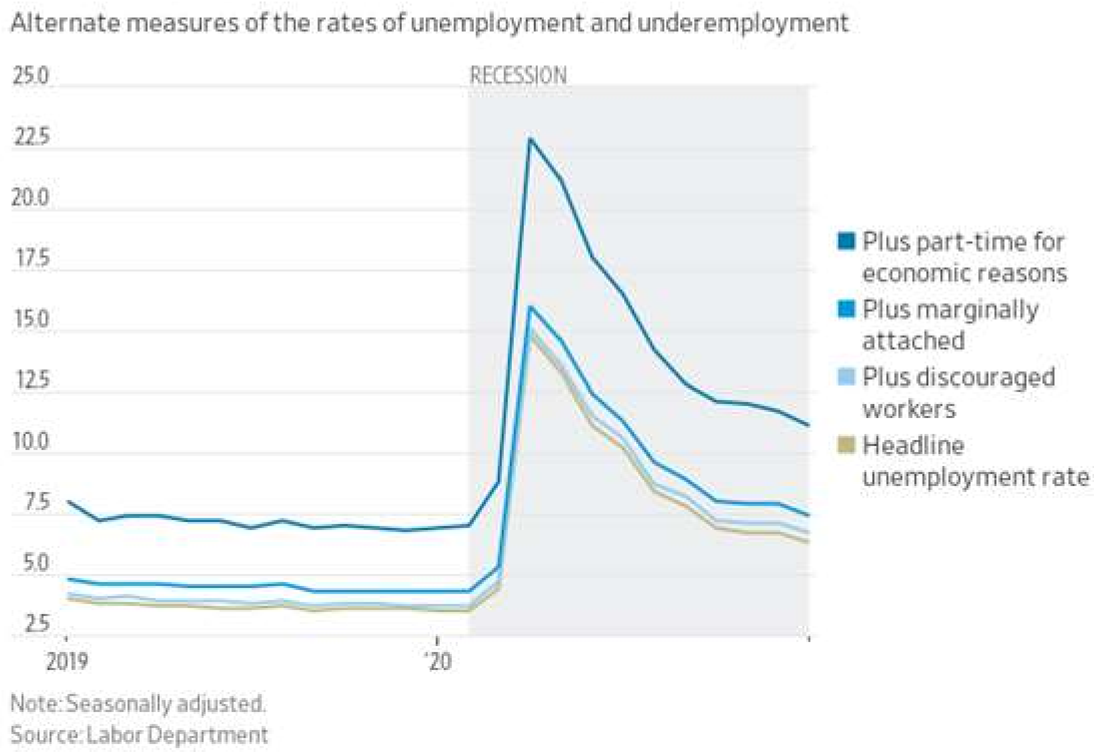
Ticker	Company	YTD Return
XLE	Energy Select Sector SPDR Fund	18.0%
XLC	Communication Services Select Sector SPDR Fund	7.6%
XLY	Consumer Discretionary Select Sector SPDR Fund	6.1%
XLF	Financial Select Sector SPDR Fund	6.1%
IYZ	iShares U.S. Telecommunications ETF	5.6%
VNQ	Vanguard Real Estate Index Fund ETF Shares	5.2%
XLK	Technology Select Sector SPDR Fund	4.9%
XLV	Health Care Select Sector SPDR Fund	2.4%
XLB	Materials Select Sector SPDR Fund	1.5%
XLI	Industrial Select Sector SPDR Fund	1.5%
XLU	Utilities Select Sector SPDR Fund	1.2%
XLP	Consumer Staples Select Sector SPDR Fund	-2.3%

- The only jobs being added are government jobs 😖

The Unemployment Report was uneventful which is not particularly good news. Only 49k jobs were added per the Nonfarm Payrolls (NFP) vs the 50k expected. But both November and December were revised lower. And government jobs accounted for 43k. Public education accounted for ***more than all*** the net gain in government jobs. Obviously, deadbeat, unionized teachers that do not show up to work are not counted as unemployed, but their substitutes do boost the payrolls.

On the bright side, Temporary jobs increased by +80k. Average Weekly Hours increased to 35 hours which is the highest on record (14 years). These two datapoints are leading indicators for the labor market. Of course, many of these Temporary workers are substitutes for the aforementioned deadbeats.

The Unemployment Rate fell to 6.3% from 6.7%, but as you can see from the following WSJ chart, this does not mean much. The unemployment rate is still stubbornly high when adjusting the definition to be more realistic.



Along these same lines, Permanent job losses are starting to tick higher again while temporary layoffs are declining. So, instead of workers being told to come back in a few weeks, they are being told to not come back at all.

The economy is still about 10mm jobs short of where we were before the govt-induced panic. Of this, about 4.3mm are people that have left the workforce. When looking at these destroyed jobs, 37% come from three sectors: food/drink services, accommodation, and recreation.

- Inflation expectations are high, but there is no *consumer* inflation

The Consumer Price Index (CPI) for January slowed to 1.4% (annualized) vs 1.6% in December. But the Atlanta Fed's Business Inflation Expectations survey remains at 2.2%.for the upcoming 12 months. While housing is the largest component of the CPI basket, nothing else on the list can really be called an "asset." That is, the CPI does not reflect the asset inflation we see in the stock market or other hard assets.

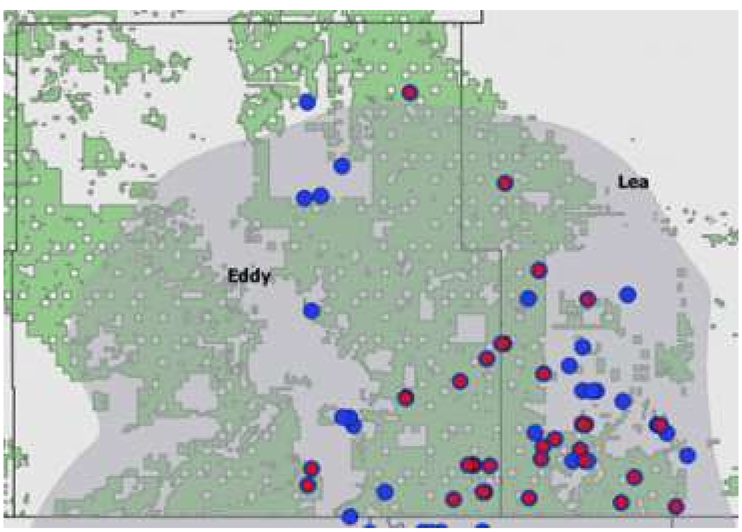
Good/Service	Percentage Share in Average Consumer's Budget
Housing	42.1%
Transportation	16.9%
Food and Beverage	15.4%
Medical Care	6.1%
Education and Communication	5.9%
Recreation	5.9%
Clothing	4.0%
Others	3.7%

- Same tune from the Fed

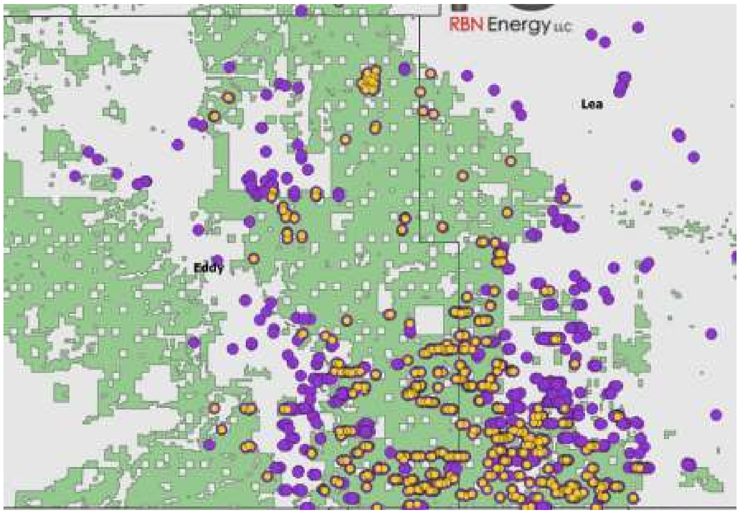
Chairman Powell spoke with the Economic Club of New York this week. The questions in this annual affair are typically of the softball variety. The moderators did not disappoint, and Powell gladly jumped on his oft-repeated political slant of, "returning to maximum employment will require a society-wide commitment with contributions from across government and private sector." * We do not mean to belabor the point that Powell is pushing fiscal and social policy but rather that his political leanings will motivate his monetary policy. He confirmed as much by reiterating that rates will stay at 0% through 2023. And the Fed will keep buying $120b a month in bonds ($80b in Treasuries and $40b in Mortgage-Backed Securities (MBS)).

- Is Biden's oil drilling ban driving prices higher?

We have recently noted that Biden's preliminary ban on issuing oil & gas drilling permits on federal land is mostly political bluster, at least in the short-term. The first map below (from RBN Energy) shows the current rigs in action in New Mexico's Eddy and Lea counties, the lesser-known area of the Permian basin. The red dots are leases on federal land (Bureau of Land Management). Blue dots are on private property.



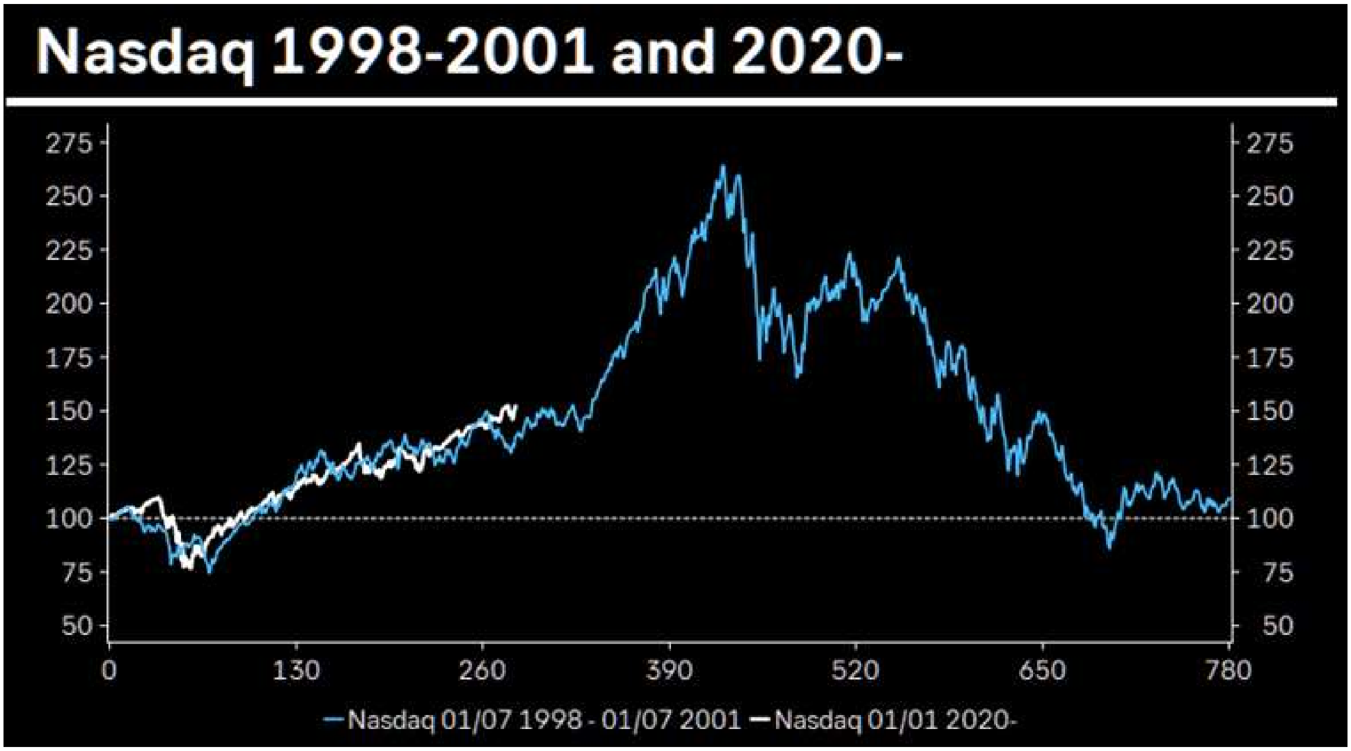
The next map shows the number of lease permits that were issued in the last year. The yellow dots are permits on federal land. Purple dots are permits on private land.



Of course, the Dems could just shut down pipelines, change the tax policy, or anything else to thwart oil & gas production on federal lands. And we think some action of this kind is likely. But we also know that Blue states like New Mexico will howl at the loss of tax receipts and jobs. RBN suggests that many New Mexico drillers could simply pick up camp and move across into Texas (the state controls drilling leases not the federal government). We are inclined to think that drilling will continue in some fashion. And the real driver of oil prices approaching $60 per barrel for West Texas Intermediate is the supply restraint coming out of Saudi Arabia. And the demand side is surely picking back up. But we also think that the law of unintended consequences might be rearing its head as it usually does with government action (by trying to kill off oil & gas, government is actually making it more economical to keep drilling for oil & gas).

- Chart Crime of the week

We often refer to the good work done by the marketear. But arbitrarily picking two points in time and overlaying the partial graphs is inane.



- Quick Hits
    - An academic report in the Journal of Economic Behavior & Organization declares that unemployment leads to more crime. Generalissimo Franco is, indeed, still dead.
    - The KOSS family sold \$33mm of stock when the Reddit crowd decided to squeeze its stock (KOSS) higher. The company was only worth \$26mm before the lunacy. Caveat Emptor.
    - Amazon lobbied for mail-in public election voting and against mail-in union voting.
    - When a California county district attorney flouted the ban on social gatherings, she responded, “we don’t just get married in my community, we have a celebration.”
    - SoftBank, the backer of ill-fated WeWorks, has a presentation with a slide of a goose laying golden eggs.
    - Research shows that men who are prime-age (25-54) and not in the work force (unemployed and not looking for work) do less work around the home than employed women.
    - Texas has very little federally owned land as this was negotiated when Texas joined the US.
    - Colin Kaepernick is launching a “social justice” SPAC.
    - Long time NFL coaching legend Marty Schottenheimer passed away this week. Along with winning 200 NFL games, he is well known for instructing Bridget Wysong how to pack a beer cooler.
    - The Washington Post probably is not very fun at parties:


The Washington Post
Democracy Dies in Darkness

Obituaries

Marty Schottenheimer, NFL coach whose teams wilted in the postseason, dies at 77

* Quick political sidebar: We used to be naïve and think central bankers were the rare apolitical beasts they were designed to be. But recent history has proven us wrong with the likes of Tim Geithner, Janet Yellen, and Mario Draghi all bouncing back and forth between creating monetary policy and advocating partisan policy. Possibly the most intriguing muddling of the lines involves Larry Summers. Obama had promised him the Fed chairman spot down the road if he were to serve as the director of the National Economic Council. Summers was not keen on this role as it was viewed as a step down from his previous role as Treasury Secretary under Clinton. Reluctantly, he accepted. He went on to infuriate the progressive wing of the Dems. He cut a deal to push through one of the Wall Street bailouts in exchange for reforming bankruptcy actions on mortgage defaulters. Summers did not fulfill his promise on the backend. He never did make it to the Fed. We will have to see if Obama reveals the rest of this story in his next memoir. We are guessing Obama threw Summers under the bus.

Trading: We are still riding the market momentum higher. But we still have a barbell approach. We increased our Healthcare longs as they have lagged the go-go market. On the flip side, we added to our Energy long, we bought the marijuana ETFs (the space has been rallying on the hopes for federal legalization under Dem control…we get the uneasy feeling that the maniac Reddit group is in these names), and we increased our speculative Retail exposure (not GameStop which for a while there dominated the Retail ETF!). We trimmed some broad market exposure to keep our overall long at the same level. We agree with the Merrill clients that interest rates have probably topped out for a bit. Not that we think we could ever time interest rates, but we waited for them to creep a bit higher before we added some Fixed Income for diversification in some portfolios.

TSLAQ: We can now roll all the silly froth in the market into one section since Elon announced Tesla bought $1.5b of Bitcoin. Of course, Bitcoin shot higher on the announcement. So, lo and behold, Tesla had made more money in a single day on Bitcoin than it had in its entire history as a car maker. On the operational front, Tesla reported exactly zero information on its much vaunted “battery program” in its latest SEC filing. This means they have done absolutely nothing with batteries.

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