Weekly Update

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- The FATMAAN is back (until the next rotation)
- Earnings expectations might be too high
- Merrill Fund Manager Survey: still bullish
- Economic data continues to miss expectations
- This Fed knows best, just ask them
- Oil & gas have more room to run
- Chart Crime of the week

	Last	5d %	YTD %	1yr %
SPX	3852	1.1%	2.6%	17.9%
QQQ	323.8	2.4%	3.2%	46.0%
US 10 YR	1.08%	1.09%	0.92%	1.77%
VIX	21.6%	22.2%	22.8%	12.9%
Oil	53.28	0.7%	9.7%	-9.1%

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

The FATMAAN is back. For all the talk about rotation into other sector or factors, Big Tech roared back. We admit we do not really know why. Higher interest rates and stimulus checks were supposed to help Value stocks and other "short duration" assets. And Financials have had good earnings…but they also had monster runs into those earnings (below). Perhaps, ironically, the end of the rotation was just another rotation.

- Earning expectations might be too high

Earnings season has begun with the large banks reporting. The market was hoping for signs of life which it could extrapolate to the rest of the economy and, thus, the market. Unfortunately, consumer banking was weak across the board. Headline earnings were strong because of trading and investment banking. Moreover, only a small fraction of the built-up loss reserves was released. This means the banks do not expect things to get better in the short to medium term.

One potential problem with the just-starting earnings season is the high expectations. Despite the total number of companies giving guidance was 17% below the five-year average, the rate of positive guides is twice that of the five year average: 66% during the current reporting season vs the average of 33%.

- Merrill Fund Manager Survey: still bullish

The bullish themes inside the Merrill Fund Manager Survey are getting extreme. The expectation for higher global earnings is at an all-time high. The consensus view is that the economy is in an early-cycle phase. A record number expect the yield curve to steepen (higher long rates vs short rates). 92% of investors expect higher inflation. And Merrill's infamous "cash level" is still near the lows. All this leads Merrill to issue a "sell" warning. We remind people that Merrill has been saying to sell this rally for a few months now. And we also remind you that there is no such thing as "cash levels" in aggregate! Here is the earnings expectation chart:

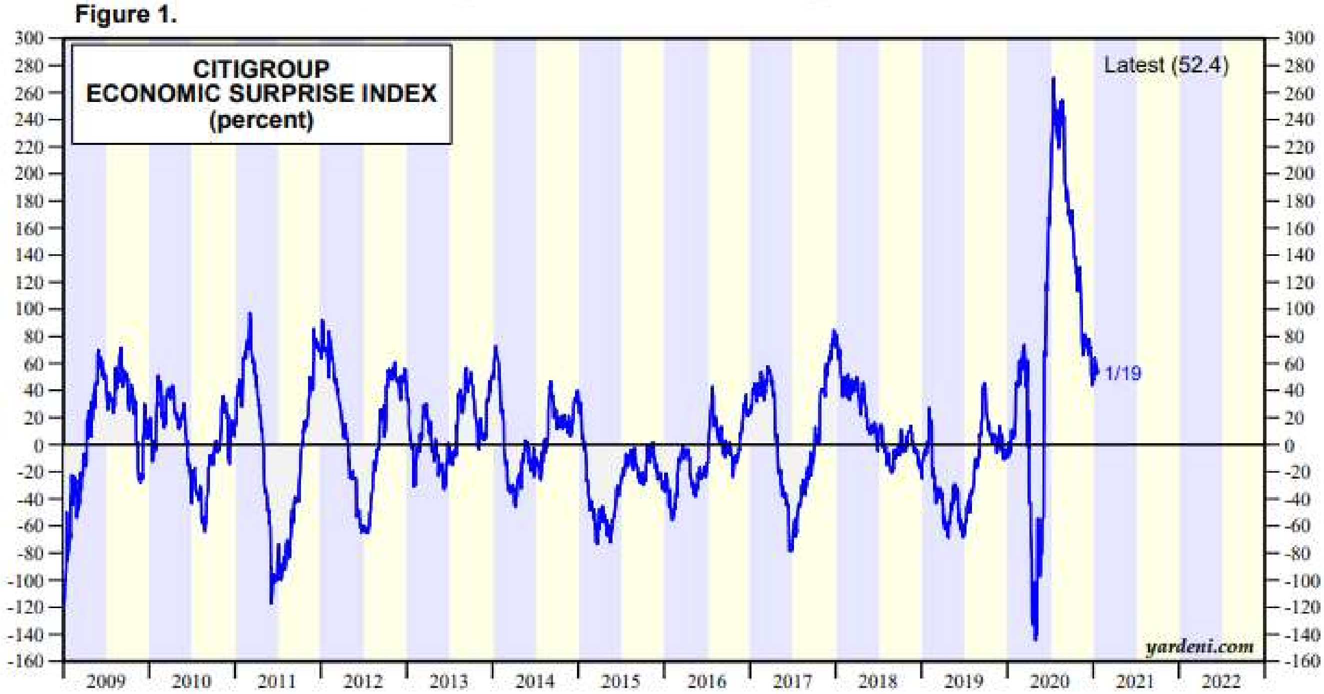
Exhibit 1: FMS profit expectation highest since Feb'02

Source: BofA Global Fund Manager Survey

- Economic data continues to miss expectations

Despite all the optimism about the economy rebounding, data continues to miss expectations.

Figure 1.



Note: Blue shaded areas are first half of each year.
Source: Citigroup.

And we got more of the same this past week with Jobless Claims, the Housing Market Index, Wholesale inflation, Retail Sales, and Empire Manufacturing all missing the mark.

- Jobless Claims are back are on the rise with 965k new claims. This comes on the heels of the poor Unemployment Report last week which showed a drop of 140k jobs.
- The Housing Market Index for January dipped for the second straight month. It is still just a hair off the all-time high set in November. But this datapoint is the survey of homebuilders who are always optimistic (until they default on loans at the bottom of the cycle). This dip is likely correlated with the increase in interest rates in the market. Mortgage Applications dipped as of Jan 15. We need to see things level off in order for us to remain confident in our long Housing exposure.
- Wholesale inflation as measured by the PPI (Producer Price Inflation as opposed to the Consumer) fell shy of the low expectations. The "core" (ex food and energy…remember nobody uses energy or eats) annual inflation was 1.2% in December down from 1.4% in November.
- Retail Sales for December contracted 0.7% despite all the hoopla about a huge holiday shopping season. Of course, most of the holiday shopping headlines only focus on ecommerce sales which still pale in comparison to brick-and-mortar sales. Yes, ecommerce sales have increased by 36% in the last two years….from 11% to 15%. (To be fair, big ticket items are still almost purely in-person, so the data is skewed.)
- The NY Fed's Empire Manufacturing dipped a few points (and more than expected) in January. This is the fourth month in a row of declines from the September peak. This is more of a regional story as non-lockdown states are experiencing stronger Manufacturing. This ties back into our Housing theme as more jobs are likely to migrate to places that actually want productive jobs.

➢ This Fed knows best, just ask them

Last week we noted a few dissenting voices on the Fed – or rather, some voices dared speak about possibly ending Quantitative Easing at some point. But Chairman Powell squashed this talk of impending reality. He acknowledged the taper tantrum (the episode back in 2013 during which the Fed's Bernanke brought up the topic of cutting back on bond buying, and the market did not take it well) and said "now is not the time" to even have the discussion. He said 2013 was too early to start talking about withdrawing stimulus in the wake of the Global Financial Crisis. We can extrapolate that 2024 will be too soon to tighten monetary policy after the virus-fear crisis.

Eric Rosengren of the Boston Fed was pushed on why the Fed should keep buying mortgage-backed securities (MBS) when the housing market is doing so incredibly well. He flatly attributed all the strength in Housing to the Fed's bond buying. We agree that interest rates drive the housing market in normal times. But this view strips out any migration or work-from-home themes.

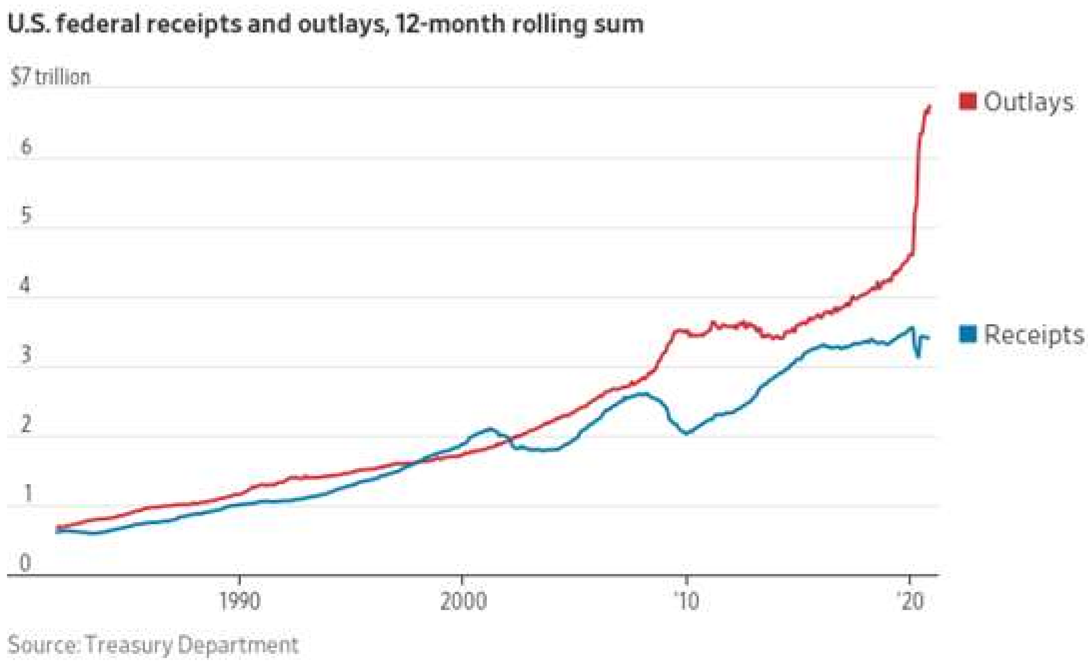
➢ Oil & gas have more room to run

We often joke about the busted supply & demand relationship in this new market (regardless of asset). Oil and gas are not immune from this dynamic…but it actually makes sense in this realm. When a petroleum product cannot get to market, its price is actually depressed. Last week we showed the skyrocketing natural gas prices in Asia. But there are still bottlenecks at the Panama Canal. This increase in shipping costs has reduced exports which has kept a lid on price increases! This is more true of natural gas liquids (NGLs) than natural gas, but it applies to both. Our point is that we will keep riding our long Energy play. Further to this, we do not think politics will play a big role in the traditional energy sector in the short to medium term. Do not be fooled by one of Biden's first executive orders: canceling the permit to the Keystone pipeline. This is largely symbolic. And some analysts think it will be cover for allowing the much more important Dakota Access Pipeline to remain open. Of course, we are also long some classic crony-capitalism stocks in the new energy space. Both can be winners.

Random, basic refresher on the different gas terms: natural gas, when it comes out of the ground, is a combination of methane, butane, ethane, propane, etc. When natural gas from the wellhead is processed, the methane is separated from the others. These others are collectively known as natural gas liquids (NGLs). Methane is still called natural gas. And to make it more confusing, one of the possible NGLs is called natural gasoline.

- Chart Crime of the week

The only crime here is the data in the chart itself. God help us.



- Quick Hits
    - The media is reporting that the media should be considered "essential" for the vaccine.
    - A Mickey Mantle rookie card sold in auction for $5.2mm. This is up 100% from when this card last traded in 2018. And up close to 2000% since 2006.
    - Tesla's Self Driving apparently senses buried bodies in a graveyard. No word on being able to sense living humans crossing the street.
    - The SEC equivalent in the UK, the FCA, issued this statement about investing in Bitcoin, "Prepare to lose all you money."
    - Hawaii has the only royal palace in the US, Iolani Palace.
    - Colombia has a hippo problem. They escaped from Pablo Escobar's private zoo back in 1993 and have multiplied to dangerous numbers.
    - A swanky apartment in New York recently sold for a 51% discount from its last sales price.

Trading: We took off our Tax Loss strategy. We were long all of the dogs from 2020 starting in late November. The idea was tax-loss selling exacerbates their weakness in the end of the year. And then they rebound. This strategy worked this year as it gained 10.4% vs a market gain of 7.2%. Of course, it could have just been the broad rotation into Value as this bucket was long Energy and Financials! Otherwise, we added a small bit to our High Growth bucket while trimming an equal amount from our Big Tech exposure. We sold the balance of most of our long SPACs. We will look to buy a new round of these. We sold our Gamestop for a cool 100% profit. We have another short-squeeze candidate that we are just edging into now. We dumped our QQQ Put protection as it was eroding quickly. We started some new QQQ Put protection further out in time and closer to the market. Given our barbell strategy, we will probably not carry as much protection as we have in the past.

TSLAQ: Another great piece of research on Tesla, this time from one-time bear and now bull Credit Suisse: "There is no bear case on Tesla."

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