Weekly Update

13-Jan-2021

Carlisle C. Wysong, CFA
Managing Partner

- Market rallies back, but rotation is still the focus
- Buybacks are back
- The Employment rebound is slowing, but the pain is concentrated
- Housing inventory still shrinking but not across the board
- Fed likely to “control the yield curve”
- The price of natgas in Asia is on a tear
- Chart Crime of the week

	Last	5d %	YTD %	1yr %
SPX	3810	1.6%	1.4%	18.9%
QQQ	313.0	2.8%	0.7%	45.7%
US 10 YR	1.09%	1.04%	0.92%	1.81%
VIX	22.2%	23.6%	22.8%	12.4%
Oil	52.91	4.5%	9.1%	-8.9%

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

Rotation remains the name of the game. The broad indices seem to be volatile on the surface (the Nasdaq 100 had a -1.6% drop last week and a 2.8% gain this week). But with the VIX still sitting in the low 20’s, most of the action is in the sectors. Year-to-date, there is a 17% performance differential between the best (Energy at +14%) and the worst (Communication Services -3% which is Google and Facebook). Growth staged a bit of a comeback as it outperformed Value this week. But looking at the Sector performance, we know Value is still outperforming YTD (by over 2.5%).

Politics are as crazy as ever. But with Senator Joe Manchin of West Virginia (D) basically declaring that he will not sign off on any and all “blue wave” policies, the market is back to what it likes best – gridlock. We would twist this a bit; we think we have gridlock with a stimulus upside. We doubt Manchin will push back too much against the party platform, but we think even a little inertia/resistance might make it more difficult to get to the anti-market portion of the platform too quickly (taxes and regulatory).

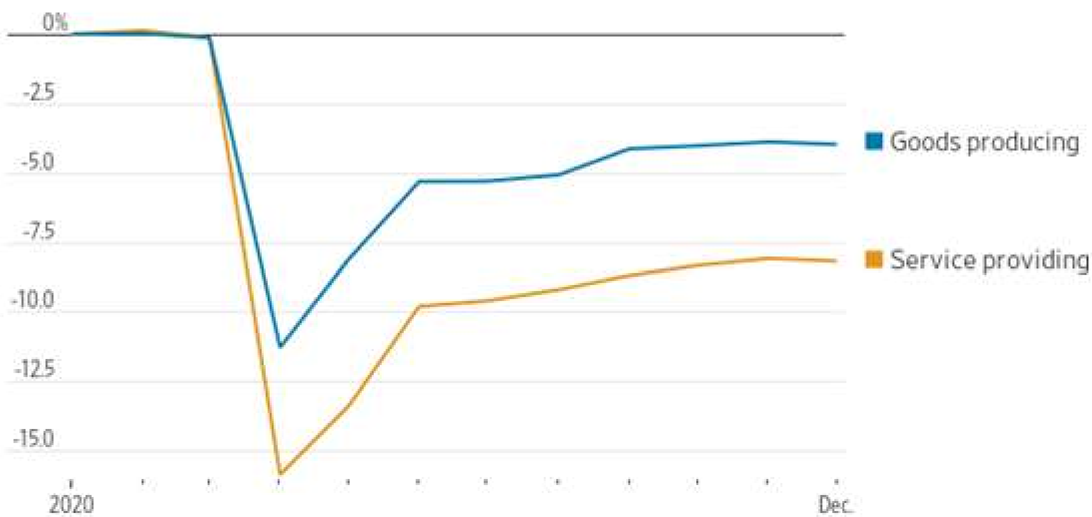
- Buybacks are back

Corporate stock buybacks are returning. Last week saw the highest amount of stock repurchased since March. Health Care and Staples led the charge. And investors are buying names that announce buybacks. Financials are the prime example here.

➢ The Employment rebound is slowing, but the pain is concentrated

The Unemployment Report came with a few surprises. The headline loss of 140k jobs was worse than the official expectation, but it was in line with the ADP guess. Just as we expected, Services were hit hard because of the lockdowns. Leisure and Hospitality were the hardest hit within Services. Manufacturing jobs were revised higher in November and better than expected in December. In fact, *the economy gained jobs as a whole excluding the Leisure and Hospitality slaughter*. The Unemployment Rate stayed flat at 6.7% which seems nice. But the Labor Participation Rate continues to be in the mud at 61.5% - this is the lowest level (pre-virus times) since the mid 1970's. In total, 13.7mm people have left the workforce (9.8mm jobs lost and 3.9mm more people not looking for jobs). Average Hourly Earnings was a bright spot with a gain of almost 1% monthly (5.1% annual). But hours worked did dip a touch. Also, Online job postings continue to slow vs the rapid recovery this summer.

Change in private-sector employment since January 2020, by sector



Note: Seasonally adjusted
Source: ADP

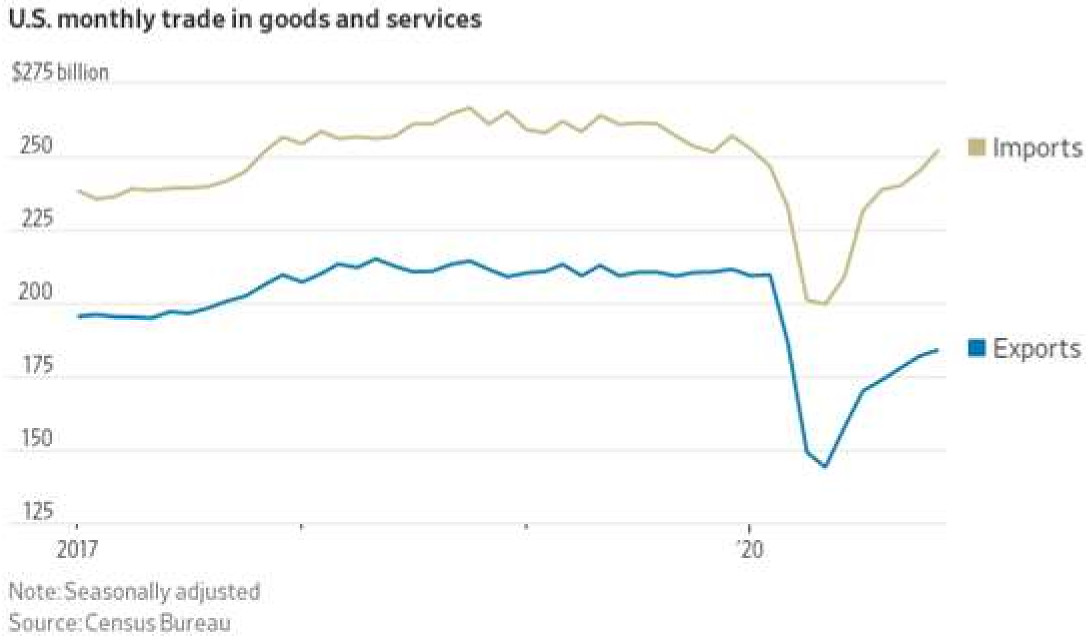
➢ Housing inventory still shrinking but not across the board

Housing…we know we cannot stop writing about Housing. But considering most estimates point to all contributions to Housing (investment and housing services) accounting for about 15-18% of GDP, it is well worth our time. In December, the number of homes for sale fell to an unadjusted, all-time low according to realtor.com. The total is 700k compared to 1.15mm last December. The median home price has dipped a bit to $340k from the $350k peak. Austin had the largest increase in prices. Minneapolis was the only large metro area to see a decline (-1.6%). It takes 66 days for the typical home to sell. This is down from79 days last December.

Another angle of this Housing boom is that much of the new home construction has turned to rentals. That is, homebuilders are teaming up with large-scale landlords to buy large swaths of homes specifically to rent them.

➢ The US is outperforming everyone else

Imports increased by 2.9% in November (monthly) while Exports only increased 1.2%. Some are interpreting this as representing the K-shaped recovery…wealthy people (or at least not poor) have been able to buy cell phones, appliances, jewelry, and toys which are mostly imports. This might be true. But it seems more relevant to us that the US economy seems stronger than the global one. In general, trade deficits do not necessarily represent strength or weakness, but we think in this slim context our framing is appropriate. Then again, it might just mean that nobody wants the stuff we make.

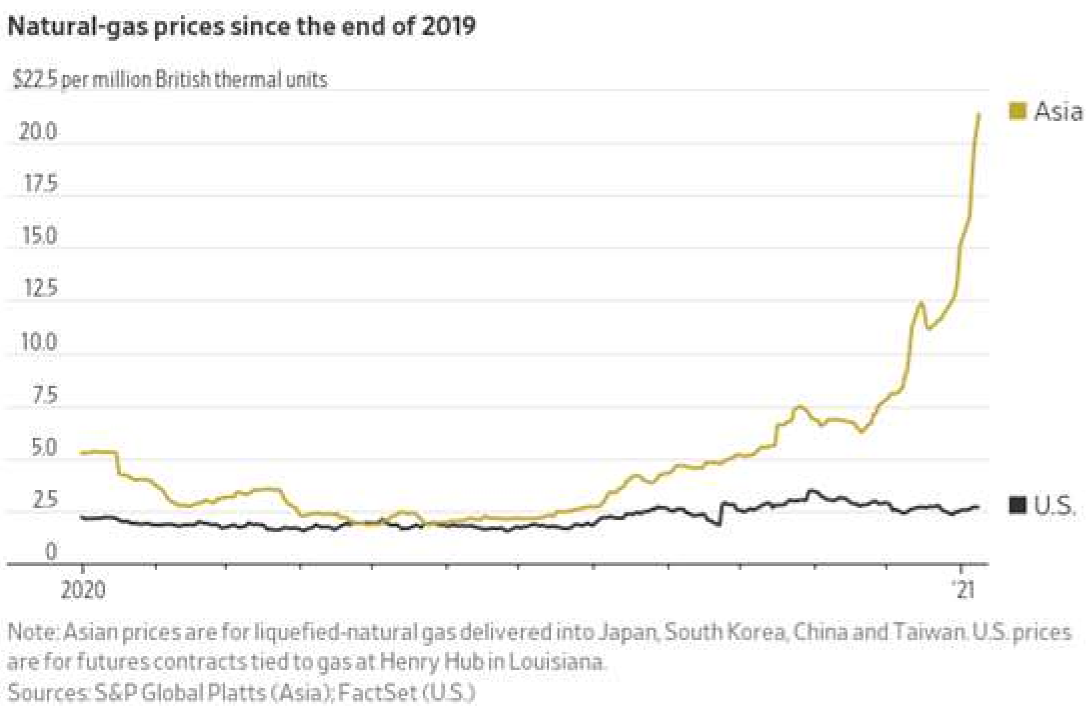


- Fed likely to "control the yield curve"

We know the Fed has been clamoring for more and more fiscal policy (stimulus and beyond) from congress. With the democrats now in control of the purse strings*, Joe Manchin's conscience notwithstanding, some are thinking that this will enable the Fed to pull back the Quantitative Easing sooner than expected. We are not sure if the Fed believes any increase in fiscal support will translate into growth in three or four years' time or if the perception of the fiscal policy will give the Fed cover to pullback some of the easy monetary policy (some might call that a tightening). Two Fed speakers, Patrick Harker from the Philly Fed and Raphael Bostic of Atlanta, both said the Fed's buying of bonds could start to slow much sooner than expected if the economy continues to rebound/accelerate. On the flip side, and more in line with standard Fed regurgitation, Esther George of the Kansas City Fed stood by the "accommodative" policy and "it is too soon to speculate about the timing of any change." Jim Bullard of St. Louis said a 10yr above 1% is a sign of confidence in the economy. George said even if inflation expectations continue to run above 2%, this is still not enough to change course. Loretta Mester of Cleveland (Go Browns!), aka Carol Burnett, said any change in asset purchases would be communicated well in advance and that it would be a slow "taper." I guess she forgot about Bernanke's identical policy communication back in 2013. It resulted in a shock to the market now known as the "taper tantrum." We think the market believes both camps. That is, the oft-eluded-to "yield curve control" is likely: short term rates will stay at 0% but long-term rates will creep higher (and creep is fine…the quick shock higher is what can derail a stock market).

- The price of natgas in Asia is on a tear

We have discussed oil's move higher thanks to constraint on the supply side and increasing demand. But natural gas often gets overlooked as an annoying byproduct. And its price in the US blows in the wind with seasonal weather changes. But Americans often forget that natgas prices are not the same around the globe. Check out this chart:



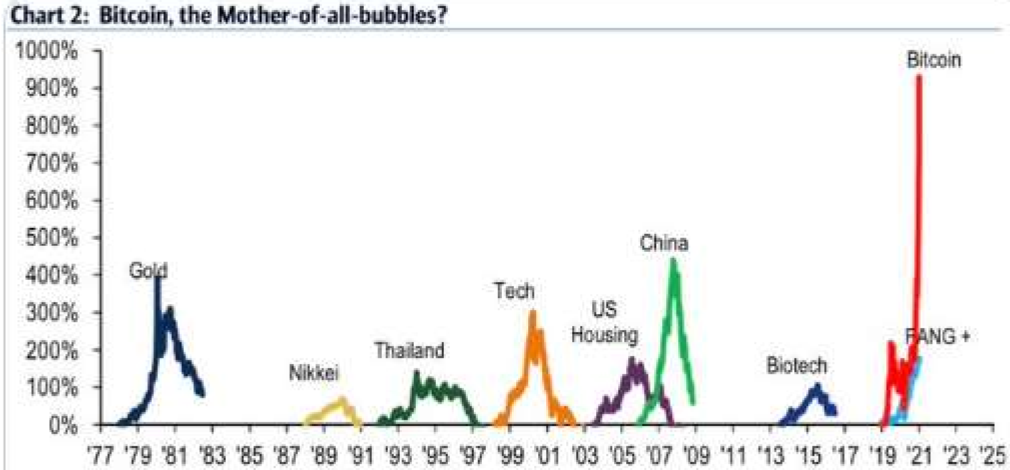
- Chart Crime of the week

The same guy that posted the Bitcoin/Dow Jones chart last week posted this one. It is real interest rates vs gold. Different scales on the two y-axes (pronounced axees). Random starting point. And the conclusion by the poster is that Gold has crashed!

For what it is worth, this Bitcoin/Tesla chart is how you do it. The start date is still somewhat arbitrary (but both were fledgling ideas, at best, at the time). But using the Log scale effectively shows normalized percent changes (sorry it might be a bit blurry).

Here is another fun chart (from Merrill) appropriately designed. We are not sure why Tesla was not included as an epic bubble in time.

Chart 2: Bitcoin, the Mother-of-all-bubbles?



Source: BofA Global Investment Strategy, Bloomberg ; Note: Gold (XAU Curncy), Japanese Equities (NKY Index), Thai Equities (SET Index), Tech (NDX Index), US Housing (S5HOME Index), Commodities (SHCOMP Index), Biotech (NBI Index), FANG + (NYFANG Index), Bitcoin (XBTUSD Curncy)

- Quick Hits
    - Winning the Heisman trophy is estimated to be worth $800k in future earnings.
    - Opioid deaths in the US through May 2020 (latest data from CDC) jumped 18% vs 2019.
    - Roblox, the kid-game maker, has seen its valuation increase 7x in the last year from $4b to almost $30b.
    - California is paying unemployment benefits to inmates in other states.
    - The FAA is set to approve new civilian aircraft that can travel faster than Mach 1.
    - The old NBA team in Seattle, the Supersonics, were named after Boeing's attempt to match the Concorde (which it never did).

- Puerto Rico's new governor was elected with less than 33% of the vote.
- HBO Max won a coveted spot on the Amazon Fire TV streamer because it, HBO, signed a long-term cloud deal with Amazon Web Services.
- "News" was made when NFL'er Russel Okung was going to be paid half his salary in Bitcoin. He is being paid in USD and then actively converting half into Bitcoin.
- Some slot machines are going to start paying out Bitcoin if desired.
- NIO, the Chinese Tesla wannabe, is worth more than Volkswagen.
- GM, in surely what must be a Musk-inspired bit of dream projection, announced it is working on a "flying Cadillac."
- Volkswagen sold over 3x as many *electric vehicles* as NIO did last year.
- Some US corporations are suspending political donations.
- The period after a presidential election is always the low point of the political contribution cycle.
- The NFL is slipping in an extra two minutes of ads during playoff games.
- An English "football" club, the Marine AFC, sold over 30,000 virtual tickets to its last game.
- Academia now calls single moms, "non-partnered mothers."
- In 1983, the Cleveland Cavaliers were given extra draft picks because they were so bad.

Trading: We continue to trade against the rotation ever so slightly. We have cut our Big Tech long exposure and have added to some of our idiosyncratic names. We have also added to our High Growth basket in the aggressive end of our barbell strategy. We also added to our long Energy trade (some for a trade, some more long-term). We also increased our Financials long exposure slightly. We got lucky with one of our medium-term trading names. It is an old brick & mortar business that is transitioning to digital. We suspected it might take some time to play out as these transitions can be slow and expensive. The stock jumped 70% today…on the prospect of it becoming more digital! We wish we woulda/coulda/shoulda been bigger!

TSLAQ: Underscoring the cult following of the Villain, when he cryptically tweeted "Use Signal," some penny-stock with the name Signal Advance jumped 6000% over a few days. Musk was referring to a messaging service that is a competitor to Facebook. There is no borrow available to short the incorrect SIGL stock. ** It has come back to earth, but it is still up over 1300%. This company should take a page out of Musk's book and issue as much stock as physically/fiscally possible.

The latest piece of broker "research" is another classic. Merrill basically said the stock should go higher because of the company's ability to sell stock. We are all well versed in today's version of supply and demand (the more supply, the more demand!). But the funny part of the research note was the qualifier, "While the company faces operational/financial hurdles, including supply/demand challenges, potential future losses and cash burn, and the prospect of new competition and technology obsolescence…" How was the play, Mrs. Lincoln?

* Much has been made of the Dems winning the Senate with their 50 votes plus the VP tiebreaker. But the media overlooks the fact that Budget Reconciliation, the measure by which the senate can pass bills with this 50+VP vote, can effectively only be used once a year. Technically it can be used three times in a year: once each for spending, revenue, and the debt limit. But it is rare for a large budget item to not include both spending and revenue measures. Of course, the Senate will likely try to change its own rules which will result in a battle over the rules to change the rules. And throw in Joe Manchin…head spinning.

**As an aside, this silliness reminds me of a trade back around 2010. CNBC and Cramer were pumping the national oil company of Brazil, Petrobras. But the dolt in the production room put up the graphic for Petrobras

Argentina (a subsidiary, and a terrible one in that). The super illiquid stock rallied 20%. We shorted every share we could borrow (never enough) and made a nice 15% in a day.

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