BESPOKE Investment Group

January 15, 2021

The Bespoke Report

Can You See The Light?

Global equity markets took a breather this week as a quick debate played out amongst the FOMC over whether asset purchases might be "tapered" this year. Bond markets got a peak of the big fiscal support they priced in last fall and after Democrats retook the Senate on January 6th via Georgia runoffs. COVID prevalence looks to be peaking in the US as vaccine distribution starts to scale up despite an uneven run. And the galaxy of aggressive retail investors continue to press their favorite plays despite a hiccup for renewables stocks this week.

Put together, it feels like there's some light starting to show on the horizon, even if that light doesn't necessarily mean good things for the market as a whole. Earnings season covering calendar Q4 will provide more insight into sentiment and positioning as companies start reporting in earnest.

Asset Class Performance YTD, Since Election, and 2020 - Total Return (%)

US Related			**Since**	
ETF	**Description**	**YTD**	**Election**	**2020**
SPY	S&P 500	0.46	12.25	18.92
DIA	Dow 30	0.81	12.71	10.50
QQQ	Nasdaq 100	-0.57	13.79	47.78
IJH	S&P Midcap 400	5.19	22.78	19.48
IJR	S&P Smallcap 600	8.27	32.33	20.47
IWB	Russell 1000	0.82	13.92	21.77
IWM	Russell 2000	7.46	31.90	28.98
IWV	Russell 3000	1.30	15.07	22.11
IVW	S&P 500 Growth	-1.19	9.98	31.63
IJK	Midcap 400 Growth	5.21	21.25	28.82
IJT	Smallcap 600 Growth	7.57	31.51	28.24
IVE	S&P 500 Value	2.28	15.05	3.52
IJJ	Midcap 400 Value	5.17	24.80	8.88
IJS	Smallcap 600 Value	9.01	33.17	11.88
DVY	DJ Dividend	4.91	17.60	-0.25
RSP	S&P 500 Equalweight	2.78	17.26	15.84
FXB	British Pound	-0.65	4.20	2.20
FXE	Euro	-1.18	3.01	6.67
FXY	Yen	-0.62	0.58	3.96
XLY	Cons Disc	3.10	12.86	33.66
XLP	Cons Stap	-2.76	2.89	7.11
XLE	Energy	12.76	46.64	-23.92
XLF	Financials	4.75	24.92	2.99
XLV	Health Care	3.07	11.82	16.81
XLI	Industrials	0.29	11.17	11.29
XLB	Materials	4.01	14.13	25.35
XLK	Technology	-1.95	12.98	40.81
XLC	Comm Services	-3.25	8.90	22.79
XLU	Utilities	0.45	-1.77	1.03

Global			**Since**	
ETF	**Description**	**YTD**	**Election**	**2020**
EWA	Australia	2.09	20.16	10.53
EWZ	Brazil	-0.35	35.25	-20.61
EWC	Canada	3.27	17.65	8.98
ASHR	China	5.34	16.88	43.58
EWQ	France	0.68	20.14	3.55
EWG	Germany	0.24	17.22	10.82
EWH	Hong Kong	4.36	17.05	8.73
PIN	India	3.36	21.84	22.52
EWI	Italy	-0.31	22.13	1.36
EWJ	Japan	1.75	14.84	17.43
EWW	Mexico	3.57	30.18	0.42
EWP	Spain	1.81	26.48	-2.21
RSX	Russia	6.50	31.09	6.52
EWU	UK	4.35	22.15	-7.97
EFA	EAFE	1.96	17.69	9.70
EEM	Emerging Mkts	5.19	20.74	23.10
IOO	Global 100	0.28	13.33	18.94
BKF	BRIC	4.78	14.72	22.11
DBC	Commodities	4.15	18.13	-4.01
USO	Oil	7.03	32.22	-65.53
UNG	Nat. Gas	8.23	-14.23	-40.94
GLD	Gold	-4.02	-4.32	19.80
SLV	Silver	-6.63	2.23	37.53
SHY	1-3 Yr Treasuries	-0.03	0.06	3.00
IEF	7-10 Yr Treasuries	-1.24	-1.09	8.64
TLT	20+ Yr Treasuries	-3.69	-3.45	13.79
AGG	Aggregate Bond	-0.76	0.39	6.66
BND	Total Bond Market	-0.92	0.32	6.72
TIP	T.I.P.S.	-0.37	1.65	10.42

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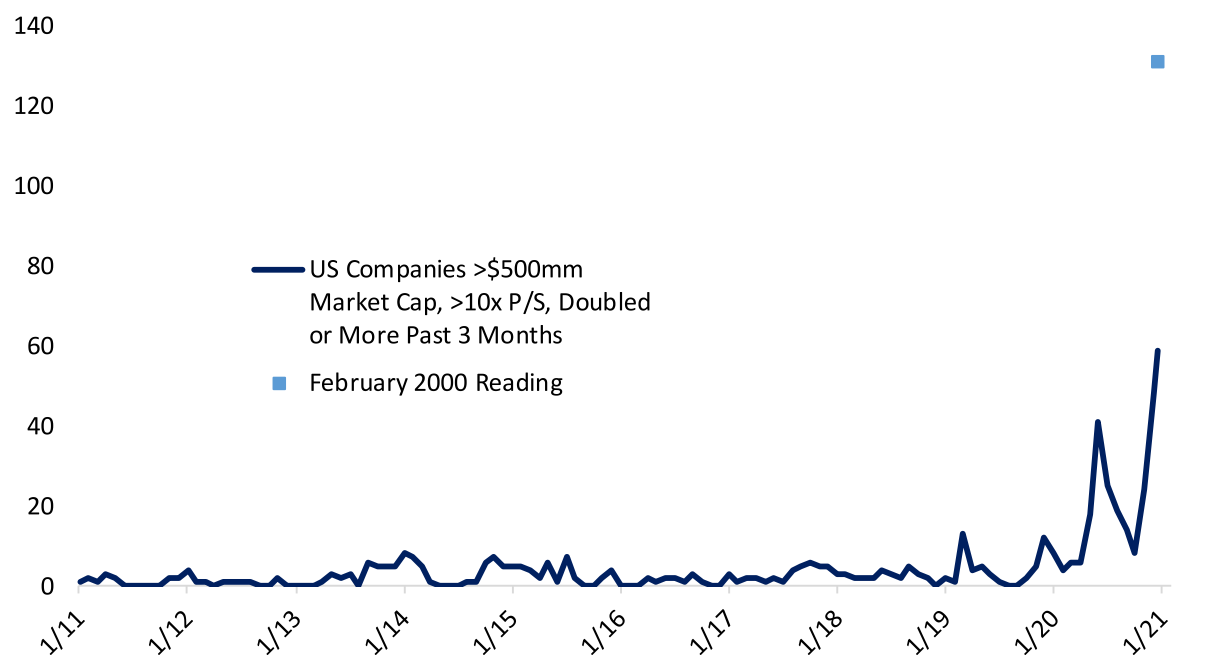
With the massive rise in the stocks of special purpose acquisition corporations (SPACs), recent IPOs, and names tied to all manner of technology, renewable energy, and related themes, there are an awfully large number of stocks that have both exploded higher and trade at "that can't be real" multiples.

- In the chart below, we show the number of US-listed companies over time that fulfil the following criteria: a market cap of at least $500mm, a price-to-sales ratio (market cap divided by trailing 12-month revenues) in excess of 10, and a price gain of at least 100% (double) over the past three months.
- There are almost always a few names in this bucket, but over the last few months this number has exploded to its current level of 59...and this cohort doesn't even include Tesla (TSLA), among some other massive gainers that aren't quite "doubles."
- As shown in the chart below, this reading has spiked recently, but we're still less than halfway to the February 2000 reading of 120 companies.

"Ludicrous" Names: Huge Numbers, But Far Below Dotcom Bubble Peak



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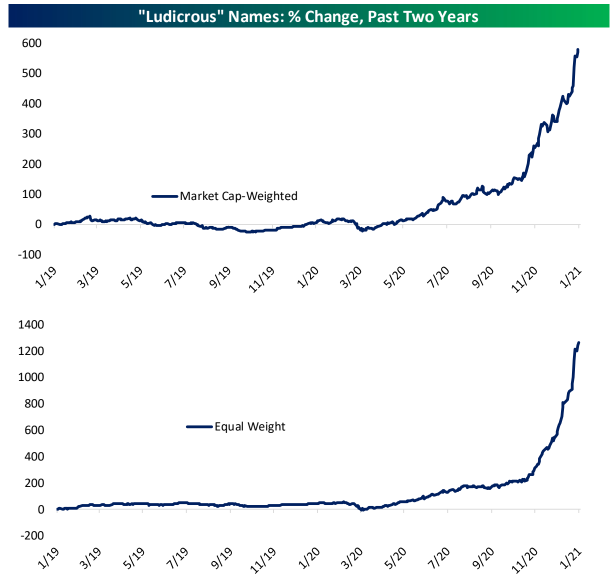
- Below we show a complete list of the 59 names currently part of our "Ludicrous" list.
- Electric vehicle plays like NIO or Plug Power (PLUG) are joined by stocks like Chinese video platform Bilibili (BILI) or e-commerce retailer Farfetch (FTCH).
- It's worth noting that while there are a decent number of quite small names on this list, the median stock has a market cap of $1.4bn, so they're not all tiny companies.

"Ludicrous": >10x P/S, Doubled In Past 3 Months, >$500mm Market Cap

Ticker	Name	Price ($)	Market Cap ($ bn)	3m % Change	Ticker	Name	Price ($)	Market Cap ($ bn)	3m % Change
NIO	Nio	62.15	97.75	187.5	GSAT	Globalstar	0.84	1.41	159.2
BILI	Bilibili	119.31	41.45	150.3	SOL	Renesola	22.27	1.33	484.5
PLUG	Plug Power	69.50	32.53	306.4	SI	Silvergate Capital	69.32	1.30	328.2
FTCH	Farfetch	61.30	20.83	129.2	VERI	Veritone	37.82	1.18	273.0
LAZR	Luminar Technologies	33.32	10.79	215.2	ESTA	Establishment Labs	49.48	1.16	157.0
FATE	Fate Therapeutics	113.29	10.36	131.0	STRO	Sutro Biopharma	25.37	1.14	112.5
FUTU	Futus	69.07	9.35	122.7	BNGO	Bionano Genomics	5.63	1.02	852.8
PACB	Pacific Biosciences	34.35	6.39	146.2	CRIS	Curis	10.54	0.96	729.9
FCEL	Fuelcell Energy	19.14	6.12	671.8	MVIS	Microvision	6.55	0.96	146.1
BEAM	Beam Therapeutics	97.94	5.68	239.0	DMTK	Dermtech	39.12	0.96	237.0
UPWK	Upwork	41.34	5.05	101.2	CLSK	Cleanspark	39.34	0.94	299.8
NTLA	Intellia Therapeutics	76.01	4.89	208.9	CAN	Canaan	5.24	0.83	163.3
MSTR	Microstrategy	519.26	4.81	212.7	FVTI	Fortune Valley Treasures	2.65	0.82	253.3
EDIT	Editas Medicine	73.30	4.60	123.7	UBIA	Ubi Blockchain Internet	7.30	0.81	886.5
CELH	Celsiuss	59.60	4.27	160.5	SOLO	Electrameccanica Vehicles	8.15	0.67	194.2
ARVN	Arvinas	82.41	3.99	211.9	FPRX	Five Prime Therapeutics	14.96	0.66	152.3
JMIA	Jumia Technologies	43.30	3.86	250.3	IDEX	Ideanomics	2.71	0.65	177.9
MGNI	Magnite	27.39	3.07	200.8	VERU	Veru	9.20	0.64	244.6
DQWS	Dswiss	13.00	2.69	333.3	FUV	Arcimoto	17.99	0.61	170.1
GRWG	Growgeneration	47.99	2.60	160.7	EQOS	Diginex	18.90	0.60	201.4
AMRS	Amyris	9.31	2.23	211.4	ATOM	Atomera	27.89	0.60	170.0
BLNK	Blink Charging	50.81	2.11	449.3	CMRX	Chimerix	8.24	0.59	179.3
EH	Ehangs	37.98	2.08	334.1	BEEM	Beam Global	69.75	0.56	345.1
MARA	Marathon Patent	23.00	2.00	874.6	LXRX	Lexicon Pharmaceuticals	3.92	0.55	164.9
SRRK	Scholar Rock	53.49	1.80	251.5	AQB	Aquabounty Technologies	10.34	0.55	127.8
TIGR	Up Fintech	12.48	1.76	152.1	INVU	Investview	0.18	0.53	958.8
XPEL	Xpel	59.50	1.64	104.6	CBAT	Cbak Energy Technology	6.84	0.52	109.8
RIOT	Riot Blockchain	23.88	1.61	608.6	EZOO	Ezagoo	4.30	0.52	115.0
INBX	Inhibrx	0.00	1.46	105.1	WBAI	500.Com	11.68	0.50	290.6
BCRX	Biocryst Pharmaceuticals	8.15	1.44	108.4					

- In the charts at right, we show market cap-weighted and equally weighted performance of these stocks over the last two years.
- All of the gains have come since March, when both the equal weight and market cap-weight indices were below where they sat two years ago.
- Weighted by market cap, this index is up just shy of 600%, while equally weighted these names are up well over 1,200%.

"Ludicrous" Names: % Change, Past Two Years



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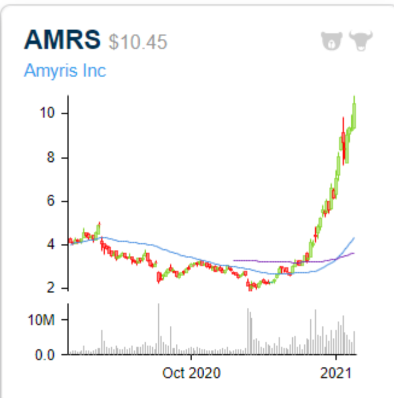
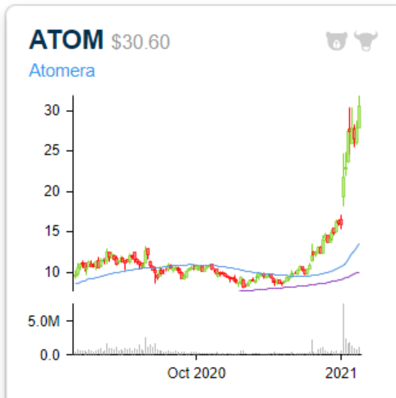
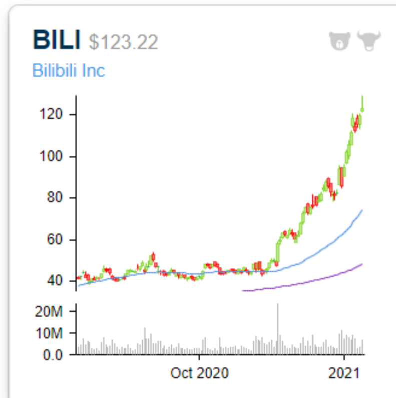
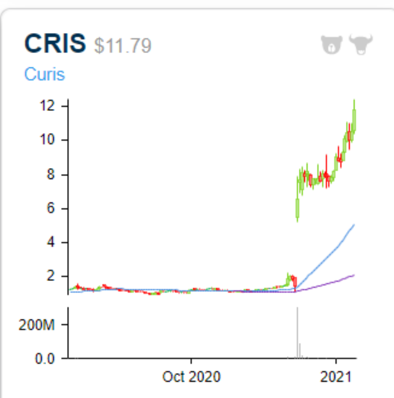
- While not all of the names in our "Ludicrous" index are available in our Chart Scanner database yet, a glance at the charts for a few of them below shows just how "ludicrous" these moves have been.

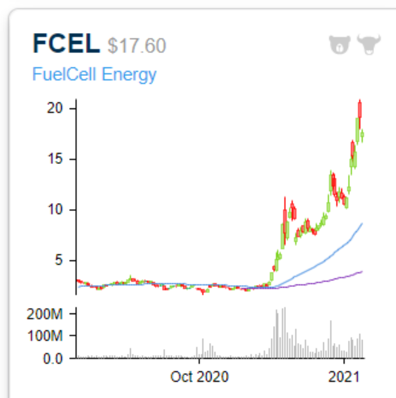
  NOTE: This is certainly NOT a recommendation to buy or sell any securities shown. There is significant risk to owning any of these names after the moves they've experienced, so extreme caution is warranted.

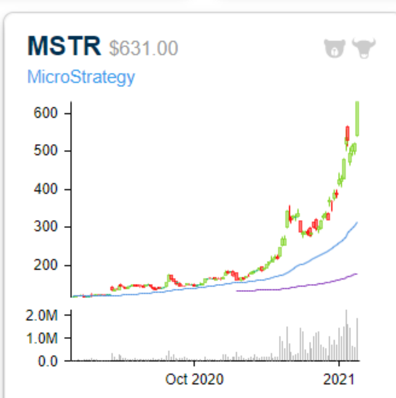


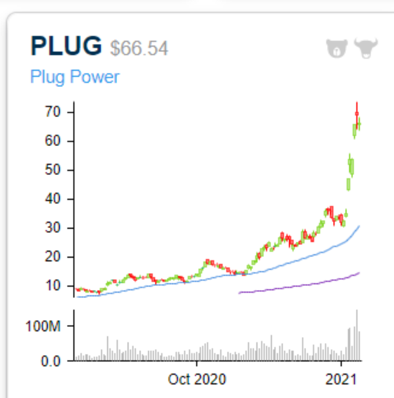












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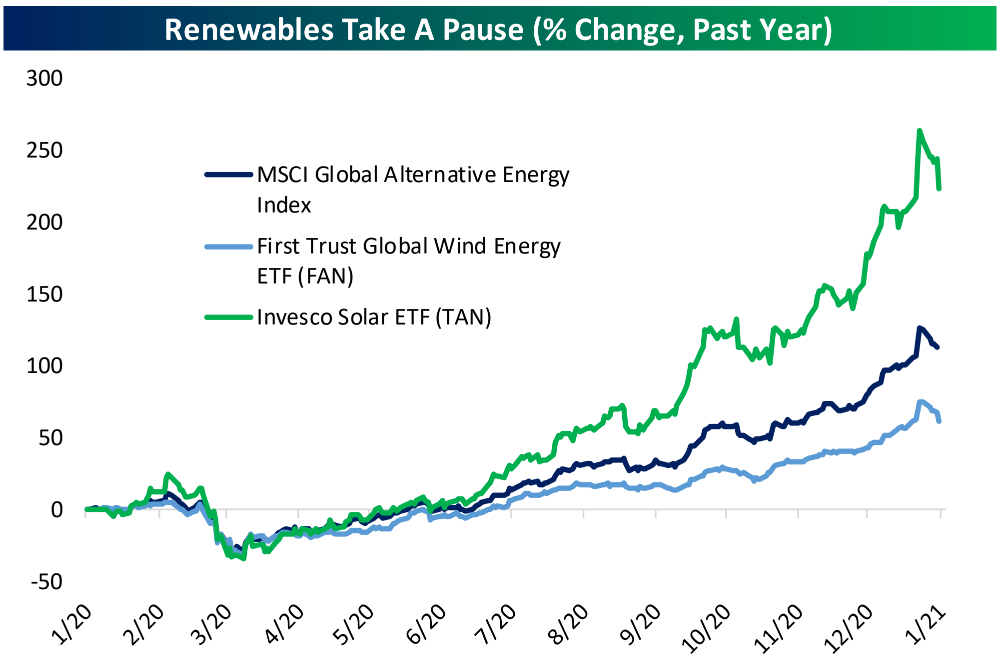
- After an absolutely "ludicrous" run, renewable power stocks have had a tough go of things lately.
- As shown below, major indices that track renewables plays around the world are pulling back off a parabolic move higher in the past 9 months.
- These stocks are over-owned, aggressively valued, and vulnerable to further selling.
- Of course, this could be a shorter-term pullback; the tailwinds for renewables are extremely large given the volume of activity, economies of scale, and policy catalysts for these sorts of stocks.
- Below are lists of big decliners in Europe this week and in the US Friday; as shown, there's an over-representation of renewables names on the list.



STOXX 600 Worst-Performers This Week

Company	Business	US Ticker	% This Week
Temenos	Software	TMSNY	-13.34%
Orsted	Renewables Development	DNNGY	-13.32%
Vestas Wind	Wind Turbines	VWDRY	-12.63%
Scatec	Renewables Development	STECF	-12.02%
Just Eat	Food Delivery	TKAYY	-10.77%
EDP Renovaveis	Renewables Development	EDRVG	-9.96%

Russell 1000 Worst-Performers Friday

Company	Business	Ticker	% Friday
SolarEdge Technologies	Solar Equipment	SEDG	-13.87%
GrafTech International	Graphite	EAF	-9.78%
Enphase Energy	Solar Modules	ENPH	-8.38%
Wayfair	Online Furniture	W	-7.90%
First Solar	Solar Modules	FSLR	-7.84%

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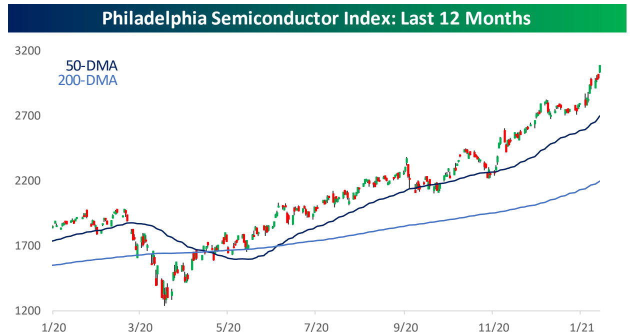
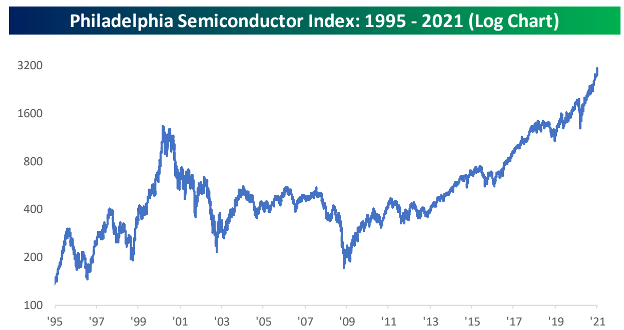
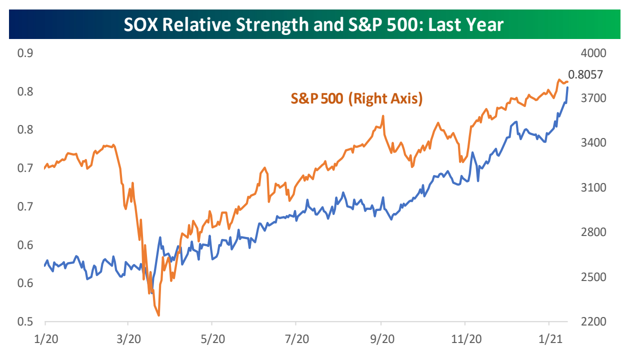
- Following up on a 60% gain in 2019 and a 51% gain in 2020, semiconductors haven't missed a beat so far in 2021. In just the first nine trading days of 2021, the Philadelphia Semiconductor Index (SOX) has already rallied nearly 10%.



- After more than doubling of the March lows, the COVID crash from early 2020 looks more like a blip than anything else.
- From a long-term perspective over the last ten or so years, it doesn't get much better than the performance of semis.



- From its low in late 2008, the SOX is up 1,700%. For an index of more than 30 stocks, that's impressive.
- As semis have become ubiquitous in all aspects of the economy over the years, they have increasingly become a bellwether for the broader economy.
- The blue line in the chart at right shows the ratio between the price of the SOX and the S&P 500 over the last year. When the line is rising, the SOX is outperforming and vice versa. As shown, relative strength for the SOX has exploded higher over the last few weeks.



- Taking a longer-term look at the ratio between the two indices, the current level of 0.8057 is the highest in more than 20 years, trailing only the short period of time right before the dot-com bubble burst.

- In fact, going back to the mid-1990s, there have only been 32 other trading days where the ratio was higher.
- The fact that the ratio is approaching those record-high levels from 2000 is understandably a concern, and to think that the sector will keep up its recent pace going forward would be foolish.
- However, semiconductors are more prevalent in all aspects of the economy today than they were in 2000. In the auto industry alone, electrification, navigation, and self-driving are semiconductor-driven technologies that didn't even exist in 2000 and are pervasive now. And that's just one sector of the economy. The tentacles of the semiconductor industry are just about everywhere.

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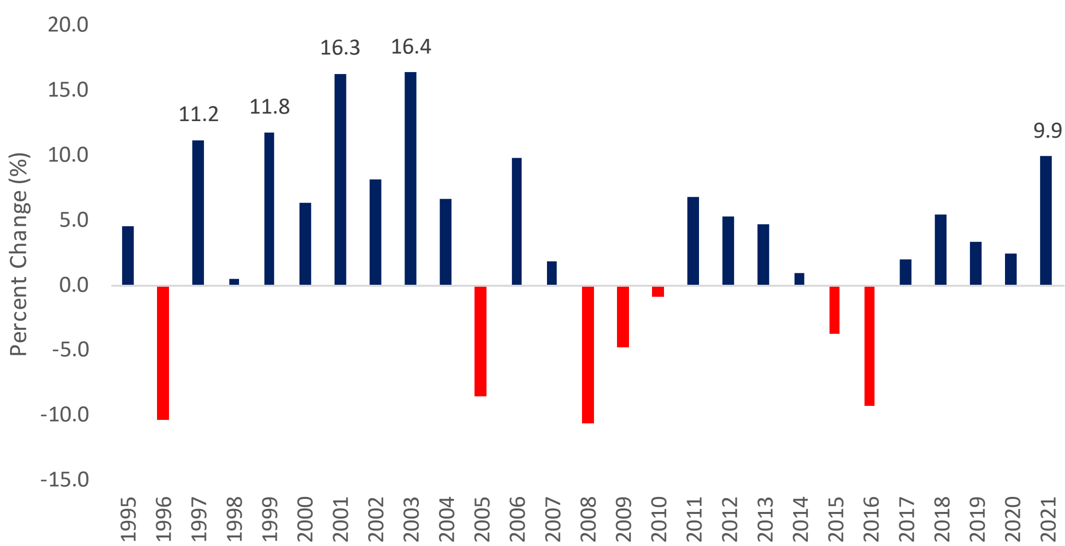
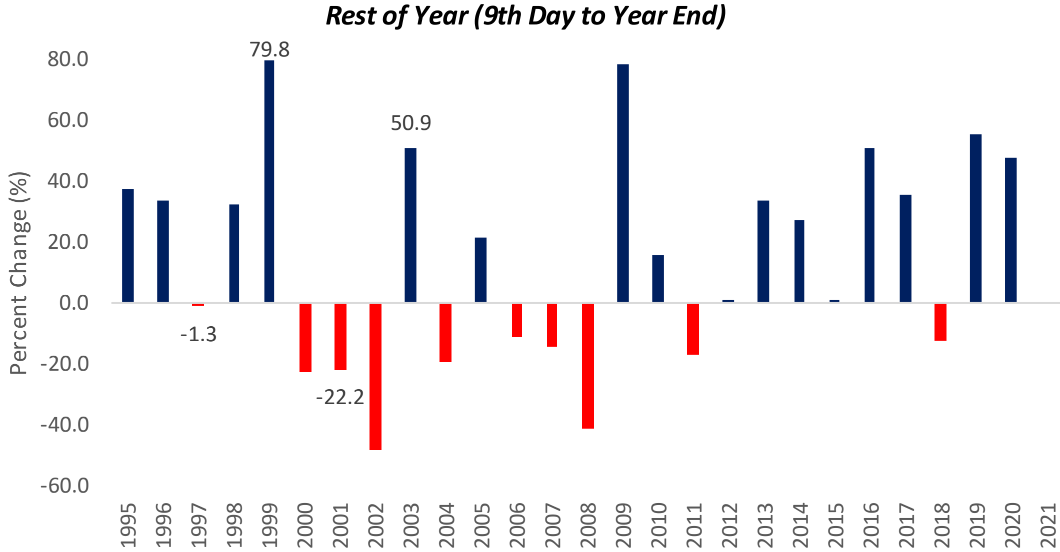
- As mentioned on the previous page, the SOX's gain of 9.9% through Thursday ranks as the fifth-best nine-day start to a year since the index's inception in late 1994.
- That ranks as the best nine-day start to a year since 2003, and the only other years that saw a better start were 1997, 1999, 2001, and 2003.
- The second chart below shows the performance of the SOX from the close on the 9th trading day of the year through year end.
- For all years since 1995, the SOX has averaged a rest-of-year gain of 14.8% (median: 18.2%).
- In the four years where the index got off to a better start than it has this year, returns have varied widely ranging from a decline of 22.2% in 2001 to a gain of 79.8% in 1999.

Philadelphia Semiconductor Index (SOX) Best 9 Day Starts to a Year



Rest of Year (9th Day to Year End)



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- Lastly, turning to the individual companies in the SOX, the snapshot below from our Trend Analyzer shows where each stock in the SOX is trading relative to its trading range versus Thursday's close.
- The majority of stocks in the index are at varying degrees of overbought levels, but even with the sharp gains that the index has seen so far this year, a handful of stocks (Advanced Micro, Lattice Semi, NVIDIA, and Xilinx) all have Timing Scores that currently rank as 'Good'.
- Charts of those four names are shown on the next page.

Trends: Philadelphia Semiconductor Index (SOX)

			% Change					Trading Range			
Tickers ↓	Name	Price	YTD	5-Day	50-DMA	Trend	Timing	Current	OS	50-DMA	OB
ADI	Analog Devices	159.46	7.94	2.47	12.50		Poor	Extreme OB			
AMAT	Applied Materials	105.80	22.60	11.89	26.64		Poor	Extreme OB			
AMD	Advanced Micro Devices	90.79	-1.00	-4.59	1.33		Good	Neutral			
ASML	ASML	544.65	11.67	8.62	19.49		Poor	Extreme OB			
AVGO	Broadcom	452.07	3.25	1.96	11.12		Neutral	Overbought			
BRKS	Brooks Automation	79.69	17.45	14.10	14.11		Neutral	Overbought			
CCMP	Cabot Microelectronics	167.62	10.79	8.25	11.48		Poor	Extreme OB			
CREE	Cree	123.53	16.65	7.00	34.41		Neutral	Overbought			
ENTG	Entegris	108.60	13.01	9.19	16.25		Poor	Extreme OB			
INTC	Intel	59.25	18.93	13.53	21.73		Poor	Extreme OB			
IPHI	Inphi	170.99	6.56	1.77	10.60		Poor	Extreme OB			
KLAC	KLA-Tencor	303.88	17.37	9.23	19.21		Poor	Extreme OB			
LRCX	Lam Research	557.79	18.11	8.42	19.36		Poor	Extreme OB			
LSCC	Lattice Semi	43.46	-5.15	-5.58	2.70		Good	Neutral			
MCHP	Microchip Tech	153.28	10.98	3.08	13.23		Neutral	Overbought			
MKSI	MKS Instruments	177.79	18.17	9.20	22.90		Poor	Extreme OB			
MPWR	Monolithic Power	386.20	5.45	1.30	14.78		Neutral	Overbought			
MRVL	Marvell Technology	51.31	7.93	4.67	13.64		Poor	Extreme OB			
MU	Micron Tech	81.30	8.14	2.77	19.67		Neutral	Overbought			
NVDA	NVIDIA	528.01	1.11	-1.08	-0.82		Good	Neutral			
NXPI	NXP Semi	180.00	13.20	2.86	14.38		Poor	Extreme OB			
ON	ON Semi	37.90	15.80	7.18	24.15		Poor	Extreme OB			
QCOM	QUALCOMM	160.85	5.59	3.31	8.42		Neutral	Overbought			
QRVO	Qorvo	183.94	10.63	3.01	15.80		Poor	Extreme OB			
SLAB	Silicon Labs	135.45	6.37	0.14	11.89		Neutral	Overbought			
SWKS	Skyworks Solutions	157.98	3.34	-2.89	7.42		Neutral	Overbought			
TER	Teradyne	138.39	15.43	6.53	20.92		Poor	Extreme OB			
TSM	Taiwan Semiconductor	126.45	15.97	4.13	23.04		Poor	Extreme OB			
TXN	Texas Instruments	171.71	4.62	2.24	6.51		Neutral	Overbought			
XLNX	Xilinx	140.00	-1.25	-6.49	0.09		Good	Neutral			

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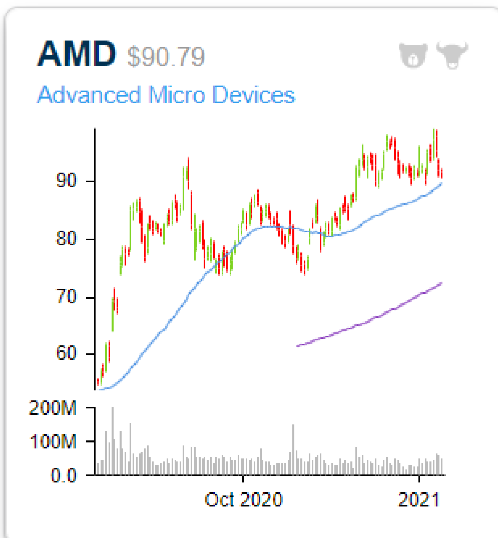
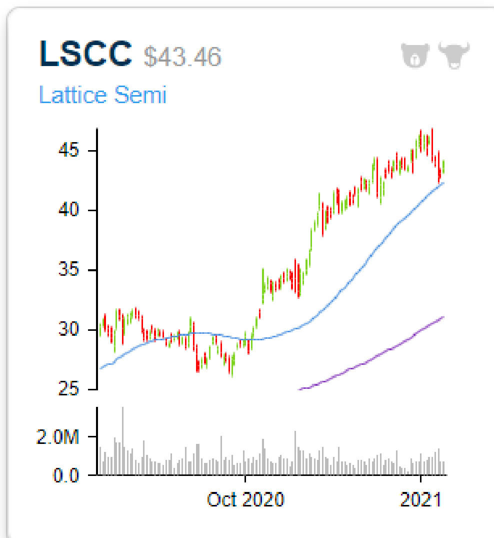
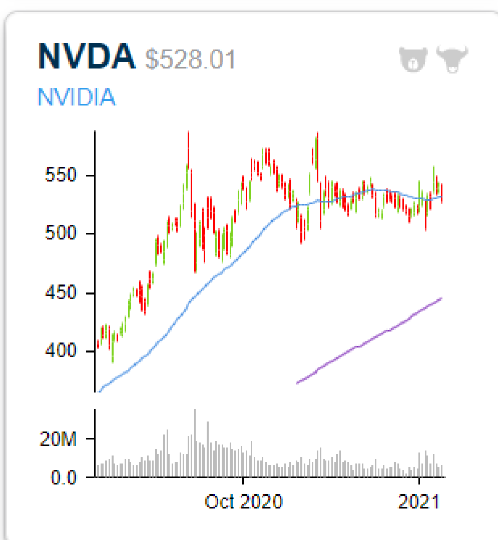
- Advanced Micro (AMD) was a star performer in 2019 and 2020, but ever since announcing its acquisition of Xilinx (XLNX) back in October, the company has been in consolidation mode. This week, the stock has also come under pressure on the news of the CEO switch at Intel (INTC), but as long as the stock holds above its 50-DMA in the mid-80s, the trend remains positive.
- Lattice Semiconductor (LSCC) rallied more than 50% from late October through its high last week. Over the last week, the stock has pulled back a bit, and while it remains above its 50-DMA, of the five stocks shown, its consolidation phase is most in its infancy.
- While LSCC is the earliest in its consolidation period, NVDA may be the longest into its sideways range. Like AMD, shares of NVIDIA (NVDA) have been trading sideways even since the company announced a large takeover of Arm Holdings back in early September.
- Lastly, XLNX is set to be acquired by AMD in an all-stock deal, so unless the deal runs into regulatory trouble it will likely track the performance of AMD pretty closely until the merger closes (as it has been doing for over a month now).







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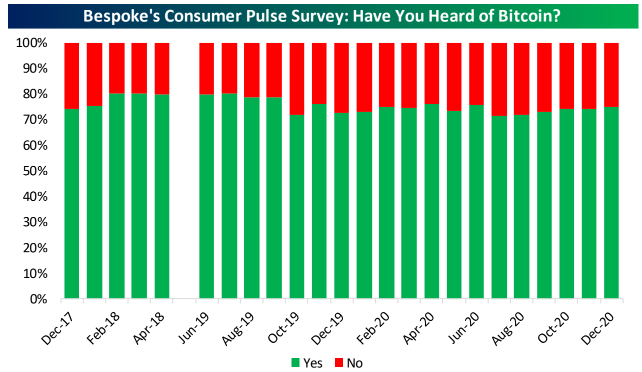
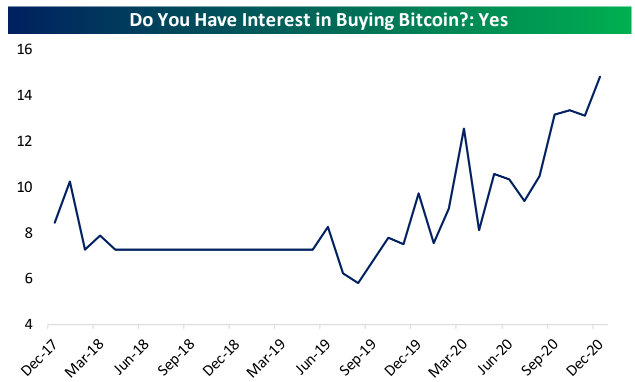
- Every month, we run a huge consumer survey in order to track trends across the economic and financial landscape in the US.

- One of the topics that we have surveyed in the [Consumer Pulse survey] has been bitcoin.

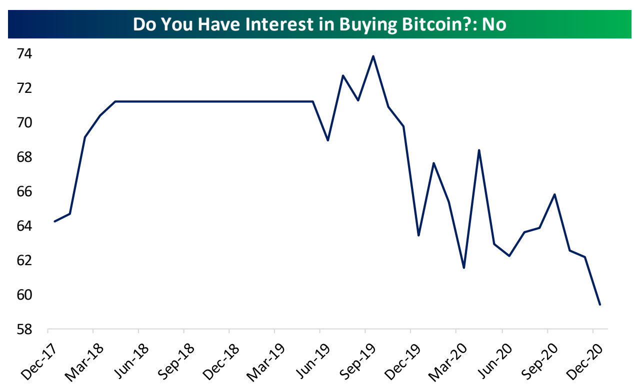


- Beginning in December of 2017—around the time of that period's peak in the crypto-currency—until April of 2018 and then again every month since June of 2019, we have asked respondents: "Have you heard of Bitcoin?", "Do you have interest in buying Bitcoin?", and "Do you think Bitcoin would be a good or bad investment at the moment?"



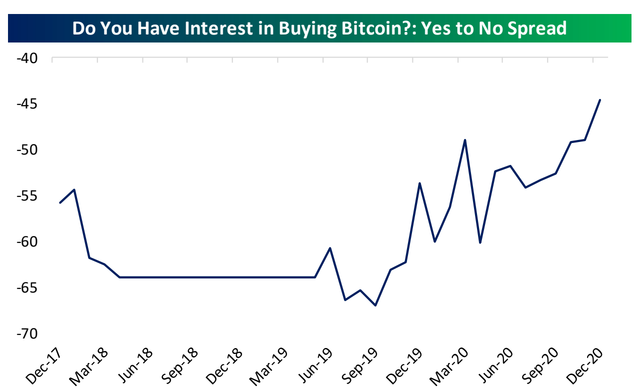
- As shown in the first chart at right, over the life of asking this question, around three-quarters of people have reported at least hearing of bitcoin.

- On average, across the history of surveying on this question dating back to December 2017, 67% of people that have heard of bitcoin have reported having *no* interest in purchasing bitcoin.



- In our most recent survey in December 2020, this reading stood at 59%. Beginning in September, 13% of people reported *having an interest* in buying bitcoin, up from 10% in August.

- Interest stayed around those levels until bitcoin broke out at the end of November.



- Since then, the percentage of respondents interested in purchasing bitcoin has increased further to 15%.

- The remaining 26% of survey participants that have heard of bitcoin responded with a "maybe."

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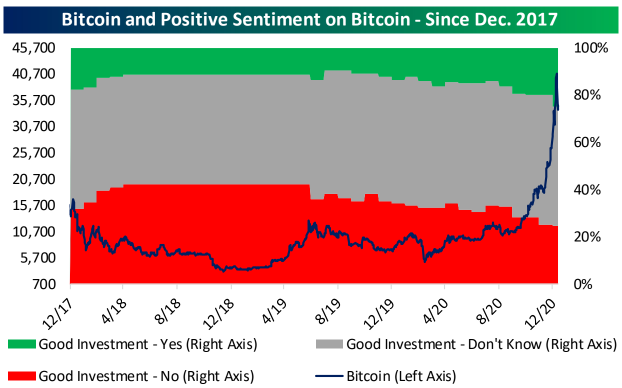
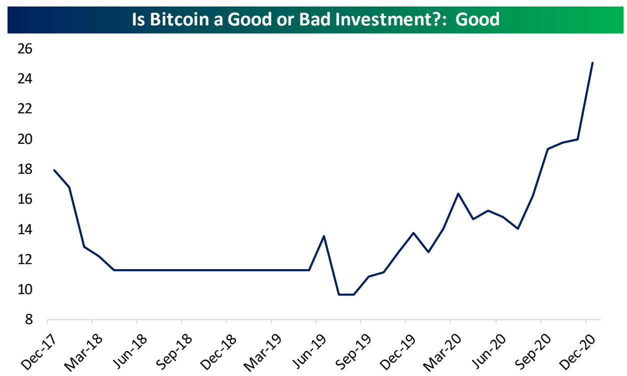
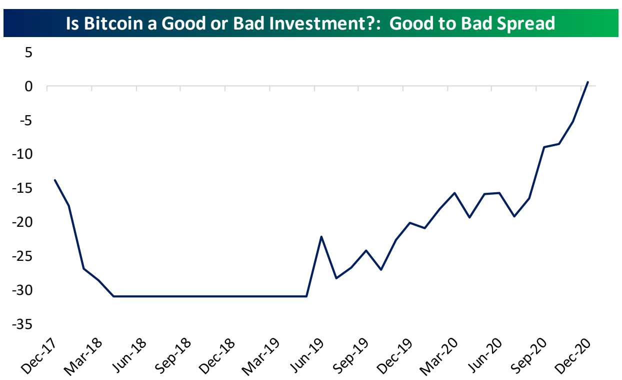
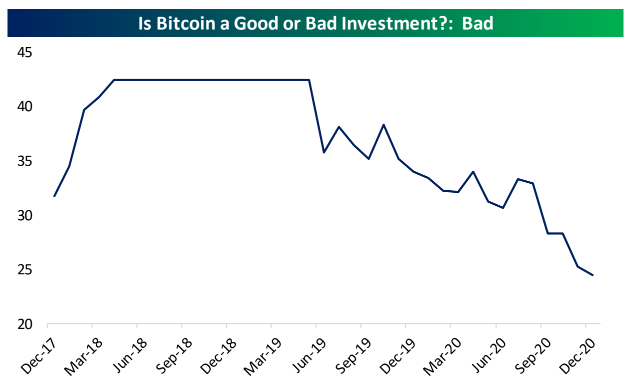
- Given the increased interest in buying bitcoin, a growing share of people have also viewed it as a "good investment" with the percentage rising from 20% in November to 25% in our most recent survey.
- On the flip side, 24% said it's a "bad investment" in the most recent survey.
- Our December survey marked the first time that a higher percentage reported viewing Bitcoin as a *good investment* than a *bad investment*.
- While the bull/bear spread flipped positive for the first time in December, current sentiment levels do not suggest that there's a bitcoin mania going on in the general public.
- Most people have heard of bitcoin by now (75%), but there's still plenty of room for interest in buying bitcoin and bitcoin bullishness to run higher before we'd view it as extreme.









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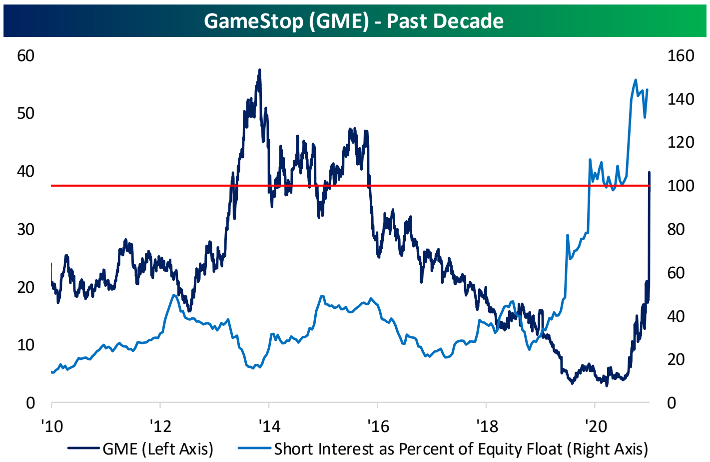
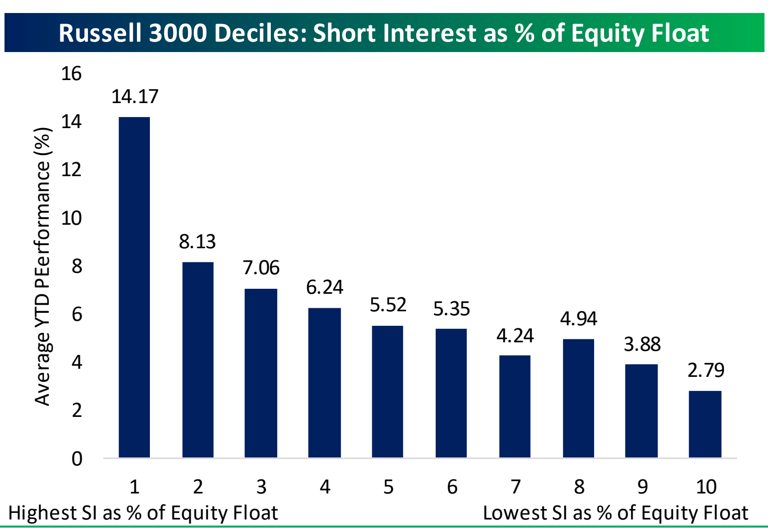
- By far one of the biggest movers of the past few days has been video game retailer GameStop (GME). Since last Friday, GME has risen over 100% thanks to a 57.4% rally in Wednesday's session alone and another 26.8% rally on Thursday. Some of those gains were erased on Friday, but it was still a big week for the stock.
- One likely factor behind the stock's move has been a short squeeze of the company's massive short base. For more than a year now, short interest as a percent of equity float has been around or well above 100%. The most recent reading as of the end of 2020 was 144.33%. In other words, there have been far more shares sold short than are available to trade.



- In a screen of all active stocks trading on US exchanges, we found only 18 that have more than 100% of their freely floating shares sold short, and they are all penny stocks with very small market caps.
- While you would be hard-pressed to find a stock with as high of short interest as a percentage of the float as GameStop, generally speaking, stocks with high short interest have been some of the top performers this year.
- In the chart below, we show the average YTD performance of Russell 3000 stocks broken into deciles based on their short interest.
- The decile of stocks with the highest short interest as a percentage of float have by far been the best performers YTD, up for an average of 14.17%. Even excluding GME, the decile's average YTD performance is a 13.9% gain.
- As you move across the deciles with lower short interest levels, performance gets worse.
- The tenth decile of stocks which consists of stocks with average short interest levels below 1% of float has only risen 2.79% on average.



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- In the table below, we show the 30 Russell 3000 stocks with the highest short interest as a percentage of equity float.
- Across these names, they are up for an average of 15.39% in 2021 through midday Friday, with only two not in the green: Acutus Medical (AFIB) and BigCommerce (BIGC).
- Including GME, the largest number (7) of these most heavily shorted stocks are retailers. In fact, Dillards (DDS) and Bed, Bath, & Beyond (BBBY) both find themselves in the top 5 alongside GME.
- The former has over 90% of its float shorted while nearly two-thirds of BBBY's float is sold short.

Russell 3000 Stocks With Highest Short Interest as % of Float

Ticker	Company Name	Industry Group	Price	SI as % of Float	YTD % Change	Market Cap (bn)
GME	GameStop Corp	Retailing	36.80	144.34	95.33	2.78
DDS	Dillard's Inc	Retailing	66.13	91.72	4.89	1.49
BIGC	BigCommerce Holdings Inc	Software & Services	63.40	74.17	-1.17	4.48
BBBY	Bed Bath & Beyond Inc	Retailing	25.34	67.16	42.68	3.31
LGND	Ligand Pharmaceuticals Inc	Pharma, Biotech, & Life Sciences	125.53	64.62	26.22	1.97
FIZZ	National Beverage Corp	Food, Beverage & Tobacco	87.01	62.49	2.49	4.09
AMCX	AMC Networks Inc	Media & Entertainment	41.74	59.38	16.69	1.77
MAC	Macerich Co/The	Real Estate	13.60	58.61	27.46	2.12
ASO	Academy Sports & Outdoors Inc	Retailing	21.93	54.52	5.79	2.03
SPWR	SunPower Corp	Semiconductors	32.00	53.77	24.80	5.97
SKT	Tanger Factory Outlet Centers In	Real Estate	12.51	49.43	25.60	1.20
AXDX	Accelerate Diagnostics Inc	Health Care Equipment & Services	8.90	48.38	17.41	0.50
SUMO	Sumo Logic Inc	Software & Services	30.34	47.81	6.16	3.17
TR	Tootsie Roll Industries Inc	Food, Beverage & Tobacco	29.87	45.29	0.57	1.99
GOGO	Gogo Inc	Telecommunication Services	11.61	44.67	20.56	1.03
SRG	Seritage Growth Properties	Real Estate	14.81	40.62	0.89	0.61
ESPR	Esperion Therapeutics Inc	Pharma, Biotech, & Life Sciences	26.24	39.13	0.92	0.75
PRTS	CarParts.com Inc	Retailing	13.52	38.51	9.12	0.66
OTRK	Ontrak Inc	Health Care Equipment & Services	66.21	38.17	7.15	1.09
AMWL	American Well Corp	Health Care Equipment & Services	30.85	38.00	21.79	6.74
PLCE	Children's Place Inc/The	Retailing	57.09	37.98	13.95	0.86
IRBT	iRobot Corp	Consumer Durables & Apparel	91.30	37.38	13.71	2.48
CRSR	Corsair Gaming Inc	Technology Hardware & Equipment	38.50	37.19	6.29	3.70
AFIB	Acutus Medical Inc	Health Care Equipment & Services	26.04	36.56	-9.61	0.76
BPYU	Brookfield Property REIT Inc	Real Estate	17.06	36.49	14.19	0.67
CLVS	Clovis Oncology Inc	Pharma, Biotech, & Life Sciences	5.71	36.39	18.96	0.62
BGS	B&G Foods Inc	Food, Beverage & Tobacco	27.95	36.29	0.79	1.80
HRMY	Harmony Biosciences Holdings I	Pharma, Biotech, & Life Sciences	38.44	36.14	6.33	2.20
DISCA	Discovery Inc	Media & Entertainment	36.91	35.08	22.67	22.88
M	Macy's Inc	Retailing	13.39	35.04	19.02	4.30

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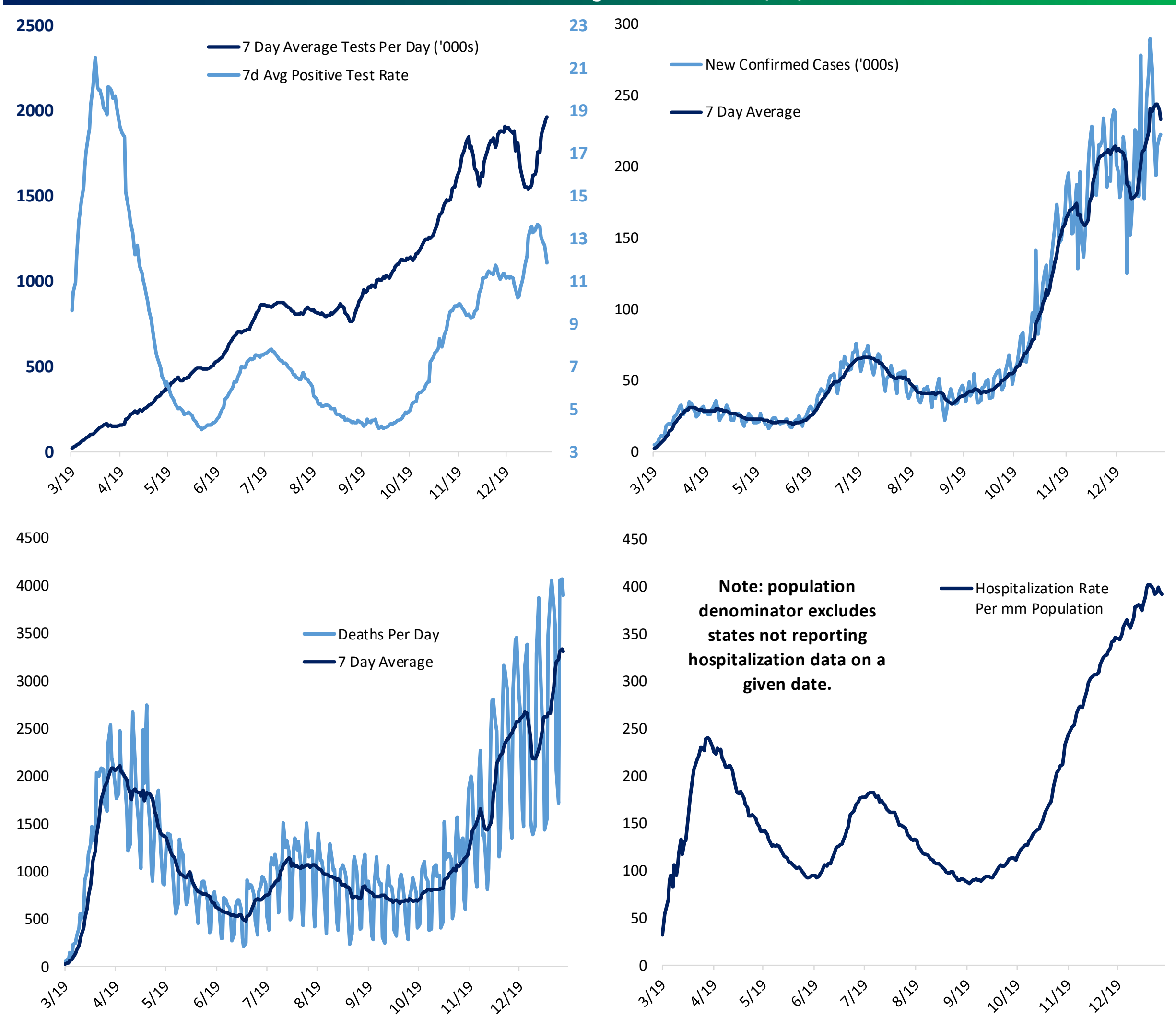
Every piece of incremental national data on COVID at the end of the week was positive. Vaccine doses administered rose above 1mm again (the second-such day we've seen in the data). With 3.5% of the population currently vaccinated, the trend for doses administered currently sits at 3,075 per million per day. At that pace, the whole country would be vaccinated by next Thanksgiving. However, the pace of vaccinations is trending higher at roughly 68k per day, meaning the date for hypothetical full vaccination will keep marching forward. We don't know what the peak rate will be, but the current trend is encouraging to say the least.

As for actual disease stats, test counts are surging and up 20% WoW as the 7-day average for tests administered hits a record. At the same time, total confirmed positives are down WoW by double-digits for a second day in a row as the positive test rate plunges. Deaths were also down WoW for the first time since early November excluding holiday periods. Finally, and arguably most positive: hospitalizations are down 10% WoW, with three of four major regions reporting declines versus last week.

The combination of disease data and vaccination data suggests that the peak of the pandemic is now behind us in the US.

US National COVID Tracking Statistics As-Of 1/14/2021



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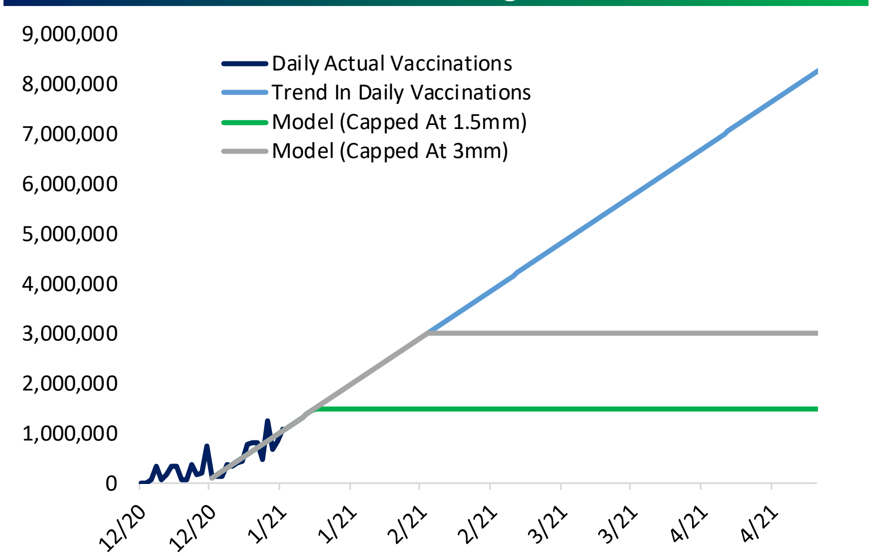
- The chart below shows administered vaccine doses reported per day against three scenarios.
- Each scenario takes the trend in doses administered from New Years to today as a starting point.
- The number of doses administered per day has been rising, and the trendline is currently increasing by 68k administered doses per day.
- In the simplest scenario, we assume doses/day keeps accelerating at that pace indefinitely.
- Under that scenario, without accounting for repeat shots to people getting their second dose, the whole population would be inoculated with their first dose by early April, with over 8mm doses per day going out the door by the end.
- Obviously, that is a scenario that is completely unrealistic.
- So the other two scenarios assume that the vaccination rate eventually stabilizes at a peak rate (1.5mm per day in the "bear" green case, 3mm per day in the optimistic "bull" case).
- There are limitations to the number of vaccines that can be produced, as well as distribution bottlenecks that should cap the total rate, so where the actual daily rate peaks out remains to be seen.

Administered Doses Accelerating: What Is Their Limit?



Note: Takes current trend since New Years, extrapolates forward, and cuts off at noted per day administered doses.

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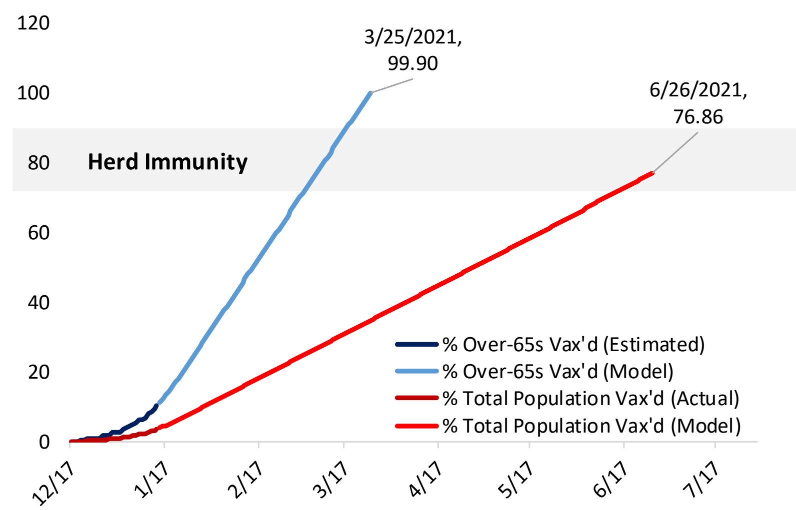
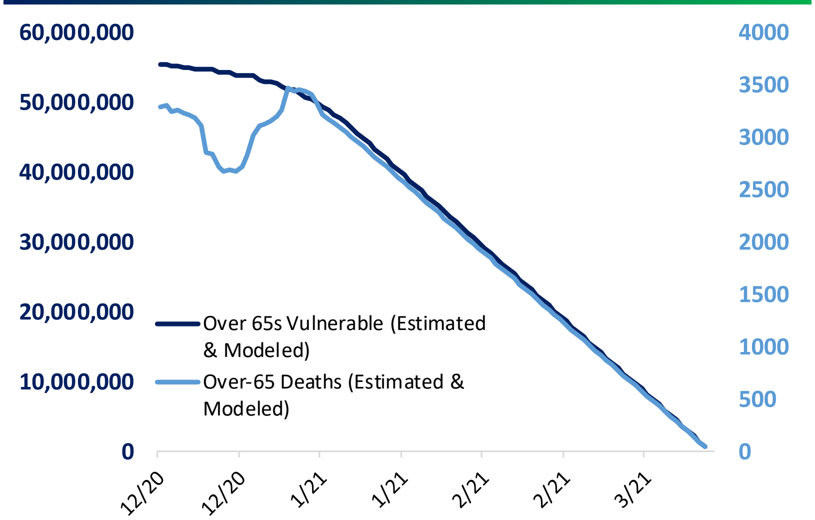
- In the top chart below, we assume that half of doses administered so far and half of doses administered in the future go to over-65s.
- For the population as a whole, we use the approach from the start on the prior page but cap the daily rate at 2mm doses.
- Given that over 1mm doses are currently being administered each day, 2mm peak rate is a conservative estimate.

Over 65s Fully Vaccinated By March, Herd Immunity By Q3?



Note: Assumes current acceleration of trend, capped at 2mm doses/day, with 50% of doses administered going to >65s

As Vulnerable Population Drops, So Will Deaths



Note: "Vulnerable" population is estimated Over 65s less estimated Over-65 Cases & Over-65 Vaccinations.

- Under this scenario, between 70% and 90% of the US would receive at least one shot by June or July (we also do not adjust for previously-infected people with this analysis).
- Over-65s would all have received at least one shot by the end of March.
- With over-65s getting their first shot, deaths would very quickly plunge.
- Over-65s are 81% of deaths, with a crude death rate of 9.2% during the course of the pandemic, and likely account for more than 3000 deaths per day at the current rate of roughly 4000 deaths per day.
- If that population can be vaccinated as fast as the above trends suggest, their deaths may nearly come to a halt as soon as late Spring, reducing overall US deaths by at least 80% in the process.

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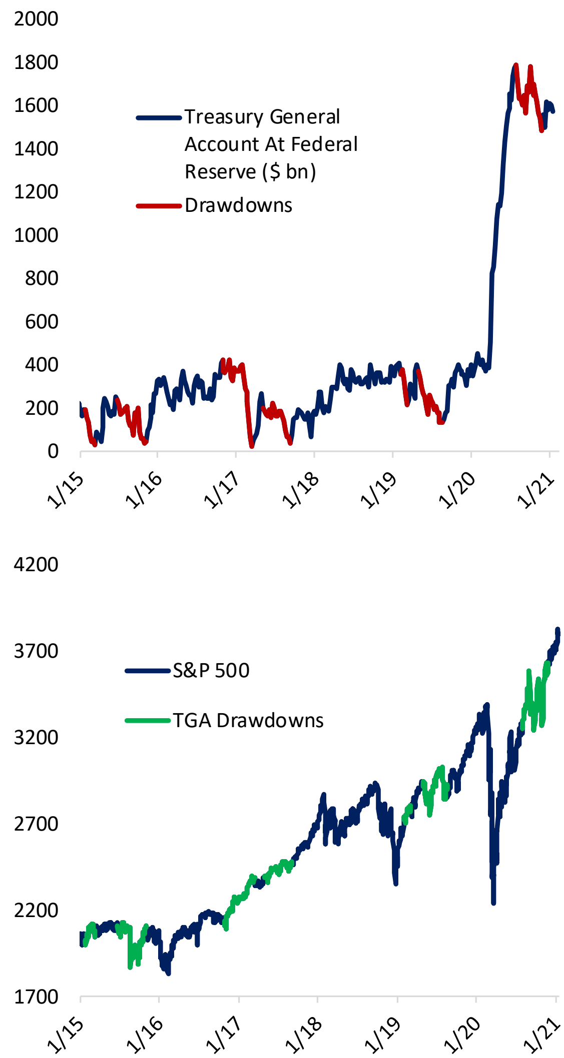
Treasury Liquidity Changes: Tailwind For Stocks?



- A mini-debate over the future of Fed policy this year played out after regional Fed Presidents led by Atlanta Fed President Bostic said that they were ready to start discussing a timeline for the tapering of asset purchases.
- But Vice-Chair Clarida and Chair Powell both pushed back hard at the end of last week and this week.
- Powell said “now is not the time to be talking about a Fed exit” with the “economy far from the Fed’s goals.”
- While there are of course upside risks to Fed policy, inflation is not yet high enough and the labor market is still too weak to justify discussions of tapering and the inevitable subsequent discussion of hikes.
- Also of note in central banking this week is the possibility of large drawdowns in the Treasury’s “checking account” at the Fed, the Treasury General Account (TGA).
- These deposits are liabilities of the Fed just like reserves, so assuming Fed assets are unchanged or rising, increases in the TGA balance reduce reserves and overall liquidity, while their release increases reserve availability and therefore overall liquidity.
- Since TGA increased materially post-2014 thanks to government funding uncertainty following debt ceiling standoffs in the early 2010s, periods of TGA drawdowns have generally been good periods to own stocks, especially the 2017 drawdown.
- Turning to the ECB, this week President Lagarde focused on the strength of the euro as a concern for the Governing Council.
- The real trade-weighted value of the EUR rose 9.3% from February through August, and has been in a range since, but the comments from Lagarde helped spark the largest weekly decline in that measure of EUR strength since April.
- For its part, EURUSD tested its 50-DMA Friday, after months of persistent rallies that were part of the broader dollar selloff.

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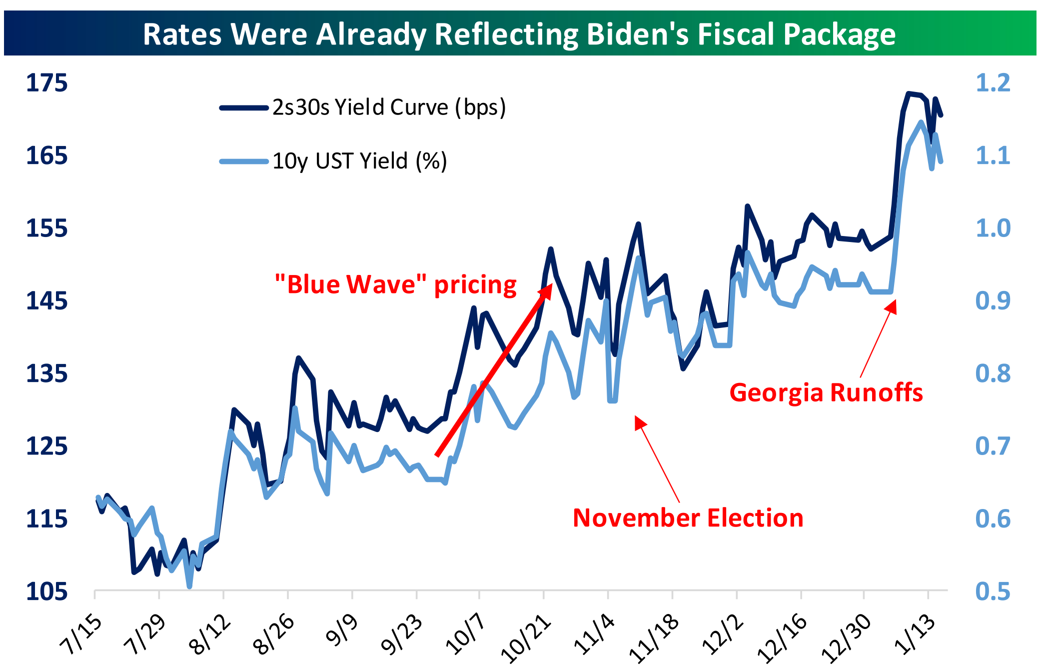
- On Thursday, the incoming Biden administration reported its plan for COVID relief/stimulus from a fiscal perspective.
- The **$1.9trn proposed package** includes **$400bn for vaccine distribution**, another $1,400 in economic impact payments (“**checks”; brings total to $2,000** after the $600 round passed at the end of the year, with the same income phase-outs as prior economic impact payments), **additional $400 weekly payments to all receiving UI**, extended pandemic-specific UI benefits (extra length of eligibility and broadening of coverage) through September, a child **tax credit worth $3000 per child** (with phase-out above $400k family income or $200k for single parents), an **eviction moratorium** through September, and a **$15/hour minimum wage**.
- We don’t have a whip count or forecast for how this bill gets carved up on its way through Congress, but there will likely be material changes.
- If anything even remotely similar to the current iteration does pass, though, we are confident calling this fiscal package rocket fuel for consumption among middle and lower income Americans, and perhaps the single-largest boost to the income of the lower half of the income distribution in American history.
- With that backdrop, it may seem a bit weird that rates actually fell on Friday, but keep in mind that much of the impact of continued US fiscal expansion under a Democratic administration was already priced in the lead-up to the November elections and especially after the results in Georgia that handed the Senate to Democrats.
- The result was a bit of a “buy the headline, sell the news” dynamic.



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- The President's first impeachment proved to be a non-event from both a political perspective and for markets. The second impeachment and a possible conviction in the Senate is likely irrelevant to the equity market, but could have significant political implications into 2024 and beyond as the Republican Party manages the post-Trump landscape.
- This week the House passed articles of impeachment on a mostly—but not entirely—party line vote.
- Third-ranking Republican in the House Liz Cheney of Wyoming (daughter of former Vice President Dick Cheney) was the highest profile Republican to support impeachment; she was joined by 9 colleagues of the 211 GOP representatives in the House.
- The real action will be in the Senate, where the state of play is quite different.
- While Democrat Joe Manchin of West Virginia has waffled, we think it's reasonable to expect Democrats to vote as a bloc, delivering 50 of the 67 votes required for conviction should all Senators participate in the final vote.
- A number of Republicans have expressed views that support impeachment. Romney (UT), Toomey (PA), and Murkowski (AK) are firm "yes" votes, with Romney already supporting the prior effort and the other two publicly on the record saying they would his time.
- Other senators including Rounds (SD), Blunt (MO), Collins (ME), Portman (OH), and Sasse (NE) have expressed openness to the idea of impeachment.
- Based on assessments of their public stances, we see 24 GOP Senators as "no" votes, and 17 as insufficiently committed either way.
- The 8 potential "yes" votes listed above do not include Mitch McConnell, the Republican Senate's leader.
- Reports early in the week from a variety of sources reported that he is 'pleased' with impeachment efforts, and supports the removal of the President, but at this point, McConnell hasn't said anything publicly to support this.
- McConnell is a superlative parliamentary strategist and extremely effective politician.
- *If* he does in fact support removal and is willing to whip votes for it, then the 8 other potential "yes" votes will increase given the sheer number of uncommitted Senators and the potential for flips among the 24 "no" Senators.
- In other words, Mitch McConnell will likely decide the President's fate, and if this week's reporting is accurate, he is leaning towards impeachment. On the following page, we summarize all 50 GOP Senators into three categories: likely yes, likely no, and no way to tell on the question of conviction.

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Republican Senators: Impeachment Whip Count

Yea	Latest Comment	Nay	Notes	Undecided	Notes
Blunt	"May be a long-term punishment"	Blackburn	Had intended to object to EC certification	Barrasso	
Collins	No comments, cites role as juror	Braun	Had intended to object to EC certification	Boozman	
McConnell	"Believes Trump committed impeach. offenses"	Cotton	Close supporter of President	Burr	
Murkowski	Called for resignation, "I want him out"	Cramer	"Inappropriate, goofy"	Cassidy	Part of anti-objection bipartisan group
Portman	"Bears some responsibility"	Crapo	"Not likely to garner support"	Cornyn	
Romney		Cruz	Had intended to object to EC certification	Fischer	
Sasse	"Would consider"	Daines	"Don't see it as constructive at the moment"	Hoeven	
Toomey	Called for resignation, "impeachable offenses"	Ernst	"Let's move on"	Inhofe	
Rounds	"Trump could be criminally liable"	Graham	"More harm than good"	Lee	
		Grassley	"Very little opportunity for him to lead GOP"	Moore Capito	
Manchin	"No doubt he should be impeached"	Hagerty	Had intended to object to EC certification	Moran	Wanted Biden to get intel briefings in transition
		Hawley	Had intended to object to EC certification	Risch	
		Hyde-Smith	"Does not support"	Shelby	
		Johnson	Had intended to object to EC certification	Sullivan	
		Kennedy	Had intended to object to EC certification	Thune	
		Lankford	"Did enough to try to stop the violence"	Tillis	
		Lummis	Had intended to object to EC certification	Young	
		Marshall	Had intended to object to EC certification		
		Paul	"Ludicrous"		
		Rubio	"Ridiculous thing like 'impeach the President'"		
		Scott-FL	"Does nothing to help"		
		Scott-SC	"I oppose"		
		Tuberville	Trump's strongest supporter in the Senate.		
		Wicker	"Move past"		
	Total: 9		**Total: 24**		**Total: 17**

- Conviction of the President in the Senate would functionally remove him from the political scene because he would no longer be able to run for office. That's because if he is convicted, only a simple majority vote would be required to prevent him from ever again seeking federal office.
- Therefore, for 2024 hopefuls a "yes" vote could be a simple political calculation that the damage to their primary chances is outweighed by the benefit of not being forced to face the President on the ballot.
- Regardless of motivations, there are enough potential "yes" votes (especially McConnell and those he would bring with him) that a conviction can't be ruled out at this stage
- Also, keep in mind that If a material number of the GOP caucus members abstain from the vote in protest or for other reasons, the number of required votes for conviction drops.
- As mentioned above, the possibility of a second impeachment is likely irrelevant to the equity market, especially in the short-term.
- McConnell has already noted that the earliest the Senate would start a trial would be after the inauguration when President Trump will be out of office already and raises questions of whether it is even possible to hold a trial for a President who is out of office.
- All these are no doubt questions that will be debated in the following days, weeks, and months.

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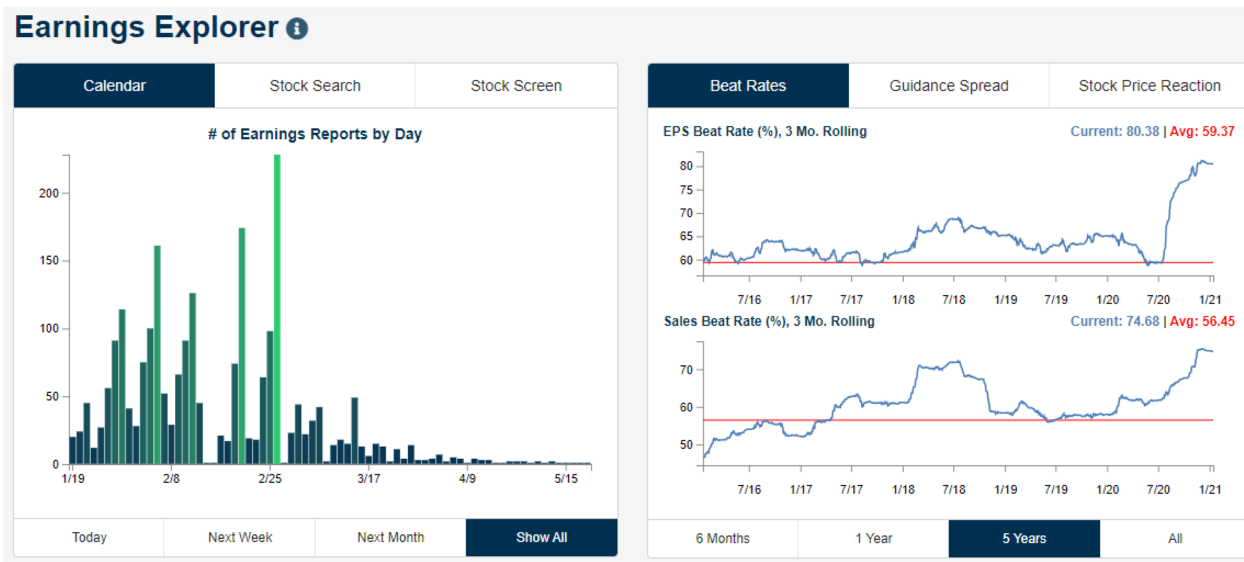
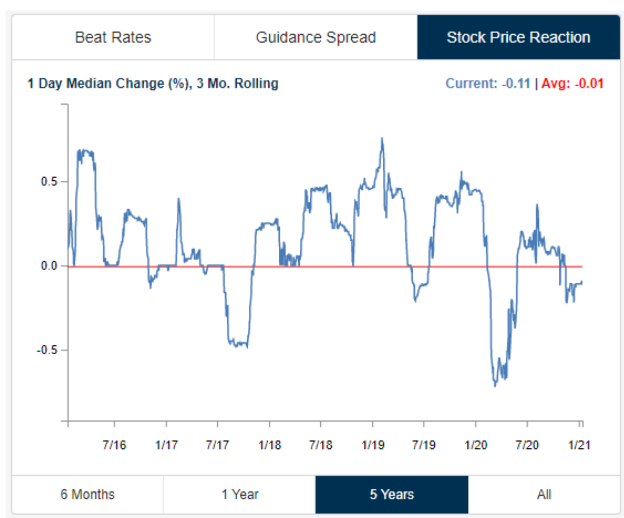
- Earnings season really picks up next week with roughly 100 companies set to report. These companies are expected to report close to $285 billion in quarterly revenues.
- As has been the case for the past two quarters, we're entering earnings season with beat rates and guidance numbers that are extremely elevated, and we would expect these readings to start heading back down to more normal levels eventually. Whether that happens this quarter is yet to be seen, but we do expect it to happen.
- As of now, our EPS and sales "beat rate" trackers remain at record levels as well as our Guidance reading. Over the last 3 months, a net of 35.7% of companies reporting have raised guidance, which is a massive number that cannot be sustained.





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- Below is a list of the largest companies (based on revenue estimates) set to report earnings next week.
- On Tuesday we'll hear from **Bank of America** (**BAC**), **Goldman** (**GS**), **Halliburton** (**HAL**), and **Netflix** (**NFLX**). **Morgan Stanley** (**MS**), **Procter** (**PG**), **UnitedHealth** (**UNH**), and **Alcoa** (**AA**) report on Wednesday. **IBM** and **Intel** (**INTC**) headline the slate of reports on Thursday, while **Schlumberger** (**SLB**) will close out the week with its report on Friday.
- IBM, Intel, Netflix, and UnitedHealth have historically raised guidance the most of the companies set to report next week.

Largest Companies (By Revenue Estimates) Reporting Next Week

Stock	Company	Date	AM/PM	EPS Est.	Sales Est. ($, Mln)	EPS Beat Rate	% Raise Guidance	Avg. 1-Day % Chg
BAC	Bank of America	1/19/21	AM	0.54	20,763.3	76.6	0.0	-1.09
GS	Goldman Sachs	1/19/21	AM	7.36	10,060.7	86.8	0.0	-0.01
HAL	Halliburton	1/19/21	AM	0.14	3,208.2	81.8	0.0	1.02
SCHW	Charles Schwab	1/19/21	AM	0.66	4,068.8	55.0	0.0	0.71
STT	State Street	1/19/21	AM	1.55	2,820.0	74.0	0.0	-0.90
JBHT	JB Hunt Trans	1/19/21	PM	1.31	2,566.3	60.3	0.0	0.99
NFLX	Netflix	1/19/21	PM	1.40	6,617.1	82.4	24.3	0.25
ASML	ASML	1/20/21	AM	2.46	3,716.0	77.3	16.7	0.86
BK	BNY Mellon	1/20/21	AM	0.91	3,837.6	59.7	0.0	-0.31
CFG	Citizens Financial	1/20/21	AM	0.88	1,710.4	80.0	0.0	1.71
MS	Morgan Stanley	1/20/21	AM	1.28	11,549.8	78.0	0.0	1.00
PG	Procter & Gamble	1/20/21	AM	1.51	19,220.8	84.4	5.2	0.19
UNH	UnitedHealth	1/20/21	AM	2.38	65,043.0	92.2	23.4	0.72
USB	U.S. Bancorp	1/20/21	AM	0.94	5,797.8	57.1	0.0	0.57
AA	Alcoa	1/20/21	PM	0.05	2,368.0	49.4	0.0	-1.36
DFS	Discover Financial	1/20/21	PM	2.26	2,801.7	73.6	0.0	-0.91
JEF	Jefferies	1/20/21	PM	0.59	1,348.6	72.9	0.0	1.44
KMI	Kinder Morgan	1/20/21	PM	0.24	3,057.6	27.6	0.0	0.44
UAL	United Continental	1/20/21	PM	-6.42	3,470.9	70.7	2.4	-0.95
BKR	Baker Hughes	1/21/21	AM	0.16	5,390.2	20.0	0.0	-0.04
FITB	Fifth Third	1/21/21	AM	0.68	1,922.7	65.8	0.0	0.57
KEY	KeyCorp	1/21/21	AM	0.43	1,708.6	59.2	2.6	0.75
MTB	M&T Bank	1/21/21	AM	3.04	1,455.0	67.6	0.0	0.09
NTRS	Northern Trust	1/21/21	AM	1.49	1,504.1	53.2	0.0	-0.14
TFC	Truist	1/21/21	AM	0.96	5,378.7	100.0	0.0	-0.13
TRV	Travelers	1/21/21	AM	3.12	7,421.8	64.8	3.7	0.00
UNP	Union Pacific	1/21/21	AM	2.22	5,119.0	84.2	1.3	0.88
CSX	CSX	1/21/21	PM	1.01	2,776.6	79.2	2.6	0.96
IBM	IBM	1/21/21	PM	1.86	20,556.0	81.8	20.8	-0.64
INTC	Intel	1/21/21	PM	1.11	17,479.2	76.6	23.4	-0.72
PPG	PPG Industries	1/21/21	PM	1.57	3,579.8	78.9	0.0	0.65
STX	Seagate Tech	1/21/21	PM	1.13	2,558.9	71.8	18.1	-2.45
ALLY	Ally Financial	1/22/21	AM	1.05	1,673.9	77.8	0.0	0.83
RF	Regions Fincl	1/22/21	AM	0.42	1,549.3	48.6	0.0	0.41
SLB	Schlumberger	1/22/21	AM	0.17	5,239.9	67.1	0.0	0.55

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- If you're looking for action, below is a list of the companies reporting next week that have historically averaged the biggest one-day price moves on their earnings reaction days.
- The list is topped by **Netflix** (**NFLX**) which has historically averaged a move of +/-12.22% on its earnings reaction days. **Clearfield** (**CLFD**) ranks second with an average one-day move of +/-10%, and other notables on the list include **Intuitive Surgical** (**ISRG**), **MarineMax** (**HZO**), **Logitech** (**LOGI**), **Seagate** (**STX**), **New Oriental** (**EDU**), **Citrix Systems** (**CTXS**), and **Jefferies** (**JEF**).

Most Volatile Stocks on Earnings (Reporting Next Week)

Stock	Company	Date	AM/PM	EPS Est.	Sales Est. ($, Mln)	EPS Beat Rate	% Raise Guidance	Avg. Abs. 1-Day % Chg on Earnings
NFLX	Netflix	1/19/21	PM	1.40	6617.1	82.4	24.3	12.22
CLFD	Clearfield	1/22/21	AM	0.14	24.8	46.7	6.7	10.07
ISRG	Intuitive Surgical	1/21/21	PM	3.08	1234.6	87.9	9.1	8.96
HZO	MarineMax	1/21/21	AM	0.56	372.8	57.8	12.5	8.65
PETS	PetMed Express	1/19/21	AM	0.38	63.8	60.3	0.0	8.63
LOGI	Logitech Intl SA	1/19/21	AM	1.26	1217.5	72.1	1.6	7.99
OZK	Bank OZK	1/21/21	PM	0.78	250.8	66.7	0.0	7.82
PLXS	Plexus	1/20/21	PM	1.10	832.1	68.8	16.9	7.39
SINA	SINA	1/21/21	AM	0.86	569.4	77.9	19.1	7.32
STX	Seagate Tech	1/21/21	PM	1.13	2558.9	71.8	18.1	7.13
BLMN	Bloomin' Brands	1/22/21	AM	0.05	897.1	63.6	9.1	6.48
CTXS	Citrix Systems	1/21/21	AM	1.34	781.6	93.4	14.5	6.40
EDU	New Oriental	1/22/21	AM	0.33	882.3	63.6	18.2	6.22
LYTS	LSI Industries	1/21/21	AM	0.05	75.3	35.1	0.0	5.84
TAL	TAL Education	1/21/21	AM	0.08	1081.6	51.2	14.0	5.73
FBC	Flagstar Bancorp	1/21/21	AM	2.36	181.9	59.4	0.0	5.70
FIZZ	National Beverage	1/21/21	AM	0.71	238.1	68.8	0.0	5.59
FOR	Forestar Group Inc	1/21/21	PM	0.37	261.7	71.4	0.0	5.16
JEF	Jefferies	1/20/21	PM	0.59	1348.6	72.9	0.0	5.15
STT	State Street	1/19/21	AM	1.55	2820.0	74.0	0.0	5.08

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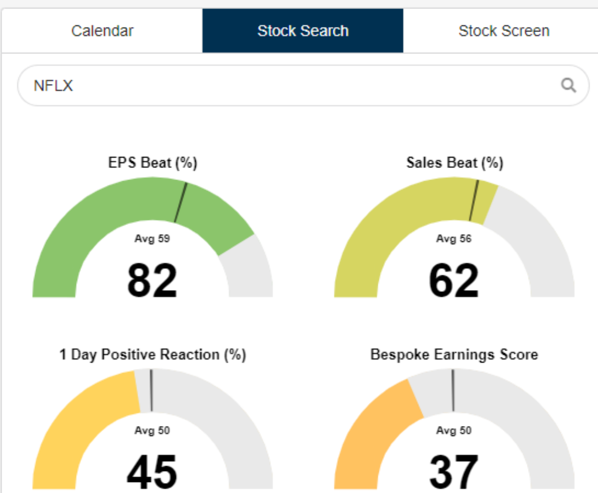
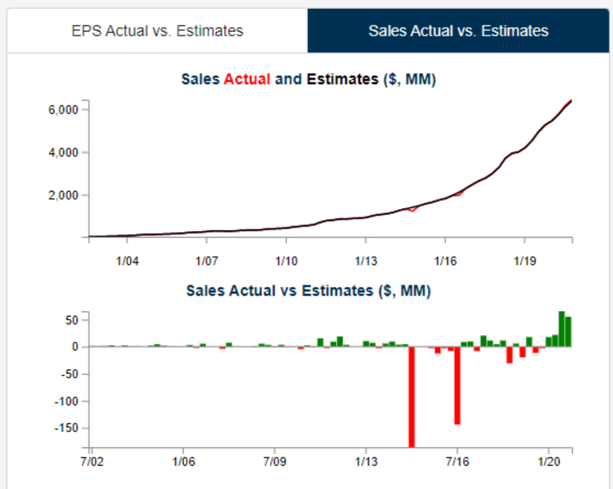
- **Netflix** (**NFLX**) hardly gets any attention these days since it has been trading sideways, and speculators appear to have moved on to other, more frothy trends.
- But NFLX will still be the most closely-watched company reporting next week, and below is a snapshot of the company's historical earnings trends in our [Earnings Explorer](#) tool.
- Note that quarterly sales accelerated during COVID in 2020, and the company beat sales expectations by the widest amounts in its history over the past two quarters.
- Historically, NFLX has beaten EPS estimates 82% of the time but its stock price has only traded higher on its earnings reaction day 45% of the time since it has been public.
- The most noteworthy datapoint from this snapshot, however, is how NFLX has historically traded in reaction to its Q4 earnings release. As shown, Q4 is actually the only quarter that NFLX has averaged gains on its earnings reaction day, and the average gain is huge at +10.4%. The stock definitely has seasonals on its side heading into its Q4 report next Tuesday after the close.

Earnings Explorer - Netflix (NFLX)





Upcoming Earnings and Aggregate Earnings Data for Netflix (NFLX)

		Report		Estimates		Prior	Beat Rate		% Raised	Average Stock Price % Chg			
Ticker	Company	Date	Time	EPS ($/Shr)	Sales ($,Mln)	Reports	EPS	Sales	Guidance	Opening Gap	Open to Close	Full 1 Day	Volatility
NFLX	Netflix	1/19/21	PM	1.40	6,617.1	74	82%	62%	24%	0.96	-0.74	0.25	12.22

Quarterly Earnings Summary for Netflix (NFLX)

		Beat Rate		% Raised	Average Stock Price Change on Earnings Reaction Days				
Quarter	# of Reports	EPS	Sales	Guidance	Opening Gap %	Open to Close %	Full 1 Day %	% 1 Day Positive	Volatility %
1	18	78%	78%	22%	-0.43	-0.83	-1.04	39%	10.78
2	19	79%	37%	11%	-4.44	-1.84	-6.14	21%	11.18
3	19	79%	68%	21%	-2.42	0.93	-1.74	47%	14.57
4	18	94%	67%	44%	11.61	-1.25	10.38	72%	12.27
All	74	82%	62%	24%	0.96	-0.74	0.25	45%	12.22

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- And now a look at some earnings reports from around the world this week:
- **Taiwan Semi** (ADR **TSM**) is one-third of Taiwan's index and reported on Thursday with Q1 net income 4.1% above estimates with strong guidance despite plunging China revenues after cutting ties with Huawei.
- In Europe, **Chr. Hansen** (ADR **CHYHY**) and **Tesco** (ADR **TSCDY**) reported that same morning.
- Natural ingredients producer **CHYHY** left EBIT and organic revenue (+5-+8% YoY) estimates for the year unchanged after delivering 10% YoY organic revenue growth in Q1 despite a 6% top-line and 3.8% adjusted EBIT miss in the quarter.
- UK supermarket chain **TSCDY** announced Q3 UK like-for-like sales up 8.1% over Christmas, helping Q3 like-for-likes in the UK and Ireland rise +6.1% YoY. 2020/2021 guidance was unchanged.
- On Friday, **SAP** (ADR **SAP**) also reported preliminary Q4 numbers and a 2021 outlook. Q4 preliminary revenues beat by 0.5% while preliminary operating profits beat by 3.3%. The company also guided 2021 cloud and software revenue in a range 76 bps below estimates to 136 bps above them. Annual operating profits were guided 5.7% to 11.1% above analyst forecasts.
- Notable reports expected over coming sessions include **Logitech** (US listing **LOGI**; 1/19) and **ASML** (ADR **ASML**; 1/20).
- Friday morning, the big banks kicked off earnings season in the US with reports from **JP Morgan** (**JPM**), **Citigroup** (**C**), **Wells Fargo** (**WFC**), and **PNC Financial** (**PNC**). We will review results below in chronological order.
- Starting with **PNC**, EPS beat by 10% thanks to a recovery of credit losses totaling $254mm, half a billion more favorable than the $221mm provision estimated by analysts. Charge-offs were 8.6% higher than expected and net interest margins were weaker than expected, but the massive tailwind from reassigning assets out of impairment was enough to drive the massive EPS beat.
- **JPM** had a similar story, with EPS beating by nearly 50%. Recovery of credit losses totaled $1.89bn versus a $1.39bn provision forecast; again, analysts just got the sign wrong, creating a net tailwind of over $3bn! Charge-offs were one-third of what analysts had penciled in. Net interest margins at JPM missed like at PNC, but institutional revenues beat in FICC trading, equity trading, and investment banking, with IB especially strong. The 19% return on equity was the strongest in the firm's history.
- **C** also reported strong numbers from investment banking with revenues above estimates there and in equities sales and trading; FICC revenues missed modestly. The bank released $1.5bn of loan loss reserves, bringing a total credit cost of –$45mm versus an estimated cost of $1.95bn. Similar to other reporters, that drove an EPS beat of 60%
- Finally, **WFC** beat EPS (64 cents versus 63 cents estimated) thanks to huge declines in credit costs that netted out to about $1bn; net interest income did miss, and huge legacy costs continued to weigh on overall performance.

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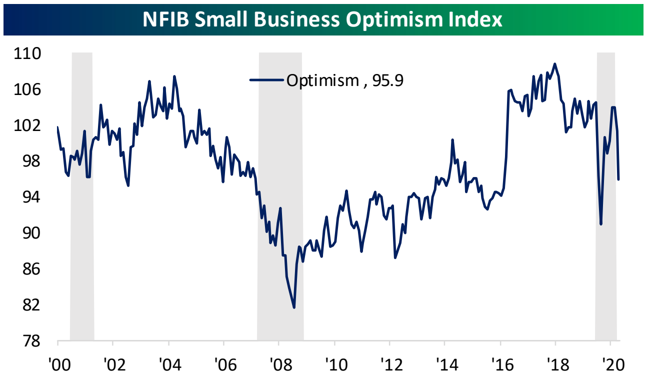
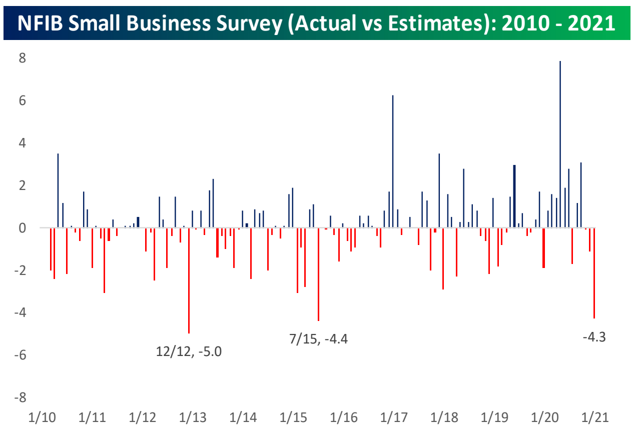
Tuesday's release of the December Small Business Optimism Index from the NFIB saw a large drop as the index dropped from 101.4 to 95.9.





- After a sharp drop in the wake of the COVID outbreak, the index bounced back nicely but now looks like it's really rolling over.
- Not only was this month's headline index weak, but it caught economists completely off guard. While the index fell to 95.9, economists were expecting a drop to 100.2.
- That 4.3 spread between the actual and expected reading was the biggest miss relative to expectations in more than five years (July 2015) and was the third weakest reading relative to expectations since the December 2012 report.
- Given the drop in the headline index and the fact that it was so weak relative to expectations, should we be concerned about a double-dip?
- As an investor, we should always be worried about what could go wrong, but in the case of this report, you can probably wait for further confirmation from other data.
- The reason for the skepticism is that you could argue that politics plays a role in this report. We also noted this earlier this week (see here and here).
- To illustrate this, we would note that going back to 2010 (as far back as we have data) and right up through Election Day 2016, the NFIB only topped expectations 42% of the time. Following Trump's election in 2016, though, this index surged and has topped expectations 63% of the time. Since Election Day 2020, though, the headline index has now missed expectations three times.
- From a longer-term perspective, dating back to 1974, the average reading of the NFIB Small Business Index during Republican administrations has been 100.1 while the average level under Democratic Presidents has been 96.2. Now, that would make sense if the economy was also in a recession more often in those periods, but over that same span, even though the percentages are low for both political parties (<20%), the economy has actually been in a recession a higher percentage of the time during Republican administrations than it has in Democratic administrations.
- The lesson to take from all this is that even if it's often hard to separate when it comes to business or investing (or a lot of other aspects of our lives for that matter), it's usually best to leave politics outside.

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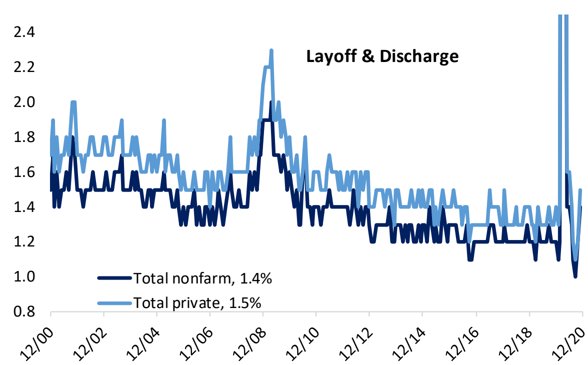
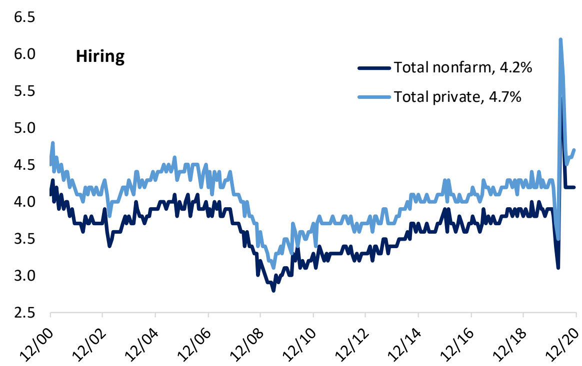
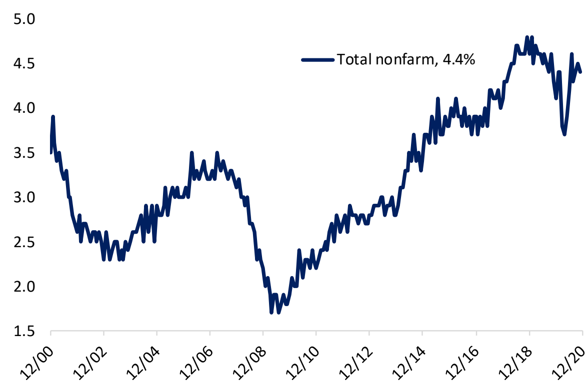
- Tuesday, the Bureau of Labor Statistics updated its monthly Job Openings & Labor Turnover Survey (JOLTS).
- November's data showed an uptick in layoffs and firings from a record low rate earlier in the fall.
- While that was some bad news, hiring has been accelerating.
- Private sector gross hiring was 4.5% of the labor force in August, and it's now up to 4.7% in November. That's a record pace of new hires for any period in the history of the series other than the immediate bounce-back from the initial COVID shock this spring.
- Job openings have stabilized a ways below their peak from the last cycle.
- So while there are lots of layoffs, the story is less negative than it might sound.

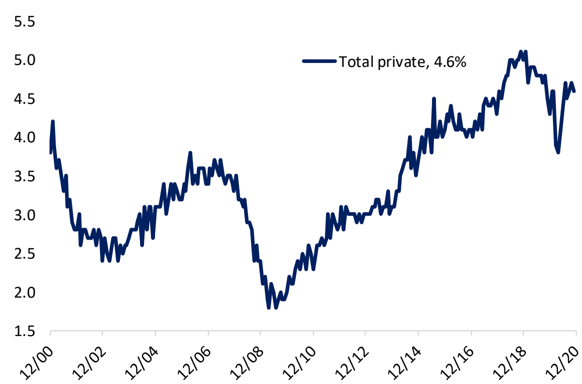
Job Openings & Labor Turnover Survey: November





Job Opening Rates, Seasonally Adjusted, Dec 2000 - Current





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- Another interesting dynamic in the JOLTS data is the industry-level results.
- Hires are strongest versus history in areas that you might expect given the impact of COVID: manufacturing, transportation/warehousing/utilities.
- Some surprising areas are very weak though: construction and information stand out.
- As for COVID impacts, you wouldn't expect strong hires in accommodation and food services, but there they are.
- Job openings are the highest relative to history in manufacturing but are also extremely high in accommodation & food services as well as state and local education.
- Finally, we note that layoffs are basically consistent with COVID-driven weakness, plus the effects of Census hiring rolling off for the Federal government.

Hires, Job Openings, And Layoff Rates By Industry

	Hires				*Job Openings*				*Layoffs*			
Industry	**Current**	**%ile**	**1m Chg**	**12m Chg**	**Current**	**%ile**	**1m Chg**	**12m Chg**	**Current**	**%ile**	**1m Chg**	**12m Chg**
Total nonfarm	**4.2**	96.6	0.0	0.3	**4.4**	89.5	-0.1	0.0	**1.4**	43.0	0.2	0.3
Total private	**4.7**	98.3	0.1	0.4	**4.6**	89.1	-0.1	0.0	**1.5**	31.7	0.3	0.2
Mining & logging	**4.8**	92.0	2.0	2.0	**2.9**	76.5	-0.3	0.2	**1.2**	26.7	-0.6	0.0
Construction	**5.4**	31.3	-0.1	-0.3	**3.1**	83.2	-0.1	-0.3	**2.7**	18.4	0.0	0.1
Manufacturing	**3.2**	98.7	0.1	0.8	**3.9**	99.1	-0.3	0.8	**0.8**	3.3	-0.1	-0.1
Durable goods	**2.9**	97.4	0.0	0.7	**3.1**	87.0	-0.6	0.0	**0.8**	10.8	-0.1	0.0
Nondurable goods	**3.9**	98.7	0.5	1.0	**5.1**	100.0	0.2	2.0	**0.9**	11.7	-0.1	-0.2
Trade, transp., & utilities	**4.8**	97.9	0.0	0.4	**3.9**	82.0	0.0	-0.3	**1.2**	13.3	0.0	0.0
Wholesale trade	**2.6**	55.2	0.2	0.3	**2.9**	70.7	-0.2	0.1	**0.9**	32.6	0.3	0.1
Retail trade	**5.2**	76.1	0.1	0.0	**4.2**	79.0	0.1	-0.4	**1.1**	0.4	-0.2	-0.1
Transp., warehousing, utilities	**5.7**	99.5	-0.5	1.5	**4.3**	86.6	0.1	0.0	**1.5**	69.4	0.0	0.1
Information	**2.3**	16.7	-1.6	-0.7	**2.9**	32.2	-1.6	-2.1	**1.0**	33.8	0.2	0.2
Financial activities	**2.7**	60.2	0.1	0.2	**3.1**	41.0	-0.1	-1.5	**0.6**	9.6	0.0	0.1
Finance & insurance	**2.5**	76.5	0.3	0.3	**3.3**	41.4	0.1	-1.3	**0.5**	18.4	0.2	0.0
Real estate & rental/leasing	**3.4**	41.4	-0.4	0.2	**2.7**	47.2	-0.6	-2.0	**0.7**	4.1	-0.6	0.3
Professional & business services	**6.3**	99.5	0.8	0.9	**5.9**	92.8	0.3	0.3	**1.9**	7.5	0.1	0.0
Education & health services	**3.2**	92.0	0.0	0.1	**5.3**	97.0	-0.3	0.3	**0.8**	36.4	0.1	0.1
Educational services	**2.9**	79.9	0.3	0.1	**2.9**	82.0	-0.5	-0.5	**1.1**	51.8	0.1	0.5
Health care & social assistance	**3.3**	92.4	0.1	0.2	**5.7**	96.6	-0.2	0.4	**0.8**	47.6	0.2	0.1
Leisure and hospitality	**7.3**	91.6	-0.5	0.6	**5.6**	91.2	-0.2	0.4	**3.3**	98.7	2.0	1.5
Arts, ent., & recreation	**8.0**	85.3	0.4	0.9	**4.9**	90.3	-0.5	-0.7	**2.6**	3.3	0.0	-1.0
Accommodation & food svcs	**7.2**	89.1	-0.6	0.6	**5.7**	91.2	-0.1	0.6	**3.4**	99.1	2.3	2.0
Other services	**3.9**	75.7	-1.2	0.4	**4.4**	92.4	0.3	0.1	**1.2**	33.0	0.2	-0.2
Government	**1.6**	65.2	0.0	-0.1	**3.0**	90.3	-0.1	-0.3	**0.9**	97.4	-0.1	0.5
Federal	**1.8**	84.9	0.1	0.2	**3.2**	76.5	0.1	-0.6	**3.4**	98.3	-1.7	2.8
State/local	**1.6**	59.4	0.1	-0.1	**3.0**	94.5	-0.1	-0.3	**0.5**	21.3	0.1	0.1
State/local education	**1.3**	21.3	0.0	-0.3	**2.2**	97.9	-0.1	-0.3	**0.4**	12.1	0.0	0.0
State/local ex education	**1.8**	83.2	0.1	0.1	**3.9**	92.0	-0.1	-0.1	**0.6**	51.8	0.3	0.2

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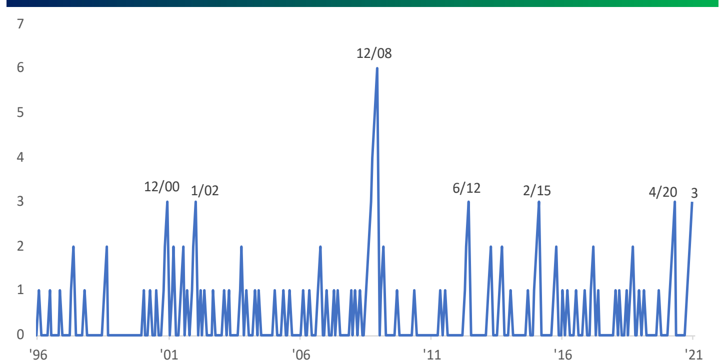
Retail Sales for the month of December missed forecasts for the third straight month with each of the last two reports missing expectations by wide margins.

December Retail Sales		
	Actual (%)	Forecast (%)
Retail Sales (m/m)	-0.7	0.0
-Ex Autos	-1.4	-0.2
-Ex Autos & Gas	-2.1	-0.3
November Retail Sales		
	Original (%)	Revised (%)
Retail Sales (m/m)	-1.1	-1.4
-Ex Autos	-0.9	-1.3
-Ex Autos & Gas	-0.8	-1.3

- On a headline basis, Retail Sales declined 0.7% m/m compared to expectations for sales to remain unchanged relative to November.
- Stripping out Autos and Gas, December's results were even weaker with total sales falling 2.1% compared to forecasts for a decline of just 0.3%.
- Not only was December's headline report poor on both a headline basis and relative to expectations, but November's already weak report was revised lower.
- After surging off the lows in April, retail sales have now declined for three straight months. That may not sound like much, but going back to 1992, there has only been one other period—during the financial crisis– where headline sales declined for more than three straight months.

Retail Sales Streaks of Month Over Month Declines: 1996 - 2021



- There are also just five other periods where sales declined for three straight months with the most recent being early on in the pandemic (none occurred prior to 2000).
- Outside of the months early on in the pandemic, it's hard to remember a month where there was so much disparity in sales across different sectors.
- Gas Stations, Clothing, Autos, Miscellaneous, and Health and Personal Care all saw total sales rise more than 1%.
- On the downside, Online, Electronics & Appliances, Bars & Restaurants, Food and Beverage Stores, and General Merchandise all saw sales drop over 1%.
- Call us skeptical, but it's hard to believe that Online sales saw its third largest m/m decline in more than 20 years during a pandemic.
- Similarly, declines in Bars and Restaurants and Food and Beverage Stores in the same month? Did people suddenly stop eating?

Retail Sales By Category: M/M Chg. (%)

Category	One Month Chg (%)
Gas Stations	6.61 %
Clothing	2.38
Autos and Parts Dealers	1.89
Miscellaneous	1.74
Health and Personal Care	1.07
Building Materials	0.87
Furniture	-0.59
Total Retail Sales	**-0.68**
Sporting Goods	-0.79
General Merchandise	-1.20
Food and Beverage Stores	-1.40
Bars and Restaurants	-4.47
Electronics & Appliances	-4.86
Non Store (Online)	-5.76

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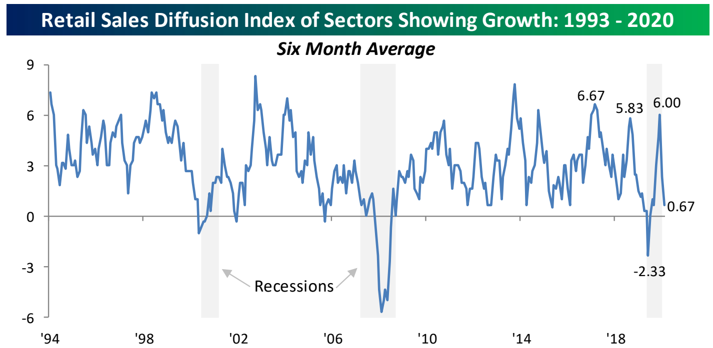
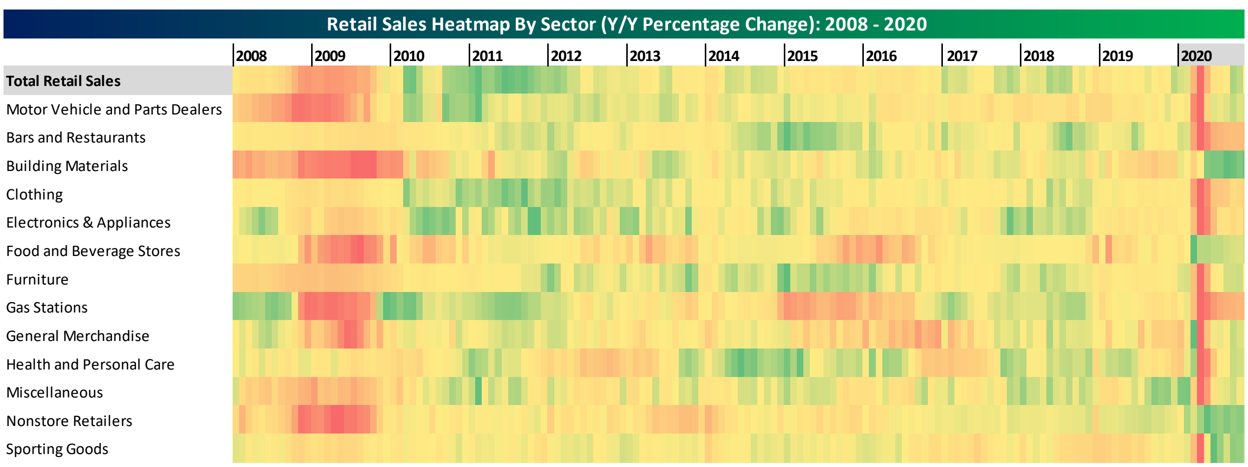
As noted on the prior page, while overall retail sales saw a moderate decline in December, breadth in the report was relatively even with seven sectors showing m/m declines in sales while six gained.

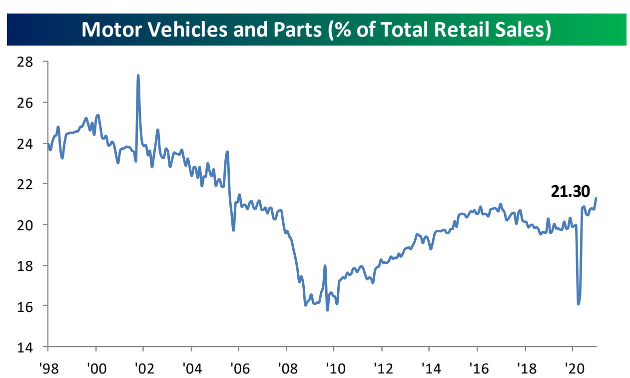
- Our Diffusion Index showing the six-month average of breadth in retail sales has seen quite a move in the last several months. After dropping to its lowest level since the Financial Crisis in April, it quickly rebounded to its highest level in over a year in October, but in just the last two months is now barely holding above the flatline.



- The heatmap below shows each sector's y/y change in sales since 2008. For each sector, red shading indicates periods where that sector saw its weakest sales growth, while green indicates periods of strength.
- The last few months have really skewed the complexion of this heatmap, but the way things stand right now, most sectors are starting to show varying degrees of green shading, although trends in Bars and Restaurants, Clothing, and Gas Stations remain weak. These three sectors have been his especially hard by the pandemic, but once it passes, all three are going to see epic surges.



- Lastly, one impact of the pandemic has been that people are increasingly leery of using mass transit, and this is showing up in retail sales data.
- On a y/y basis, auto sales are up 7% which is the strongest in five years. That has taken the sector's share of total sales up to 21.3% which is the highest since 2006.
- More Americans driving? Robert Moses would be proud!



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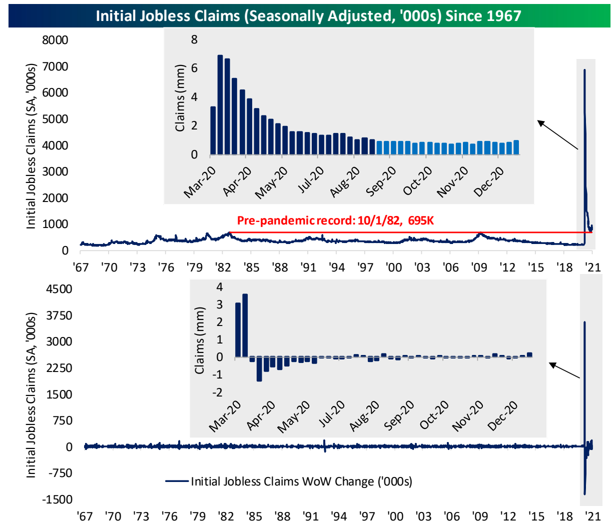
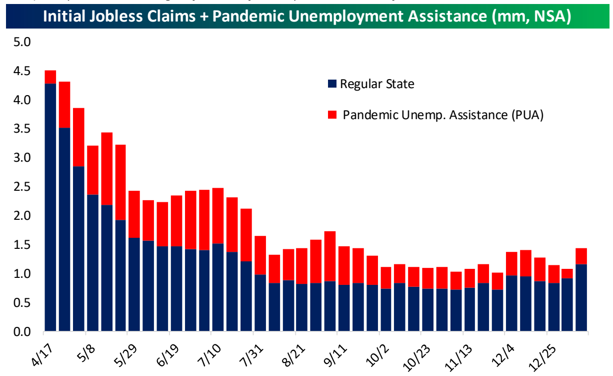
- Initial jobless claims came in at the worst level since the week of August 21st rising to 965K versus forecasts for a jump to just 789K.

Initial Jobless Claims (Seasonally Adjusted, '000s) Since 1967

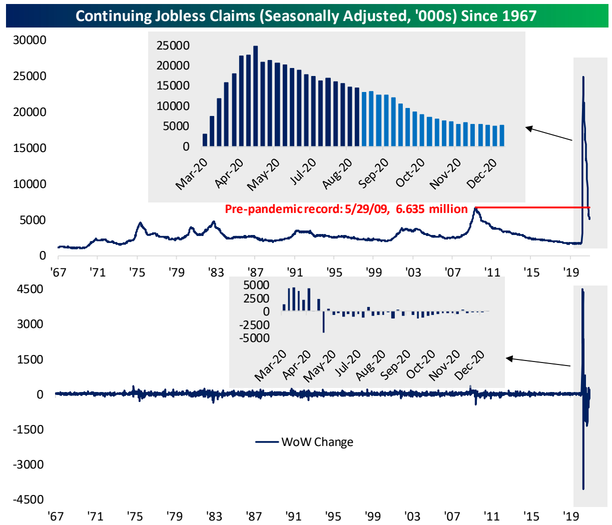


** Beginning with the relese on 9/3/20 seasonal adjustment methodology changed (denoted by light blue bars); comparisons to readings before and after this period are not like for like.*

Initial Jobless Claims + Pandemic Unemployment Assistance (mm, NSA)



Continuing Jobless Claims (Seasonally Adjusted, '000s) Since 1967



- That 183K increase versus last week was the largest move higher since April when claims were rising in the millions per week.

- Additionally, of the states that offered comments on the changes in jobless claims, many noted layoffs in industries like retail, accommodations and food services, and transportation.

- Despite the acceleration in the vaccine rollout, due to the fact that case counts remain near record highs and COVID restrictions remain in place, businesses and workers in the customer-facing services sectors are still feeling the pain.

- Before seasonal adjustment, claims came in at 1.151 million this week, the highest reading and first time above 1 million since July 30th. Granted, the most recent week's uptick is likely due to seasonality as the second week of the year usually does see a fairly large uptick.

- Similar to last week, there were a handful of states unusually reporting no PUA claims. Regardless, PUA claims across the nation were still higher by 123.3K up to 284.47K this week. In other words, both regular state claims and auxiliary programs contributed to this week's uptick.

- Continuing claims are lagged one week to initial claims meaning this week's increase in the initial number was not factored into the continuing claims number, but nonetheless, it was also higher rising to 5.271 million from 5.072 million. That brings claims back to around where they were in mid-December.

- Adding in all other programs to regular state claims adds another week's lag. As of the last week of 2020, total continuing claims across all programs fell to 18.422 million, though that number is likely to move higher in the weeks to come.

- Additionally, nearly 30% of total claims across all programs come from extension programs.

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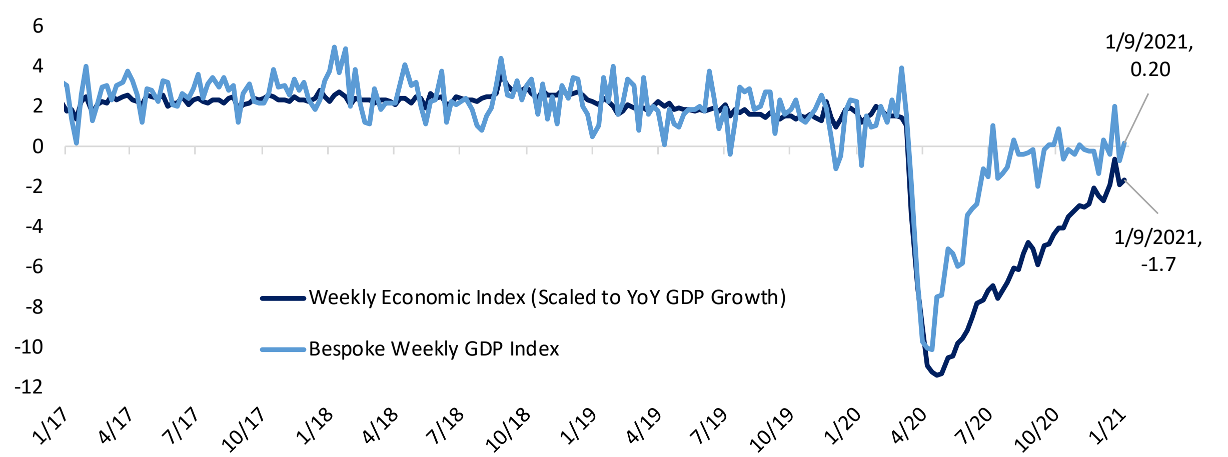
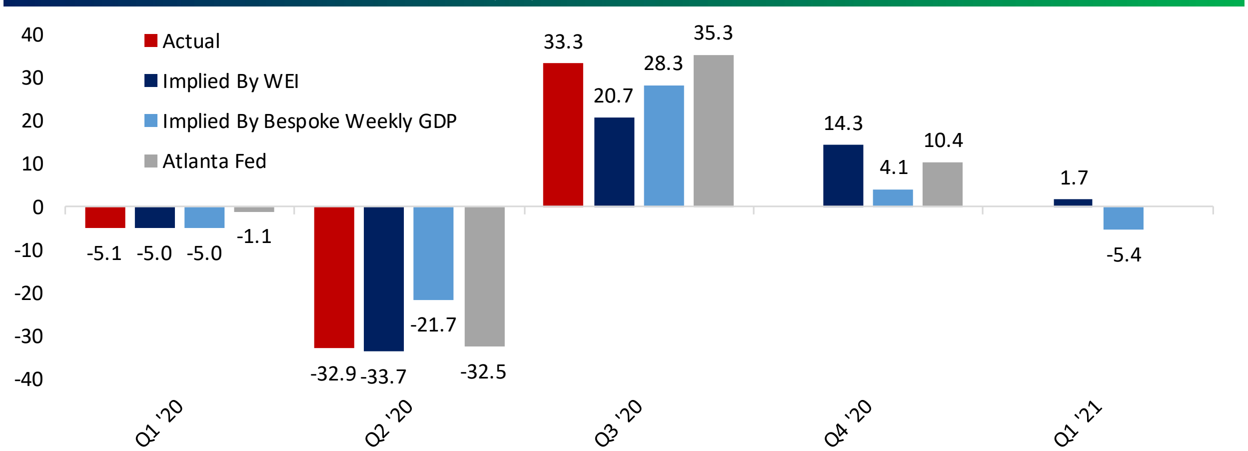
- Economic growth estimates for Q1 are not starting on a good footing.
- The Weekly Economic Index published by the New York Fed came in at –1.7% YoY this week, which implies a 1.7% QoQ SAAR growth rate for the first two weeks of 2021.
- Our Index of weekly GDP is much weaker; while it's up 0.2% YoY (better than the WEI), that implies a quarterly growth rate of –5.4% QoQ SAAR.
- Notable drivers this week include a big spike up in jobless claims and the lowest reading for Bloomberg Consumer Comfort since July.
- Our tracker was much weaker than other indicators during the fourth quarter, but has been in a much tighter range than the WEI recently.
- In any event, both the WEI and our weekly GDP index are both sharply weaker than the post-COVID highs reported to end the year.

2021 Has Started On A Soft Foot Based On GDP Trackers



QoQ SAAR GDP Growth



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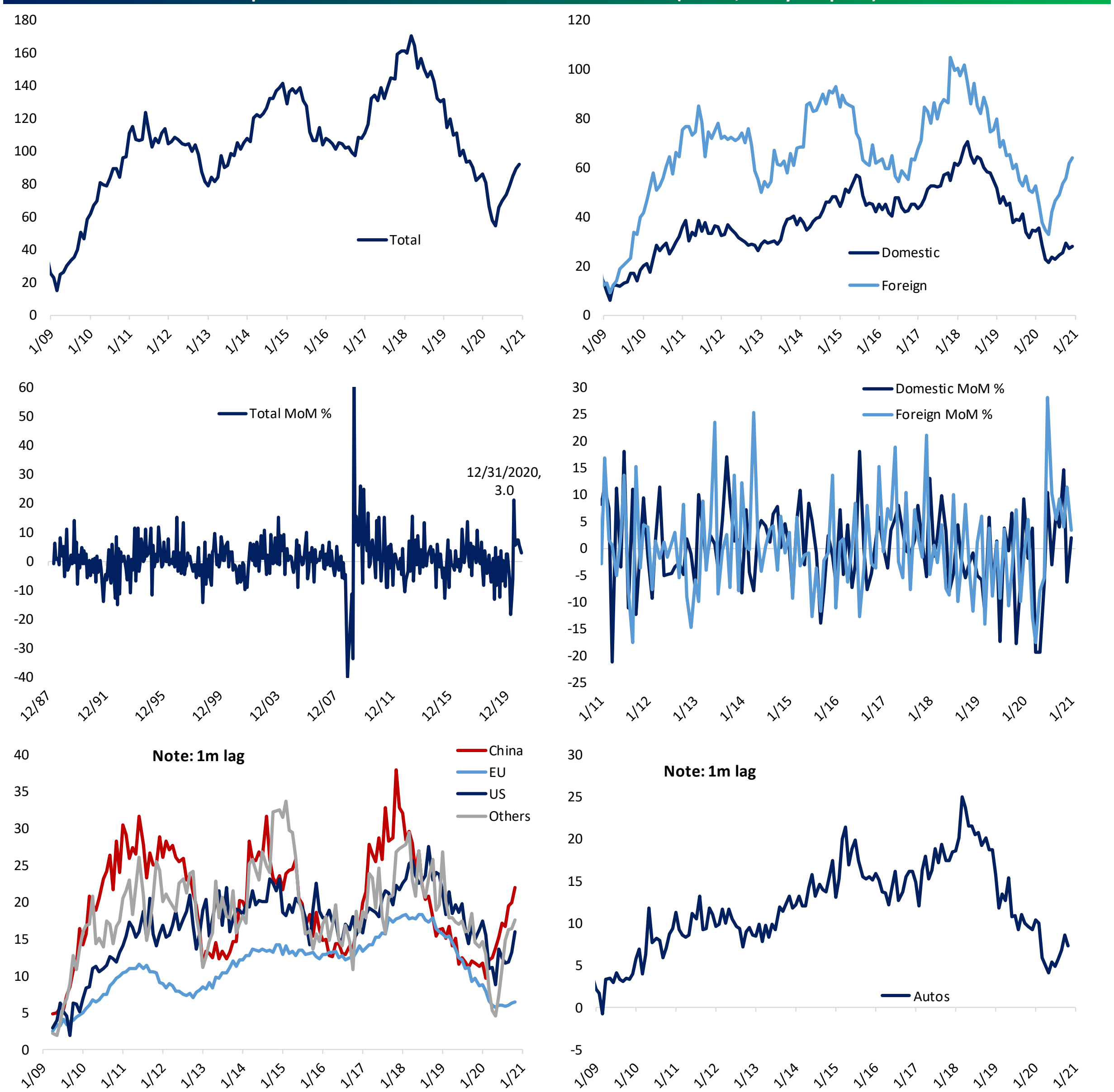
- Japanese Machine Tool Orders are a relatively stable, cyclically-correlated, low-latency indicator of global activity. The preliminary release only includes total orders as well as domestic versus international orders, so it's somewhat limited, but it at least gives us as decent snapshot for December less than two weeks after the close of the month.
- As shown in the charts below, total orders made a new high and rose at an elevated pace, despite still-soft numbers from the domestic Japanese economy.
- Through November, the bounce was coming mostly from China and the rest of global EM; EU and US numbers were softer, but US demand was still rising.

Japanese Machine Tool Orders Continue To Bounce (bn JPY, SA By Bespoke)



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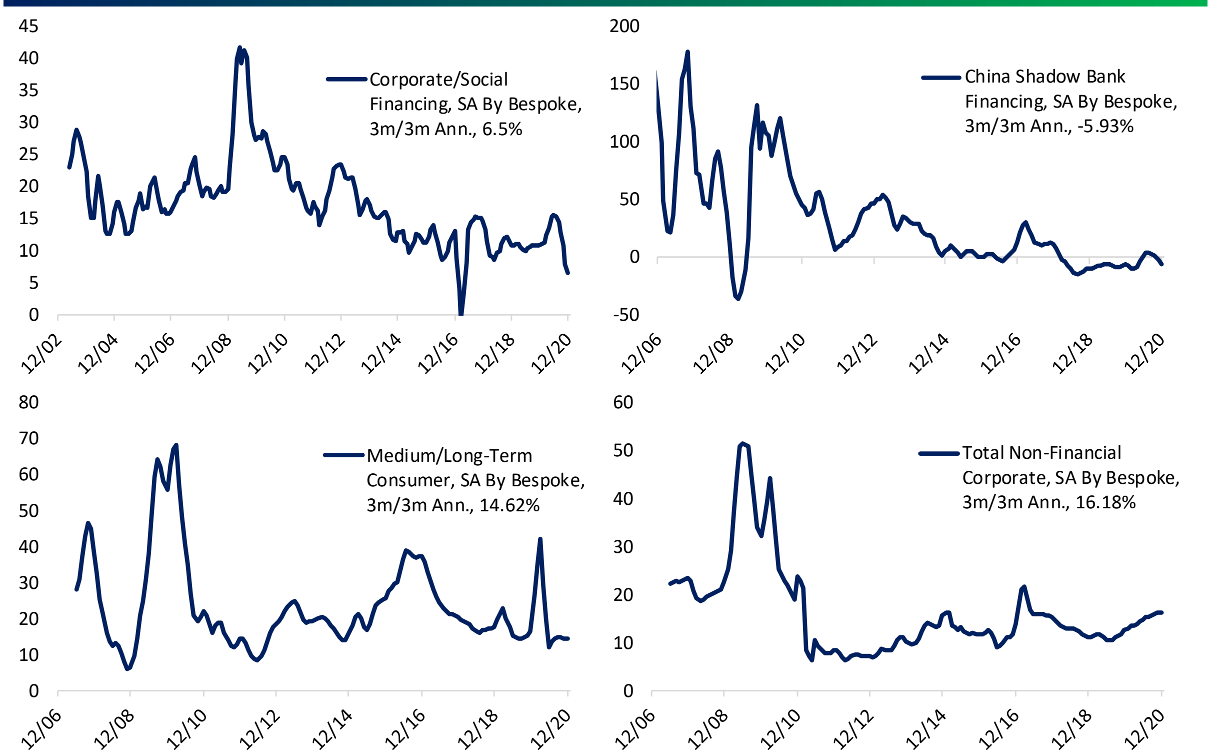
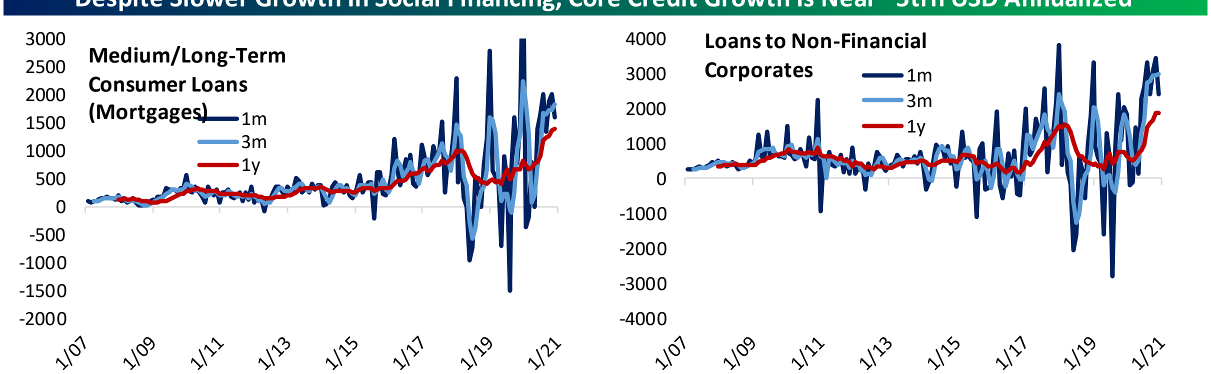
- Speaking of China, after adjusting for seasonality, Chinese credit growth has slowed sharply with outstanding total social financing up just 5% on a 3m/3m annualized basis in Q4.
- While the pace of growth has slowed substantially on a percentage basis and “shadow banking” categories are still declining, it’s worth understanding that core yuan loan balances are still rising at a incredibly strong pace relative to economic activity.
- Medium/long-term consumer loans (a proxy for mortgages) rose by $1.8trn annualized in Q4, while non-financial corporate loans rose by $3.0trn annualized.
- Over the last 12 months, these two categories have expanded by $3.3trn on a combined basis, or about 23% of Chinese GDP.
- The scale of credit creation in China has been epic, and if anything it continues to accelerate.

Chinese Total Social Credit Growth Has Tanked To Finish 2020



Despite Slower Growth In Social Financing, Core Credit Growth Is Near ~5trn USD Annualized



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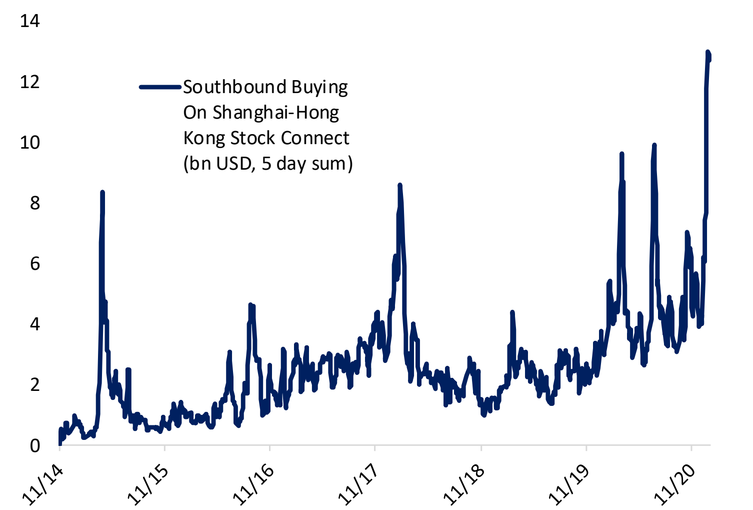
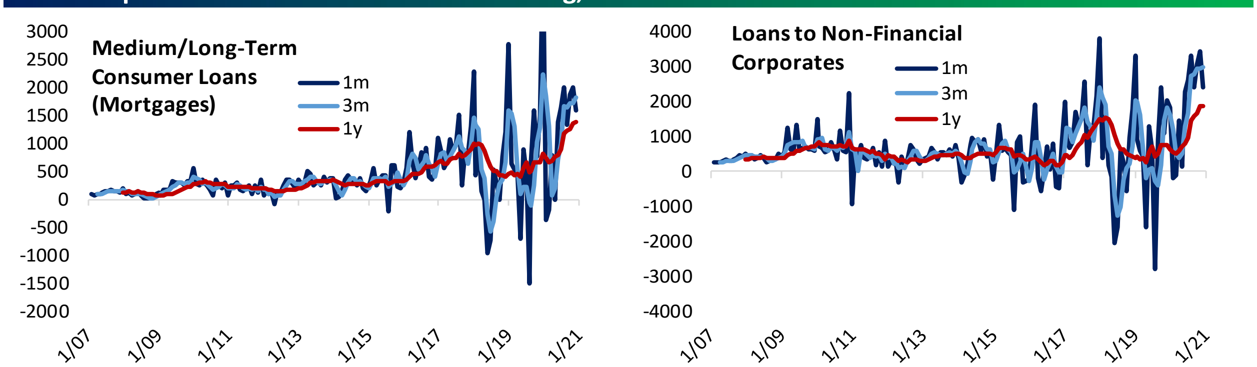
- There's lots going on in China these days, and we're not just talking about the impressive run for the CSI 300 (onshore large caps) to the highest levels since 2007.

Historic Bidding of Hong Kong Stocks From The Mainland



- There have also been large flows out of China and into Hong Kong, which has helped to support the prices of Hong Kong-listed stocks that recent Executive Orders have made holding a sanctionable offense.
- The list of entities is very long, and the amount of buying support from "national team" entities in China that offset US sanctions has needed to be very large in its own right.
- Domestic financial markets are being buoyed by an ongoing expansion of credit that is truly epic in scale.
- Below we show the growth of mortgage credit and non-financial corporate credit in US dollars for the past 15 years.
- Over the last three months, the pace of credit expansion has run at about $1.8trn USD (annualized) for mortgage lending and $2.98trn USD (annualized) for lending to non-financial corporate entities.
- This expansion of credit is unsustainable, but it's important to understand that China isn't reliant on inflows of foreign capital to sustain the massive credit expansion it's currently nursing.

Despite Slower Growth In Social Financing, Core Credit Growth Is Near ~5trn USD Annualized



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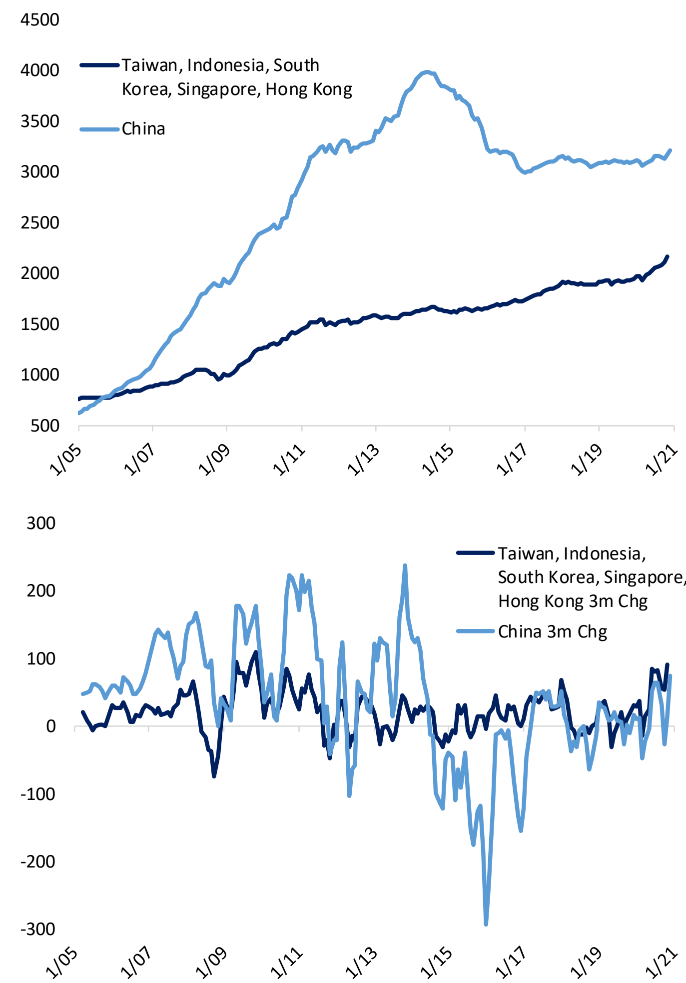
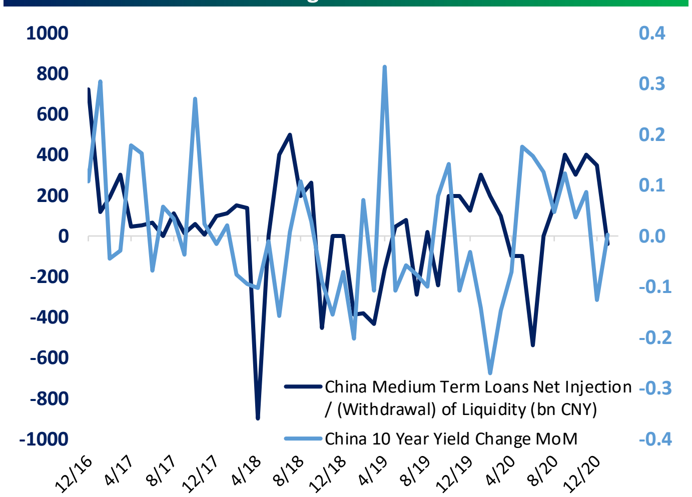
- If anything, it's the opposite.
- As shown to the right, reserves are once again rising rapidly as the PBoC pushes back against the strengthening of the Chinese yuan.
- Similar approaches have been perused by other regional central banks, which have reported record FX reserves.
- This demand for foreign exchange reserves is evident in the increase demand for US Treasury debt at recent auctions, which we'll discuss on the next page.

Foreign Exchange Reserves ($ bn)



China Halts Easing of Financial Conditions



- Internally, in the latest medium term lending operation the PBoC actually reduced liquidity available to the banking system.
- Fewer loans were offered as a way to reduce support for the government bond market, which had been under huge pressure in the middle of the year.
- To summarize: Chinese credit to the real economy is growing rapidly, and the yuan has rallied dramatically, but the PBoC is at the margin tightening financial conditions and is focused on making sure the yuan's rally doesn't get out of control.

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- Treasury issuance got off to a pretty strong start to 2021 this week with $120 billion of 3s, 10s, and 30s hitting the market.
- Monday's auction of 3 year notes kicked things off.
- The $58 billion in 3 year notes was the worst auction of the week as the coupon yielded 0.234%, tailing the when issued yield by 0.3 bps.
- Although the auction tailed, the internals were stronger with a bid to cover ratio above average compared to the past ten auctions. Meanwhile, bidder takedowns were pretty similar to the ten auction average.
- That was followed by a 10-year note reopening on Tuesday with a total value of $38 billion.
- Whereas recent auctions and January auctions have tended to be a bit weak, the results of Tuesday's offering was strong as it stopped through the when issued yield by 0.8 bps; the most since July's 1 basis point stop through.
- The bid to cover was up to 2.47, tying October for the highest bid to cover since July.
- Direct bidders were very strong at 17.8% which was the groups' highest share of any auction or reopening since December of 2019.
- Wednesday's 30 year bond reopening was slightly weaker than the prior month but demand was solid nonetheless, stopping through by 1.4 bps. Primary dealers received a record low share going back to at least February of 2008 while direct bidding was the strongest since last February.

This Week's Auctions: Past Ten Reopenings/Auctions Average

Date	Maturity*	Offering Amount ($ bn)	Tail (+) / Stop Through (-) (bps)	Win Rate (%)	B.C. Ratio	Bidder Takedowns (%) Primary	Indirect	Direct
1/11	3Y	58	0.46	30.0	2.38	36.21	52.13	11.68
1/12	10Y (R)	38	0.35	26.7	2.41	26.35	59.36	14.30
1/13	30Y (R)	24	-0.34	40.0	2.38	20.53	64.55	14.91

This Week's Auctions: 10 Year Average for January

Date	Maturity*	Offering Amount ($ bn)	Tail (+)/Stop Through (-) (bps)	Win Rate (%)	B.C. Ratio	Bidder Takedowns (%) Primary	Indirect	Direct
1/11	3Y	58	-0.23	50.0	3.04	40.38	44.91	14.71
1/12	10Y (R)	38	-0.03	20.0	2.77	33.15	54.20	12.64
1/13	30Y (R)	24	-0.13	50.0	2.50	36.02	51.58	12.39

** (R) denotes reopening*

Today's Auction Results

Date	Maturity*	Offering Amount ($ bn)	Tail (+)/Stop Through (-) (bps)	High Yield	B.C. Ratio	Bidder Takedowns (%) Primary	Indirect	Direct
1/11	3Y	58	0.30	0.234	2.52	33.2	52.2	14.6
1/12	10Y (R)	38	-0.80	1.164	2.47	20.0	62.2	17.8
1/13	30Y (R)	24	-1.40	1.825	2.47	14.2	68.6	17.2

** (R) denotes reopening*

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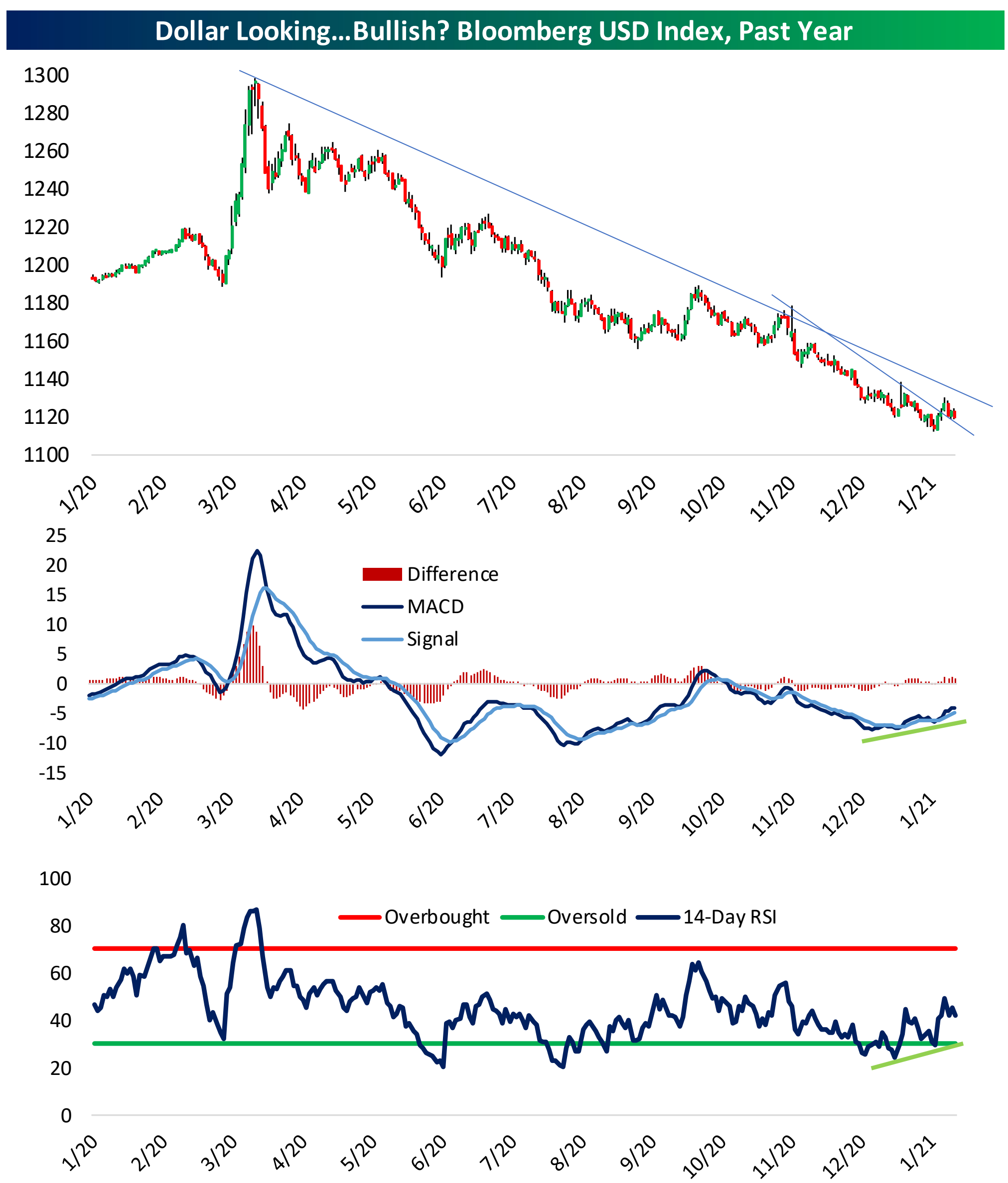
- It's pretty hard to find a dollar bull these days, but the technical backdrop is looking better than you might think.
- First, the short-term downtrend dating to the election has been broken, with the last couple of days creating a retest.
- Longer-term there's a downtrend dating back to March that has very clearly not broken yet but could lead to buying pressure if it can break above that level.
- More importantly, the buck has seen two different momentum indicators bottom and trend higher even as price has made new lows.
- This is a bullish divergence.



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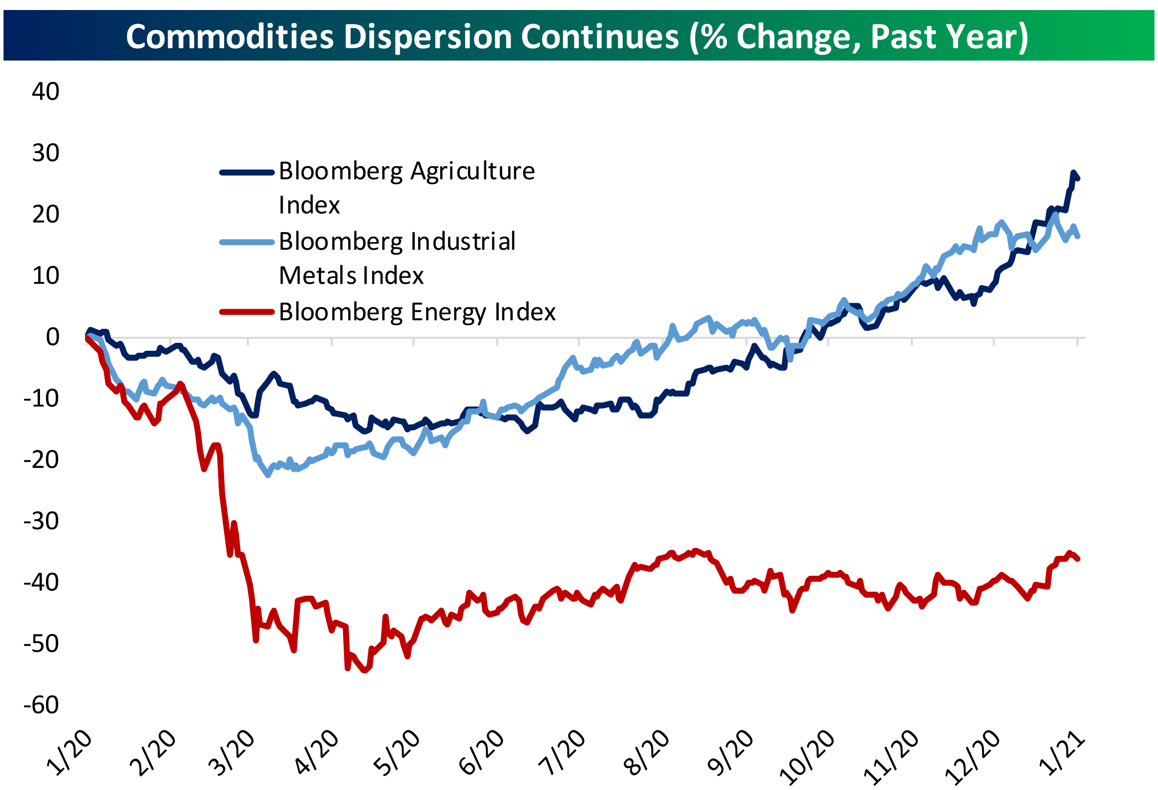
- The massive rally in global commodities over the last year is finally starting to slow down as industrial metals lose some of their shine.
- Agricultural commodities have been by far the largest gainers, and their rally hasn't stopped in recent days.
- But industrial metals like iron ore, copper, zinc, and lead have all taken a bit of a pause thanks to the combined impact of less liquidity in China, extreme price movements that are likely to curtail demand, and the expectation of new supply.
- Energy remains in a deep hole, with the EIA this week predicting little growth in US output over the next several years.
- Below $60 per barrel, the price risk associated with the current oil futures term structure and the upfront cost of drilling a well mean the shale patch is unlikely to boom again soon.
- It's not hard to see energy rebound over the next year as a resurgent global economy and tight supply conditions lead to imbalances.
- Longer term, though, there's a real risk that the energy complex (both companies that produce and distribute oil, and the commodity itself) is in terminal decline.
- That optimism is what part of what has driven the fervor for renewables we went through earlier in this report.



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While earnings are not yet at a torrent, there are still lots pending next week. Keep track of them and other upcoming reports further out with Bespoke's **Earnings Explorer**. You can also keep tabs on what's coming up next week in the US and around the global economy with our **US Economic Scorecard** and **Global Economic Scorecard**. Chinese data starts the week off, with Q4 GDP and industrial production data. South Korean trade data on Wednesday and an ECB decision Thursday are of note later in the week. And of course in the US, there's the never-ending cycle of drama in Washington to keep tabs on, including impeachment and how that impacts the work of the Senate as the Biden administration prepares to start passing its policy planks and appointing cabinet nominees.

Bespoke Model Growth Portfolio

Bespoke Model Dividend Income Portfolio

Bespoke Tactical Macro ETF Portfolio

- We'll be back on Monday with *The Morning Lineup* and don't forget to keep an eye out for *Bespoke Brunch Reads* on Sunday morning!
- Have a great weekend!

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