JAY PELOSKY

TPW ADVISORY

Friday Musings: G is for Governance, G is for Growth, G is for Goodbye GME

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Covid speed continues to dominate the investment process with acceleration the name of the game. Investors' need to think forward has rarely been greater. My 1,000 word best shot below = 4 min read.

Key point: The forthcoming Global Economic BOOM and UST BEAR market represent an investment environment that virtually no one investing today has experienced (best global Growth in 50 yrs, 1st major UST bear market in 40 years). One needs a framework: we have the Tri Polar World; one needs a discipline: we have the Global Risk Nexus process. One needs humility: got tons of that.

This environment suggests a much less generous beta world & a more critical need for alpha. My alpha focus is on thematics. I updated the model portfolio delivery service this week - modest changes as I feel well positioned with 20% + thematic POV. Reach out to learn more.

Humans are learning creatures - once we have seen the model we can replicate it. The model remains Covid speed of science & the vaccine creation in 1/10th the normal time. It is global financial capital & intellectual capital focused on key issues resulting in rapid leaps forward. Global VC funds raised were up 50% Y/Y Q4, mega rounds most in a decade. US IPOs in Jan most in 25 years, corporate debt issuance off the charts, EM Sov too.

This is not bubble behavior, this is investors seeking the thematic opportunity set which falls out of Activist Govts + policy driven markets. IPOs/SPACs/thematics etc are helping public market investors get closer to the Innovators/Early Adopters part of the Innovation Curve.

It all starts with Health. Covid speed of delivery finally picking up with more shots than cases globally and in the US. US hits 1.7M doses pd - expect 2Mpd in coming weeks - cases down 40%, hospitalization down close to 30%. Expect continued acceleration as Biden Admin knows a W here sets up all the rest. Watch UK: deaths could fall by ⅔ by month end.

The rest starts with Governance as expressed in VP Harris breaking the Senate's 50-50 tie sending the Rescue Plan bill towards reconciliation and passage. Note the process: Go Big & fast (Obama lessons learned); make the case (Rescue Plan has 2/3s public approval), execute & demonstrate Govt is good and here to help.

The US pivot point implications from 40 years of Republican Party inspired Govt is bad to Biden Admin go BIg - Govt is good & here to help on Covid, the economy, climate, equality with cheap money… cannot be overstated. This spot on NYT article lays out the pivot point case.

Asset allocation implications are huge: reinforce the UST bear market, USD weakness and US equity relative underperformance & "Golden Age" of Asset Allocation.

Think US gridlock and policy stagnation is costless? Think again - world innovation rankings just came out - US now 11th, down from 1st less than a decade ago. Tri Polar World is a world of competition where Asia and EU have capacity to act on their desires for "Strategic Autonomy" in Europe and technological "self sufficiency" in China. China's steadiness of regulatory policy a huge plus.

The EU needs to really get its vaccination act together but economic & EPS data much better than lockdown stories would have one believe (Q4 GDP, Manuf PMIs, retail sales BTE). Super Mario returns & Italy's Govt bond spread vs Bunds hits 5 yr low… Italy has its own pivot moment ahead with well over 200B Euros in JRF money coming. Deutsche Bank even turned a profit - European banks anyone?

The US inflation penny has started to drop. 10 year breakevens at 2.19% = 7 yr high...2/10 YC at 5 yr wides & going wider - history suggests one could see 2% spread. US manufacturing sector running hot (global issue - Asian PMIs at decade high) asking rents up 18% y/y in Q4 as rising house prices provider cover. In NYC, signed leases in Manhattan rose 94% Y/Y in Dec - yes 94% - as argued for months: Death of the City is Dead Wrong!

Expect headline inflation #s to be in 3-4% y/y range in coming months given year ago Covid collapse… will be transitory, expect the Fed to look through and equity to be ok. Note though the negative impact on Big Tech given CF valuations...already being signalled with excellent EPS and stock rollover: Remember the saying: Rising rates + Vaccine = Tech Kryptonite. Has Big Tech as % of SPY peaked - will it deflate like Financials did post GFC?

My GME as sideshow POV has held up well - those poor diamond hands. GME et al did serve to shake out the bubble talk, lead to significant degrossing, send TLT plunging back toward March lows, gave S&P a chance to sell off and demonstrate support at 50dmav. It may also have been one of the last, best chances to position for the reopening. JETS!

My TX based buddy raved this morning on XLE calling it a super contrarian, cyclical value reopening play with yield. He is right; note the trifecta of recent positives: OPEC holding supply line, XOM holding the dividend line (stocks as yield plays - XLE has 5% div yield, AMLP has 9% vs most risky HY CCCs at 6%, UST has 1%.) and JPM suggesting Brent crude could hit $70pb by YE. Old & new energy represent a twin engine portfolio opportunity.

Clean positioning, better sentiment (Google January stock market Bubble searches off the charts - 2x prior peak, highest in 16 yrs), BTE EPS across the globe, rapidly rising vaccination rates, new vaccines, is it any wonder stocks are hitting new highs, commodities are rocking and bonds are hitting new lows? No, no wonder at all, especially when one considers that SPY is up only 6% since September… yes 6%; from what one reads it feels like 60 or 600%.

Greeting: Happy Year of the OX to our China readership! May 2021 be stable and prosperous!

Teaser: Monday's video Musings with Ohmresearch & keep your eyes peeled for a MacroHIves podcast!