

# Market Viewpoints

by Manish Singh - Chief Investment Officer

January 2021

“Complacency often afflicts precisely those who have been the most successful.”

Andrew Grove

## Summary

Covid-19 vaccination programs are accelerating globally and even rivals are teaming up for the common good. As we start a new decade the chatter is that, as we come out of Covid-19 lockdowns, we could find ourselves in a new Roaring '20s. The parallels between the 1920s and today are clear. We are dealing with a virus now and economic activity has been badly hurt. The 1918 Spanish flu pandemic and economic malaise that came with it, preceded the original Roaring '20s. There was pent-up demand for goods and services after the 1918 pandemic. There's pent-up demand now and the consumer is strong.

Governments have been generous to top up income, and people have not been able to spend this money. During the 1920s, US Presidents Warren Harding and Calvin Coolidge both followed easy fiscal policies, which eased the burden on the American people and US companies. This boosted spending and set the turbines of economic growth humming. President Donald Trump was equally determined (as is President Joe Biden) to boost spending, as is evidenced by the record US budget deficit. During the 1920s, the US transitioned from an agrarian to an industrialized nation. Now, along with the rest of the world, it is transitioning to an era of “digitisation.” The dawn of technological optimism can be seen everywhere. Therefore I continue to be risk positive.

My recommendation is to focus on large secular trends: Stick to the big wave and do not get lost in the ripples which can be exciting and make you think that you have figured everything out, only to be swept away when the big wave arrives.

## Are the second Roaring '20s on their way?

We are starting a new decade and the chatter is that, as we come out of Covid-19 lockdowns, we could find ourselves in a new Roaring '20s. No, not as in dress up as Jay Gatsby and Daisy Buchanan, dance the Charleston and drive in Model T Fords, alluring as that may be given the lockdown life we have had to endure, but as in the bull market in equities that marked the 1920s.

Ask me my view? I'd say the likelihood of this scenario is very high. The Dow Jones industrial Average Index (DJIA) rallied +600% between 1921 and 1929 and during this time the index expanded from 12 stocks to 30. However, when the crash came in October 1929, the DJIA was hit very hard and lost almost 90% of its value between October 1929 to June 1932, when it finally bottomed.

The grounds for a new Roaring '20s abound. My only concern is that given how fast the world is changing

(compared to the last century), a compressed timeline could see the next iteration last not a decade, but half of that or even less. This means the '30s could follow in quick succession, and that won't be as much fun, as the '30s were defined by a global economic and political crisis, when many of the excesses of '20s were undone. Anyway, let's focus on the '20s for now and we can worry about the '30s later!

Covid-19 vaccination programs are accelerating globally and even rivals are teaming up for the common good. The French pharmaceutical company, Sanofi which hasn't had success with its Covid-19 vaccine yet, has now decided to produce 100 million of the Pfizer/BioNTech "vaccine in order to be helpful as of now." Also, data suggests the surge in new Covid-19 cases linked to increased travel and socializing over the holiday season is receding. The focus, therefore, rightly shifts back once again to re-opening the economy - and keeping it open.



The parallels between the 1920s and today are clear.

We are dealing with a virus now and economic activity has been badly hurt. The 1918 Spanish flu pandemic and economic malaise that came with it, preceded the original Roaring '20s. There was pent-up demand for goods and services after the 1918 pandemic. There's pent-up demand now and the consumer is strong. Governments have been generous to top up income, and people have not been able to spend this money.

Americans saved \$1.4 trillion in the first three quarters of 2020, or about twice as much as in the same period of the prior year, according to an analysis by Berenberg Economics. The American consumer is in the best financial shape in modern history. More help is on its way in the form of a new round of stimulus checks from the administration of incoming US President Joe Biden. People are as eager as ever to socialize and see the world again, as is evidenced by the surge in travel bookings, as soon as any signs of lockdown ending emerge. Beaches and pubs will be crowded again come the summer months.

During the 1920s, US Presidents Warren Harding and Calvin Coolidge both followed easy fiscal policies, which eased the burden on the American people and US companies. This boosted spending and set the turbines of economic growth humming. President Donald Trump before was equally determined (as is President Joe Biden) to boost spending, as is evidenced by the record US budget deficit. The deficit even in fiscally prudent Germany has rocketed. Additionally, new US Treasury Secretary Janet Yellen, at her confirmation hearing last week, made it abundantly clear that the Biden administration would set aside concerns about rising budget deficits and "act big" to avoid a protracted economic downturn. She also assured everyone that the Biden team doesn't immediately plan to increase taxes.

During the 1920s, America transitioned from an agrarian to an industrialized nation. Now along with the rest of the world, it is transitioning to an era of "digitisation." The 1920s marked technological advancement that led to more automation and mass-production techniques that meant goods could be produced more quickly and in greater quantities. This led to lower prices for goods, increased demand and consequent higher employment to meet these demands. The increased employment stimulated further demand for goods, and thus created a cycle of boom which led to economic prosperity and record stock market gains.

This time around, though the transition to a high-tech economy and "digitisation" started long before Covid-19 struck, the pandemic has accelerated this transition. The dawn of technological optimism can be seen everywhere. Every business from large corporations to mom-and-pop shops have embraced technology and e-commerce. In the spring, Stripe, a firm that powers payments helped the centuries-old farmers' market in Paris set up virtual checkouts in place of physical ones.

Look at the speed at which Covid-19 vaccines have been produced. The success of the "messenger RNA" technique behind the Pfizer-BioNTech and Moderna vaccines, and of bespoke antibody treatments, show that we are at the dawn of a new age in medicine. UK based Artificial Intelligence (AI) Company DeepMind has cracked the 50-year-old problem of biology research - determining a protein's 3D shape from its amino-acid sequence. DeepMind's AI program AlphaFold, can identify the shape of a protein in mere hours. This is set to vastly accelerate efforts to understand the building blocks of cells and enable quicker and more advanced drug discovery.

Necessity is the mother of inventions, as they say. Lockdowns have seen tele-medicine or tele-health come leaps and bounds make companies such as Teladoc (TDOC) a stock market success and Peloton

(PTON) is changing how folk will go about exercising in the post-Covid world.

The e-commerce, data security, cloud and software services sector, logistics, biotechnology and semiconductors all have seen a series of successful IPOs and merger activities. While the new-age companies such as Shopify (SHOP), Pinterest (PINS), CrowdStrike Holdings (CRWD), Roku Inc. (Roku), Square (SQ), Zoom communications (ZOOM), Etsy (ETSY), Airbnb (ABNB), Sea Ltd. (SE), Snowflake (SNOW) are blazing a trail. The old guard - Amazon (AMZN), Google (GOOG) and Microsoft (MSFT) continue to get bigger and bigger, with revenue growth to back up the above trillion dollar valuation.

Spectacular falls in the price of renewable energy are powering the change too and driving the world towards a green agenda, which itself will be the multi-trillion-dollar economy. Even China now promises carbon neutrality by 2060. Such is the market's optimism about green agenda and electric vehicles that Tesla's CEO, Elon Musk is now the world's richest man.

Cruise lines say they are getting booked up for later this year through 2023. A surge in the services economy is inevitable as soon as lockdown is lifted. Just look at China - they are printing record growth numbers and demand has shown no sign of a dip from the pre-Covid days. A record GDP growth over the next 12-18 months is certain and this will boost asset prices.

## Markets and the Economy

The US equity market has continued on its positive trend this year with the Tech and Biotech heavy NASDAQ Index the clear winner (as the table below indicates). Going forward, Emerging Market stocks could be the big winners as the US economy reopens. UK equities will also fare well, and Eurozone equities will likely disappoint in the short term, due to vaccination delays and consequent re-opening delays to the economy.

## Benchmark Equity index Performance (2020 & YTD)

Ticker	Name	Country	Price	2020 Performance (Lcl Ccy)	2021 Year-to-Date Performance (Lcl Ccy)
HSI Index	HANG SENG INDEX	Hong Kong	28,284	-3.4%	3.9%
<b>MXEF Index</b>	<b>MSCI EM</b>	<b>Emerging Markets</b>	<b>1,351</b>	<b>15.8%</b>	<b>4.6%</b>
<b>NKY Index</b>	<b>NIKKEI 225</b>	<b>Japan</b>	<b>27,663</b>	<b>16.0%</b>	<b>0.8%</b>
CCMP Index	NASDAQ COMPOSITE	US	13,337	43.6%	3.5%
SHCOMP Index	SHANGHAI SE COMPOSITE	China	3,483	13.9%	0.3%
MXIN Index	MSCI INDIA	India	1,590	16.8%	-0.6%
IMOEX Index	MOEX Russia Index	Russia	3,306	8.0%	0.5%
UKX Index	FTSE 100 INDEX	Great Britain	6,459	-14.3%	-0.0%
<b>SPX Index</b>	<b>S&amp;P 500 INDEX</b>	<b>US</b>	<b>3,787</b>	<b>16.3%</b>	<b>0.8%</b>
INDU Index	DOW JONES INDUS. AVG	US	30,603	7.2%	-0.0%
MXTR Index	MSCI TURKEY	Turkey	1,645,443	12.6%	-2.7%
<b>SX5E Index</b>	<b>Euro Stoxx 50 Pr</b>	<b>Europe</b>	<b>3,511</b>	<b>-5.1%</b>	<b>-1.2%</b>
DAX Index	DAX INDEX	Germany	13,510	3.5%	-1.5%
CAC Index	CAC 40 INDEX	France	5,440	-7.1%	-2.0%
IBEX Index	IBEX 35 INDEX	Spain	7,859	-15.5%	-2.7%
IBOV Index	BRAZIL IBOVESPA INDEX	Brazil	118,883	2.9%	-0.1%
FTSEMIB Index	FTSE MIB INDEX	Italy	21,684	-5.4%	-2.5%

Source: Bloomberg

The US Federal Reserve Open Market Committee (FOMC) met this week for its first meeting of 2021 and acknowledged the recent signs of economic weakening. The FOMC decided to keep policy on hold choosing to wait and see if business activity picks up. The US Congress and the Trump White House in December approved \$900 billion in new spending measures, including sending \$600 checks to qualifying Americans. The Biden administration has proposed \$1.9 trillion in additional measures, including sending \$1,400 checks to many households.

The surge in coronavirus cases during November and December meant that employment and retail sales fell, and the number of Americans filing new claims for unemployment benefits rose for two months in a row. Rebuilding the economy fully continues to be the focus of the Federal Reserve (Fed) and the Biden administration as outlined by Treasury Secretary Yellen. Earlier this month at a Princeton University forum, Fed Chairman Jerome Powell said “The economy is far from our goals. Now isn’t the time to be pulling back from its policies” In other words: The money printing will continue as long as it’s needed to heal the economy.

One topic that has often been discussed and no doubt will continue to be discussed is - money printing is fomenting a class war, as income inequality keeps rising. While the world has not turned violent, thankfully despite the excessive money printing, the same can’t be said of what’s happening in a corner of the stock market where “day traders” trading options are running rings around some hedge funds, whose business is to short stocks.

It’s literally Robinhood versus the Sheriff of Nottingham, in the “most shorted stocks” corner of the market.

Robinhood, a Silicon Valley start-up, with an easy-to-use app, helped draw many first-time investors to the equity market last year. It has amassed more than 13 million customer accounts, as working from home led to a boom in self-directed investment and options trading. The median age of a Robinhood investor is 31.

This week we learnt that a celebrated hedge fund, Melvin Capital, which has returned +30% a year to investors since inception, and with a sizable short equity book, ended up being run over, requiring an urgent bailout of \$2.75 billion led by Citadel and Point72—two of the larger US hedge funds.

A storied hedge fund run over by day traders and small investors known as “Robin hooders” who invest in companies championed on the Reddit forum WallStreetBets? Who would have thunk it? -I suspect there will be more such accidents in the hedge fund world given the need for US funds to publish their positions every quarter. Melvin Capital’s well-publicized short exposures opened the door for investors to congregate on the Reddit forum and other such chat sites to organize a series of short squeezes. Melvin Capital was short GameStop (GME) and the marauding online traders piled on the other side of the trade to send the stock skyrocketing by over +600%.

On Tuesday this week, GameStop was the most traded stock. It traded a bigger volume and dollar value than even Tesla , Apple, Microsoft, Amazon - as the chart below shows.

## **Stocks with most trading volume on Tuesday, 26 January 2021**

Volume	Chg Up	Chg Down	Value	Δ AVAT	52Wk Highs
Security	Last	%Chg	Value↓	Val 5'	Ne
1) 📈 GameStop Corp	147.98	+92.71%	20.05B	143.99M	Ga
2) 📈 Tesla Inc	883.09	+0.26%	19.72B	6.43M	MU
3) 📈 Apple Inc	143.16	+0.17%	13.46B	7.32M	Ap
4) 📈 Microsoft Corp	232.33	+1.22%	10.96B	31.96M	Mi
5) 📈 Amazon.com Inc	3326.13	+0.98%	9.57B	7.32M	Te
6) 📈 Beyond Meat Inc	186.83	+17.70%	5.70B	727.95k	Be
7) 📈 Advanced Micro ...	94.71	+0.62%	5.39B	26.53M	AM
8) 📈 Facebook Inc	282.05	+1.45%	5.32B	1.24M	U.I
9) 📈 Plug Power Inc	73.18	+11.35%	4.92B	4.51M	Pl
10) 📈 Alphabet Inc	1907.95	+0.72%	2.97B	124.98k	Ou

Source: Bloomberg, @redditrading

The US consumer continues to be strong. Consumer confidence - defined as the degree of optimism on the state of the US economy that consumers are expressing through their activities of savings and spending - in the US rose in January as expectations for the economy and the Labour market improved, according to data released the Conference Board.

The personal saving rate, the portion of after-tax income that U.S. consumers store away, was 12.9% in November, according to the US Commerce Department. That compares with a saving rate of 7.5% in November 2019, before the pandemic. All these savings are set to be spent when the economy opens up by summer.

Meanwhile, in Europe, while the UK is going gangbusters with the Covid-19 vaccination program, the European Union (EU) has been a big disappointment and mired in delays and indecisions. The EU has administered only 2 doses per 100 population compared with over 10 for the UK and 7 for the US.

The economic recovery in the Eurozone will be delayed and there is a risk that the anger in the people could boil over into the street as they see the UK across the channel start gradually re-opening from the end of next month and open fully by Easter. A full-blown political crisis in the EU now looks inevitable.

The European Central Bank (ECB) has a mighty job at its hand to keep the Eurozone economy on rails and well lubricated. ECB President Christine Lagarde sounded a cautiously optimistic note on Europe's economic recovery but that was before the full extent of the vaccine crisis in the EU came to light. At its meeting last week, the ECB kept its monetary stimulus unchanged saying it would continue to buy up to €1.85 trillion (\$2.25 trillion) of eurozone bonds through March 2022 under a plan unveiled in December. It left its key interest rate at minus 0.5%.

I expect the ECB to do more heavy lifting and the Eurozone nations allowed to run bigger deficits that a longer lockdown will demand.

### Benchmark US equity sector performance (2020 and YTD)

Ticker	Name	Country	2020 Performance	2021 Year-to-Date Performance
XLE US Equity	ENERGY SELECT SECTOR SPDR	US	-36.9%	7.3%
XLY US Equity	CONSUMER DISCRETIONARY SELECT SECTOR SPDR	US	28.2%	3.2%
XLC US Equity	COMM SERV SELECT SECTOR SPDR	US	25.8%	1.0%
XLV US Equity	HEALTH CARE SELECT SECTOR SPDR	US	11.4%	2.3%
XLK US Equity	TECHNOLOGY SELECT SECTOR SPDR	US	41.8%	1.6%
XLRE US Equity	REAL ESTATE SELECT SECTOR SPDR	US	-5.5%	1.6%
XLF US Equity	FINANCIAL SELECT SECTOR SPDR	US	-4.2%	0.2%
XLU US Equity	UTILITIES SELECT SECTOR SPDR	US	-3.0%	-0.3%
XLB US Equity	MATERIALS SELECT SECTOR SPDR	US	17.9%	-0.5%
XLI US Equity	INDUSTRIAL SELECT SECTOR SPDR	US	8.7%	-2.2%
XLP US Equity	CONSUMER STAPLES SELECT SECTOR SPDR	US	7.1%	-3.0%

Source: Bloomberg

The vaccination program is key. A successful vaccination program will quickly become the main driver of global GDP growth and risk assets. As economic activity picks up, the real rates will move higher, as investors demand higher real bond yields to compete with the prospect of improved earnings growth elsewhere and as economic slack abates, inflation expectations could also get a boost, which is likely to push nominal yields higher.

The post-Covid-19 US economy will very likely see record low unemployment once again and higher nominal prices which will get inflation back to 2% and above. The exit from the Federal Reserve's easy money policy will be gradual and that is bullish for GDP growth and risk. I do not expect a rate increase this year. I, however, do expect the Fed to have raised rates at least once by Q2 2022.

In short, the risks for growth, inflation and bond yields are skewed to the upside as vaccine programs gather pace everywhere. Broadly, this environment should be favourable for equities, as improved earnings growth will offset the negative influence of rising bond yields.

I continue to be risk positive as I outlined in my December newsletter - [V for Vaccine and V-Shaped recovery](#). Most of the comments from then are still valid.

My recommendation is to focus on large secular trends: Stick to the big wave and do not to get lost in the ripples which can be exciting and make you think that you have figured everything out, only to be swept away when the big wave arrives.

The big trend of Tech stocks and China stocks doing well has continued - as the table above indicates - and it has more legs to go. The valuation of Tech stocks is a concern but as the earnings from Microsoft (MSFT) yesterday indicated, "Cloud revenue" is still surging and it grew 48% YoY. Cloud adoption is now accelerating as "digitisation" of the economy continues full speed.

Microsoft CEO, Satya Nadella put it best - "What we have witnessed over the past year is the dawn of a

second wave of digital transformation sweeping every company and every industry. Building their own digital capability is the new currency.”

I, continue to be bullish on equities and see any sell-off as an opportunity to “buy the dip.” My favourite sectors to pick stocks from - Consumer Staple (XLP) and Consumer Discretionary (XLY) as well as Technology (XLK) and Communications (XLC).

Best wishes,

A handwritten signature in black ink that reads "Manish Singh". The signature is written in a cursive, slightly slanted style.

Manish Singh, CFA