



## Rose Colored COVID Christmas Glasses

It would appear modest to say that 2020 will go down in the history books as one for the ages! In an attempt to qualify and quantify the happenings of the last year would be an exercise in fruitlessness. Some things will just never make sense and apparently that is OK! A few interesting things did happen this year that are worth repeating and softening up the end of the year. This year we were introduced to a new sector of the market “The Robinhood Trader”. This turned out to be kind of flash in the pan and has not really held any headline news in the past couple of months. We got to see some of the finest political theater to grace the screens – hopefully ever and hopefully never again. We are in a pandemic which none of us are really celebrating and some of us are actually hurting pretty badly. Through all of this the world responded like really nothing is really very wrong. Markets went down for a short period and then went up, unemployment, bankruptcies, lower earnings, shutdowns etc. et al, none of that really mattered in the end. OR at least for the time being. WHY? Simple just print more money, Modern Monetary Theory (MMT) – or otherwise known as the Magical Money Tree!

One of the impacts of the MMT is evidenced by US Dollar strength. Economics 101 said, if I remember correctly, if you supply too much of something into a marketplace without equal or increased demand for said something the value of that thing would decrease in price. Enter the US Dollar.

The chart on page 2 shows the US Dollar index DXY, against a basket of other currencies.





Source: Refinitiv

If we measure from the top like most of us do its about a 10% decline. This is meaningful and says something about supply and demand.

### Inflation – How much is that BIG Small Mac

The FED thinks they have a handle on inflation – I would argue they kind of don't. Inflation is that thing you really don't see and or feel but you know it's there. If you are looking at housing you feel it, gas moves up and down but the grind is higher, food is the interesting one. Having come through Halloween this year it was clearly obvious that the size of trick or treats was materially smaller, and the price was the same and or higher. The age-old measure has been the BIG Mac. The picture below clearly indicates the size difference and we know the price has gone up. Today it is smaller still...



Source: imgur.com

One of the typically or theoretical impacts of money printing is inflation. Historically, hard assets have been the hedge against this erosion of purchasing power. Hard assets include homes, gold, other commodities, equities (inflation begets growth- or so they say), and inflation protected bonds. There may be a few more, granular hedges but this covers off the bigger picture assets.

## FORECAST 2021

We have been scrubbing through a number of selected insights to 2021 from a variety of brain trust include global investment banks, domestic retail banks, hedge fund inputs, our own thoughts and tracking price and momentum changes. There have been a few collective and emerging themes come to the surface. Here is what we have seen and read:

## Cyclical

A cyclical stock is a stock that's price is affected by macroeconomic or systematic changes in the overall economy. Cyclical stocks are known for following the cycles of an economy through expansion, peak, recession, and recovery. Most cyclical stocks involve companies that sell consumer discretionary items that consumers buy more during a booming economy but spend less on during a recession. In this space the names are plentiful, think a trip to Vegas or that special 25<sup>th</sup> anniversary cruise. These areas are also or have been the most heavily affected by the impacts of the pandemic.

## Dollar Impact

This is a macro shift from USD weighted or exposed assets to assets that are hedged and or non-USD denominated. The example would be a shift to more global equity allocations. Surprisingly this brings the CAD back on board after a few years of getting punished. If we are allowed to go to the US expect a better currency exchange rate.

## Commodities – Including energy

We have been internally vocal about energy in our daily musings and have seen printed ranges for oil (WTI- West Texas Intermediate) from the low \$40s per barrel to themed \$60s per barrel for 2021. Our best guess is somewhere in the middle. Gold plays into the dollar trade but is or has at times diverged from the risk on to risk off trade. It likely makes sense to be neutral weighted this commodity.

## Asset Rotation

Head I win tails I win. The tech names have clearly been the great winners of the past year. I don't even want to mention some of the names because valuations get kind of ridiculous – OK Tesla... The stock trades at 20 times price to sales, price to earnings is about 150 times. Without getting too messy with the numbers it appears the growth expectation are very high. Some would say priced to perfection. There may be some rotation out of growth to value if a company like Tesla stubs it's toe. Here is a very basic comparison of the car space:

Company Name	Company Market Cap (usd)	Price To Sales Per Share (Daily Time Seri...
Tesla Inc	562,465,336,947.54	19.96
BMW Industries Ltd	67,013,962.30	1.06
Audi AG	83,420,000,000.00	NA
Daimler AG	75,602,435,038.45	0.40
Ford Motor Co	35,988,768,365.64	0.27
Peugeot SA	22,476,078,918.77	0.30
Volkswagen AG	93,865,394,331.93	0.33
General Motors Co	63,106,352,084.00	0.54
Renault SA	12,821,980,009.06	0.23

Source: Refinitiv

## Diversification

This is investing 101 but the world has changed. More and more asset classes have become more correlated and somewhat less predictable in their correlations. This suggests some sort of tactical tilt to investing as volatility could return and there will be nowhere to hide. This could see a shift from FOMO (Fear of Missing Out) to OHNO (OH NO).

## RISKS

Yes, we can still see some risk on the horizon. COVID and the vaccine have a long way to go, mutation, delivery, efficacy the vaccine came pretty fast and who knows if the drug companies worked all the bugs. Time will tell. Third wave?

Policy and stimulus will be another challenge in 2021. The investment world is addicted to stimulus. What happens when you take away the stimuli? OR does it just keep coming... If so, who pays for everything. At some point the tax man is going to come calling..

Earnings disappointment on the back of policy disappointment may have an impact but likely a low risk event in any case.

## Happy Holidays

As 2020 fades and 2021 draws closer we will find ourselves in a closer-knit holiday than ever before. One of the benefits of 2020 I suspect. We want to wish everyone a safe and healthy finish to the year and a better start to 2021.

Thank you for reading and we look forward to relaxed social distancing in 2021 and meeting up with you in the New Year.



## Market Summary

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Click here to consult the [Daily Market Review](#).

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