It's a Dead Man's Party….

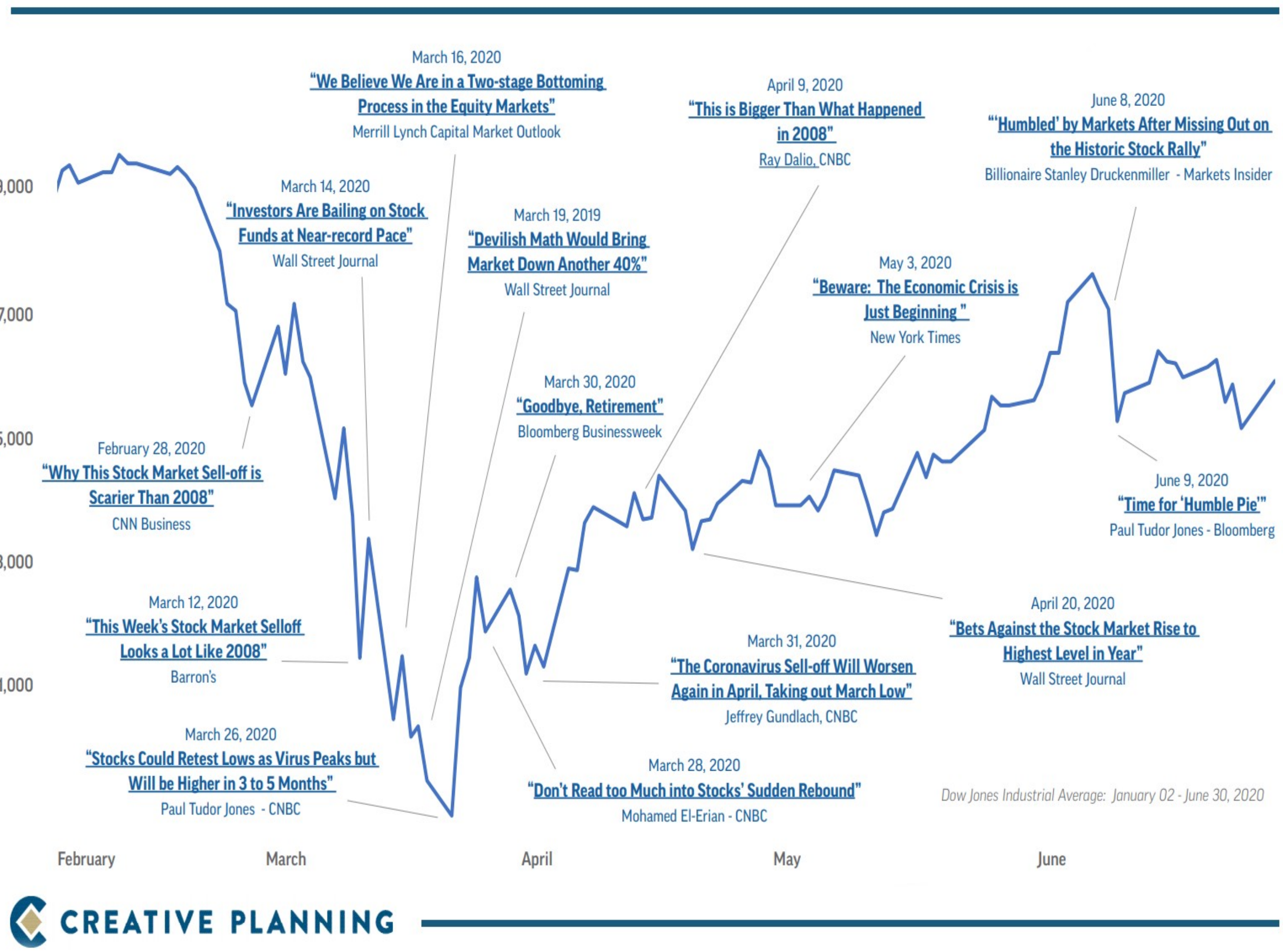
Another week, another withering melt-up in risk assets. For those who are in the Jefferey Gundlach camp, present company included, that view stock and bond prices as being out of touch with reality, this really is a dead man's party. But who could ask for more? Day trading speculators and quant algorithms that can read the subtle signals of zombies, that's who. Lyrical cred to the 80's band Oingo Boingo.

Leave Your Body & Soul at the Door

The Year That Was, and Now Is

The investment people at Creative Planning did us all the favor of recapping 2020 in both chart and words. If you are at all feeling lost or out of place in a market that has given you everything this year, you are not alone. The quotes from the financial press are one thing, it's the individuals listed that surprised. Between Paul Tudor Jones, Ray Dalio, Jefferey Gundlach, Stanley Drukenmiller, and Mohamad El-Erian, we are talking about over a trillion dollars in assets under management that were, in theory, very poorly positioned for a year of massive volatility. To say this year has been humbling would be an understatement.

The Saw That Whips



While we have been at this for a good long time, and have seen many different versions of greed and fear play out, this year is truly unlike anything we've ever seen before. Perhaps it's the nature of this being a non-financial shock to the economic system. Or the fact that there are other drivers of markets these days that are a million miles away from caring about fundamentals. Either way, we have been in a two-month slump that corelates with when the Fed came in with real firepower to turn price discovery upside down. To which we say to Jerome Powell with every bit of Irishman on St. Patty's in us, 'tanks pa nutting!!'

Namaste Trading

In Praise of Chamath

There are lot of voices out there right now, and many are singing wildly out of tune. One who is not, in our opinion, is Chamath Palihapitiya. At 43 years old, Chamath is already a billionaire having joined Facebook in its first year of existence. After cashing in, he went on to found Social Capital and makes the regular rounds on the business media circuit. What we love most about him is the candor he shows when talking about the issues of the day.

On the Stump

His most recent investor letter, along with a lengthy interview for Yahoo Finance, has put him square in the spotlight as he speculates that mega technology companies are going to begin to face down heavier and heavier antitrust action by the government, much of which is warranted in his opinion. On Friday of last week, he went so far as to articulate his position that now is the time to go short Facebook and Google. Here is his four-point reasoning on why the trade is going to work over the next five years, if you have the stomach for it.

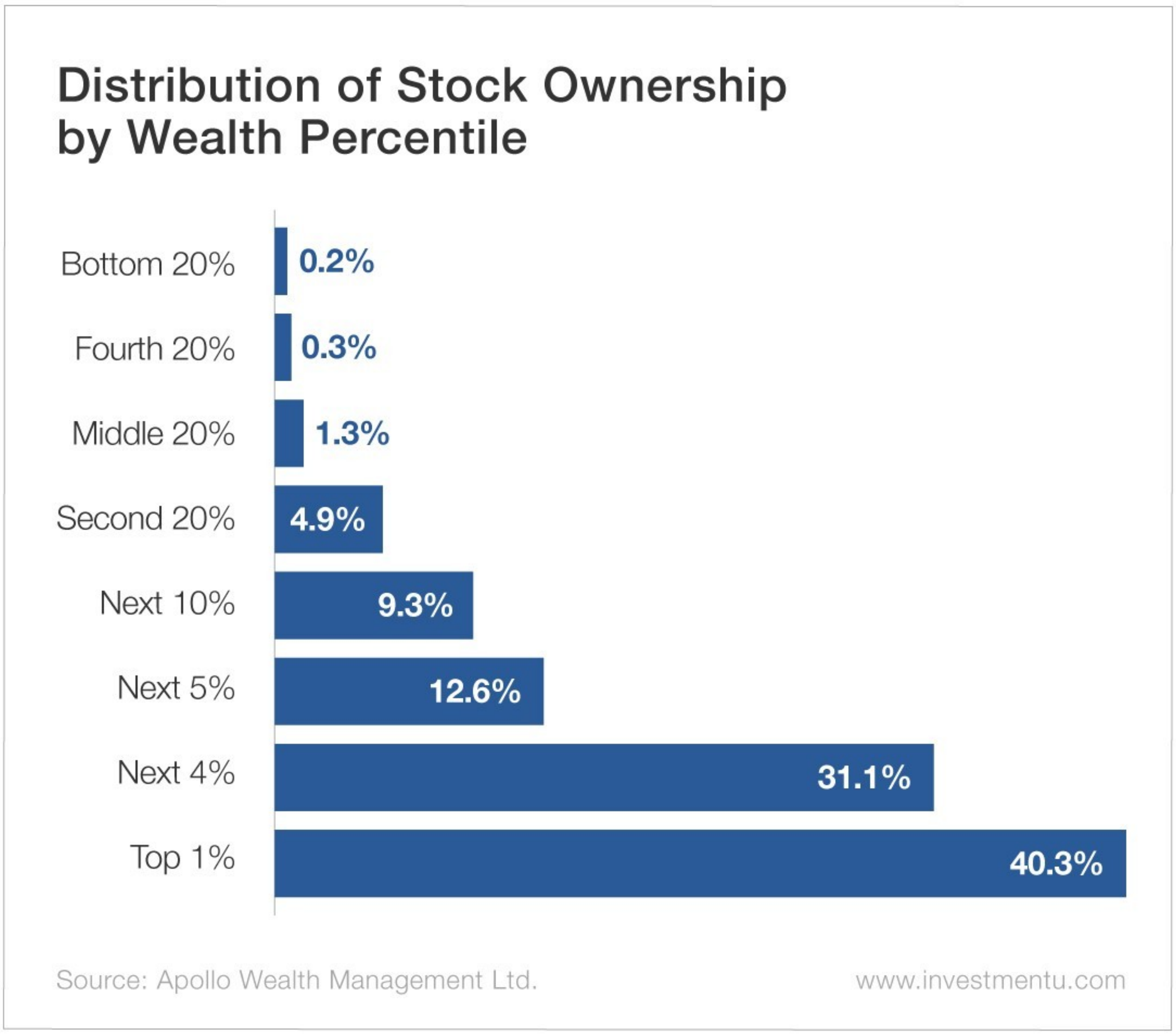
1) NEW PRODUCT EXPERIENCES
2) REGULATION
3) TAXES
4) ANTI-TRUST

The other reason we think it's worthwhile to listen to him right now, is how square on the head of the nail we think he hit it when it comes to how there has been a massive miss-allocation of bailout capital, and that the trickle down to consumers is going to be far less impactful than if the Fed had gone straight to the masses. We could not agree more with what he articulated.

"Unfortunately, not enough retail investors own a participation in the equity markets of the United States. And so, we know, when equity markets go up, it disproportionately helps institutional money and multigenerational money. And that doesn't have a real net positive impact to average normal people. That's why I think, again, putting money in the hands of those folks would have a much more positive impact."

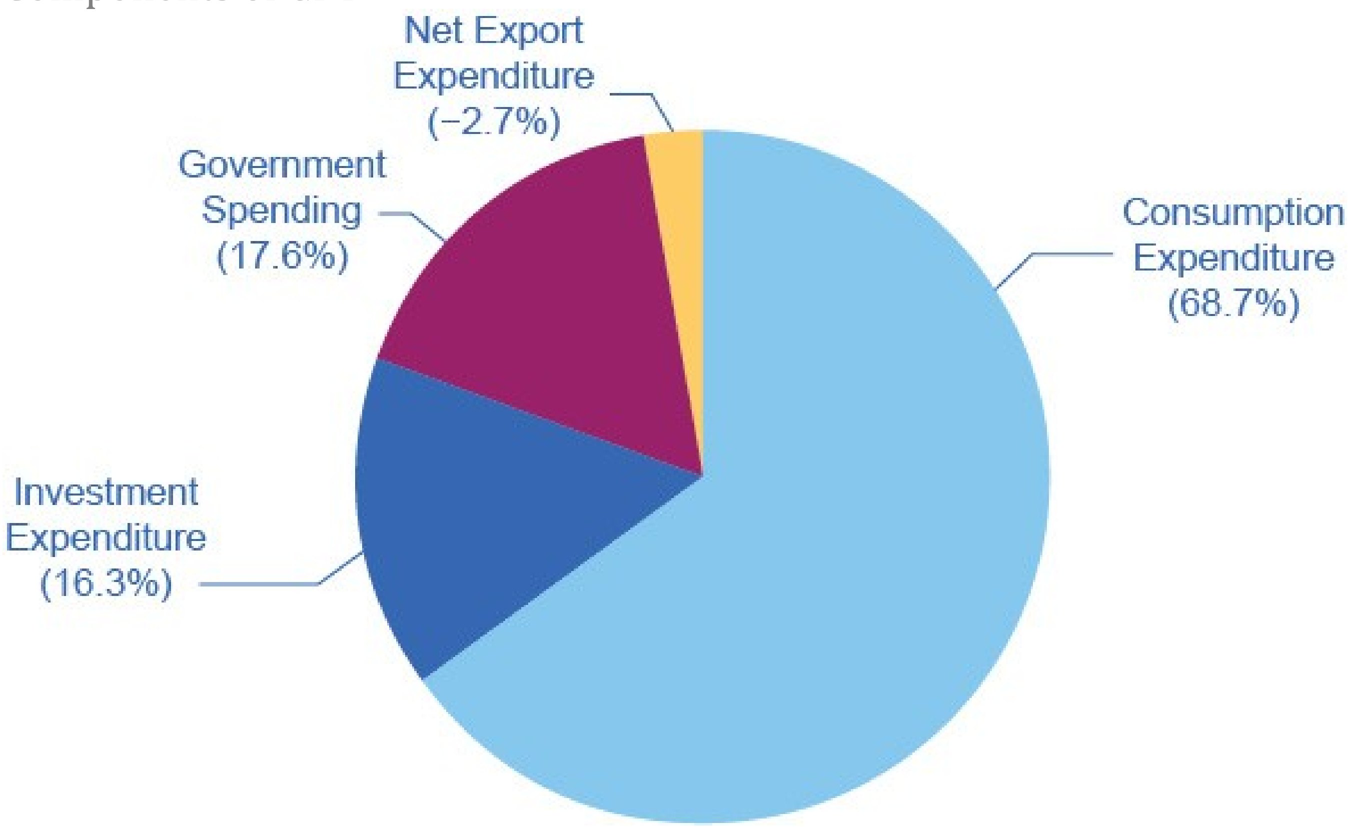
Our point, and his, is that assuming corporations on the receiving end of trillions in bailout money are going to first, allocate it properly, and secondly, that it will end up in the right hands of those who need it, is not realistic. Public companies simply have the wrong masters, those being shareholders. And the reality is that the masses don't own enough in the way of assets to truly benefit from their significant increase in value. After all Joe Six Pack owns six packs, not a diversified portfolio of equity holdings. While life isn't fair, the Fed has ceded any credibility when it comes to solving the pervasive wealth gap our country faces.

To the Winners, Go the Spoils



Last thing we will say, as this is to clarify and not look like we've gone socialist over here. The reason we want government money allocated properly is that it gives the economy a chance to properly heal itself and gives that 70% of GDP, consumer consumption, the chance to get onto firm footing for the next phase of our growth. Without it, we are back to zombie markets without a strong economy to hold them up forever.

Components of GDP



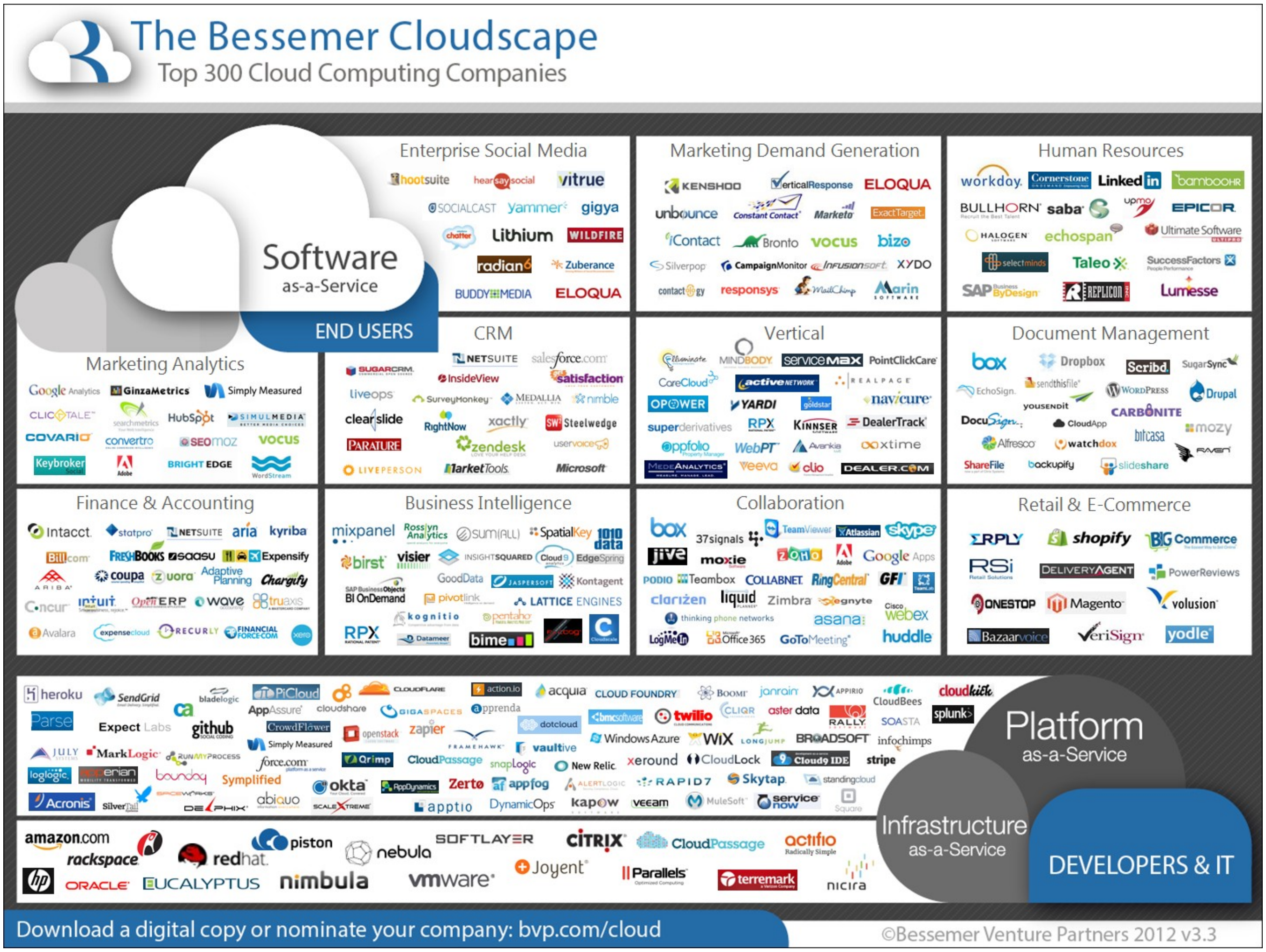
Said another way, if the Government of the United States is going to put to sea a massive flotilla of ships all loaded up with guns, butter, bombs, and fuel, we want all of them to make safe passage through these choppiest of seas. To see only the aircraft carriers make it to port would be an economic tragedy that would be tough to recover from.

God Speed

Sectors

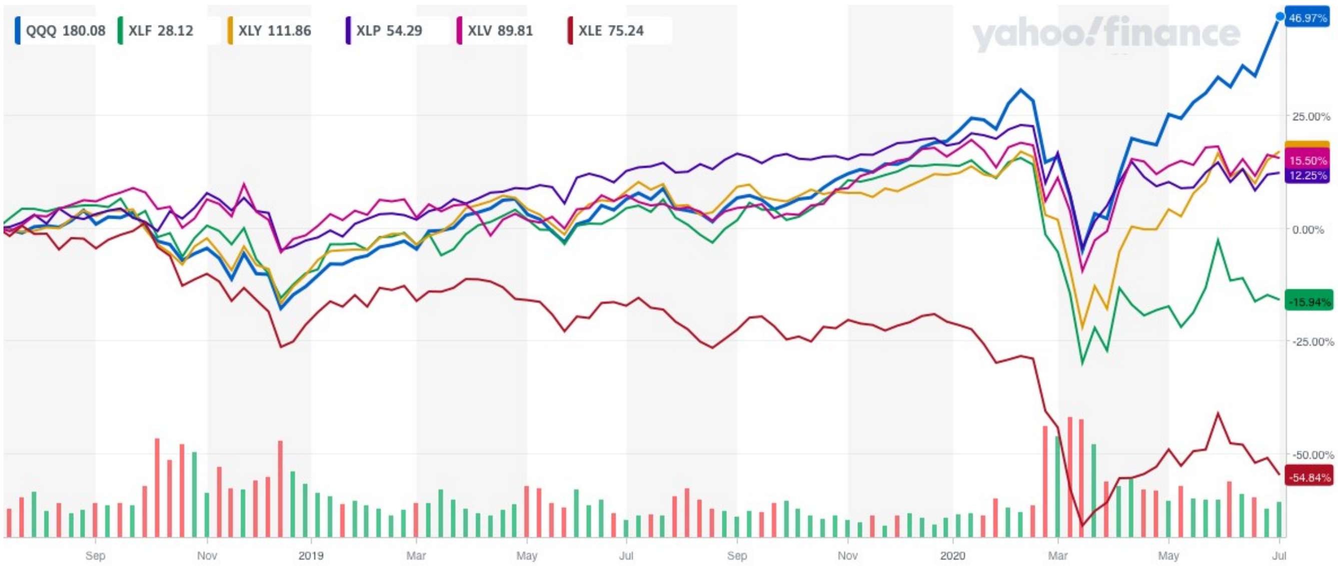
Not only is this year shaping up to be one of the haves and have nots in the real economy, sectors of the stock market are also feeling some massive bifurcation. A lot of this can be attributed to the thematic nature of trading and investing these days. You have the 'stay at home' basket, and the 'Covid-19 forever' one as well. Cloud computing 'plays' are white hot, as is most everything else in technology. And why not? In the new world order, it's going to be all about ones and zeros.

Readers Anyone?



With rates near zero, financials can't seem to catch a bid. Meanwhile, even with unemployment through the roof, the consumer discretionary sector is back at an all-time high. Go figure. Here is our quick whip around a view of the charts with technology, financials, consumer discretionary, staples, healthcare, and energy highlighted. Because we are feeling lyrical this week, 'Every picture tells a story, don't it? And this story is, if you haven't owned large cap technology shares, you pretty much have been missing out.

Long Silicon Valley, Short Houston



While we didn't include the chart of the S&P 500, we wanted to take a moment and point out that while it's referred to as a 'broad market measure', in reality five stocks make up 22% of the index weighting. In what should be a shock to very few, the list includes Microsoft at 6%, Apple at 5.8%, Amazon with a 4.5% position, with Google and Facebook both coming it at 3.3% to round things out. If that isn't a narrow measure, we would like to see what is. And if you think the Apple ecosystem, and all the free cash flow it produces is at risk in the long term, you'd be wrong. In fact, the argument right now is for more devices to be consumed in a newly distanced world.

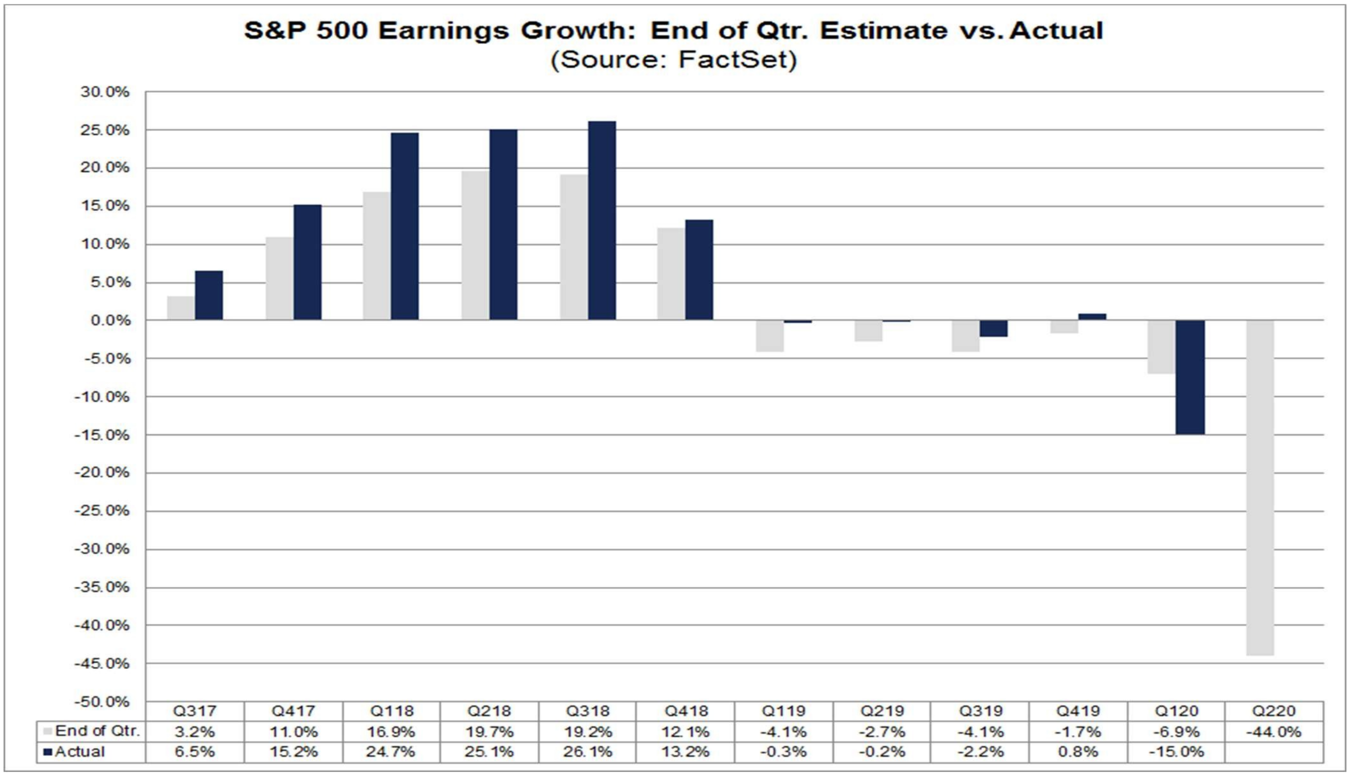
Recession Proof

Earnings Season

If you think flying blind through fog is tough, imagine trying to not only produce earnings in this environment, but give reasonable guidance to what the future looks like as well. But that's what we have coming into the middle of July when earnings, or lack thereof, start hitting the tape. For the bottoms up nerdy wonk in all of you, here is Factset's weekly Earnings Insight.

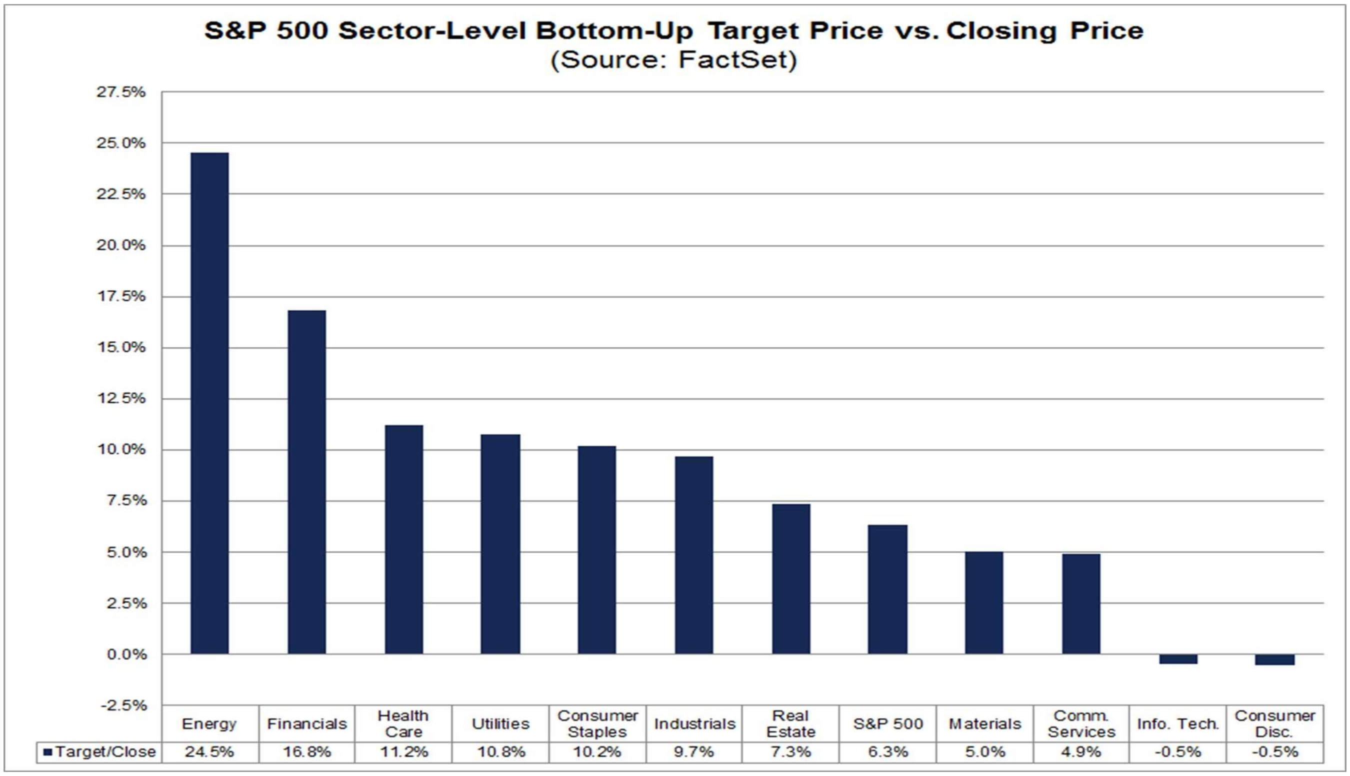
First chart up, is that of how S&P 500 earnings estimates looked at their final print of the quarter, and what they actually came in at. What's interesting to note in the chart below, is the fact that we were already in an 'earnings recession' before Covid-19 hit, yet we are still within a few good trading days of new highs on the indexes.

Earnings Fall Off the Page



The other chart we thought was very worthy of re-printing, was the one that showed the difference between closing stock and sector prices, with targets ascribed by Wall Street. It tells a narrative that seems to be accurate given where fundamentals and asset prices sit today. In this chart, technology and consumer discretionary stocks are closest to fair value, while energy is still the most heavily discounted sector. The only problem is the timing when that spread narrows is going to be very tough.

Where is There Value?



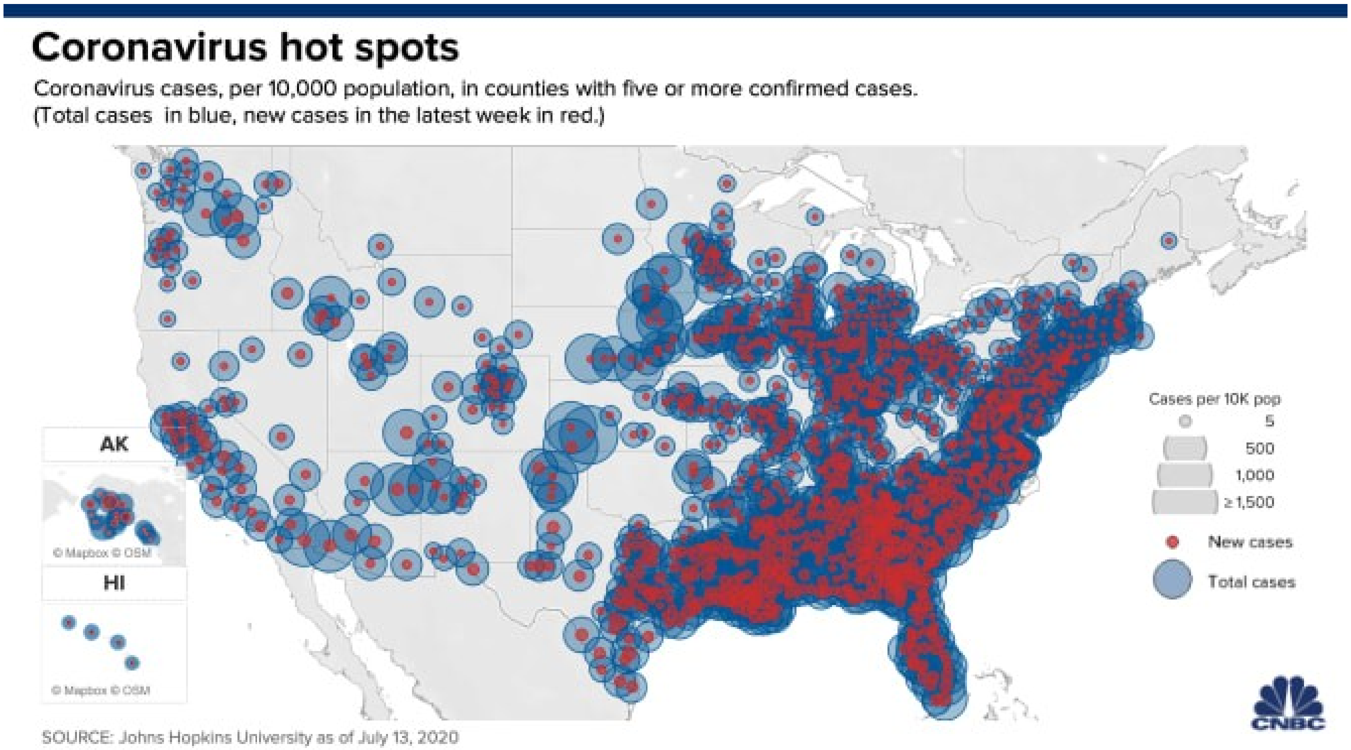
Perspective

From those who ply their trade on Wall Street, to investors who watch their brokerage account value every day, to the poor schmucks who got stopped out at the bottom in March and never got back in, this is a market that confounds fundamental logic. So, before we sound like we are going off the reservation too much in a bearish rant, let's put things into perspective. Because right now, those who drive the market are looking at the bright side of life. With that, we start with one of the greatest scenes ever from Monty Python's *The Life of Brian*. For those in need of a Monday pick me up, sing along with Eric Idle.

The Light Side of Life

Let's paint the picture now of what can go right, or wrong, to keep this bubbly narrative going. Ironically, the market appears to be liking it when things are going from bad to worse in terms of the virus spike. And you would have had to have been living under a stone not to know that is also what's happening today.

Southern Heat Wave

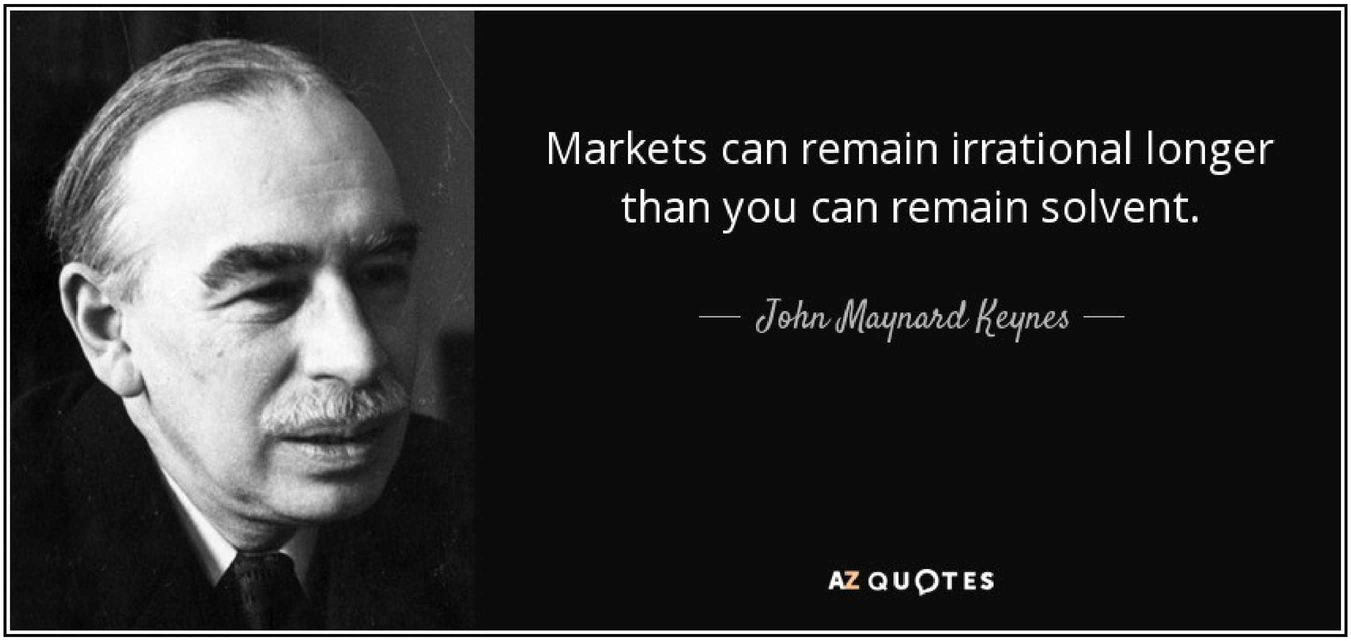


The reason for the enthusiasm for an otherwise frightening trend, is that it keeps the Federal Reserve's finger squarely on the monetary trigger. Here is what the correlation looks like since the 'break the glass/whatever it takes' quantitative easing program started in mid-March. If that's the case, the Bizarro world of declining fundamentals and higher asset prices continues.

Buy Everything

Our biggest concern in terms of what the rest of the year holds is what if the fundamentals do start to improve materially as jobs begin to come back, earnings then start to rebound, stimulus checks keep showing up in the mail, and the Fed is buying any bond not nailed down? Well then, it would be tough to say that stocks wouldn't be higher from their already elevated levels. Throw in a fresh generation of day traders here, the Chinese government saying, 'greed is good', and emotionless quant machines on the bid, and you begin to paint the picture of a bubble of epic proportions, and we can't figure out what pops it right now.

True Words Spoken



Retail Graveyards

One of Wall Street's biggest clothiers at a time, Brooks Brothers, filed for bankruptcy protection last week. Not to be left out in the cold, Sur La Table also went to the big picnic basket in the sky. So far this year, 21 major retailers have filed Chapter 11. Among them are JC Penny, GNC, Neiman Marcus, J Crew, and Lucky Brands. Retail Dive keeps a running total of those who have gone dirt napping so far this year.

Brooks Brothers 1818 – 2020

Diversions

Diversions is taking a rare week off as writing about things to go do and see because when you can't go do or see many of them, it can get a little boring. Instead of mailing it in, we are going to save everyone the time and instead gear up for the next edition of This Week in the Markets where we will be coming to you from the Treasure State of Montana. For this year, more than most, we too could use a healthy recalibration.

'Big City, Set Me Free'

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