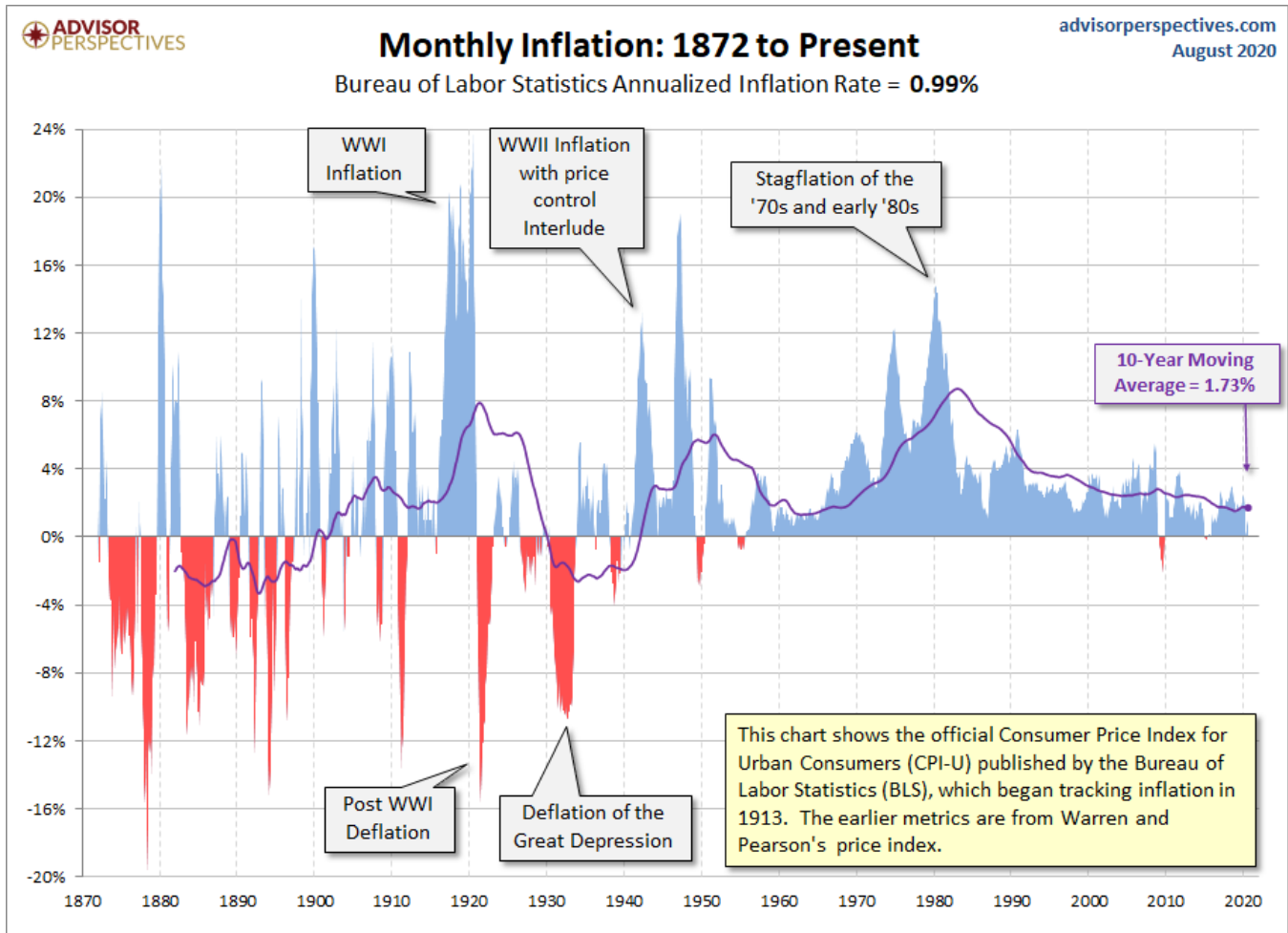


## All Elbows Through 2023!



The Federal Reserve reinforced their position this week that the economy will need to see a sharp rise in inflation to begin the process of moving off zero. This takes all the fun out of trying to decipher where markets are headed through some of the very long held metrics. Instead, this trade is a single indicator binary trade. And the side that tips the scale south hasn't done so since President Reagan was in the White House.

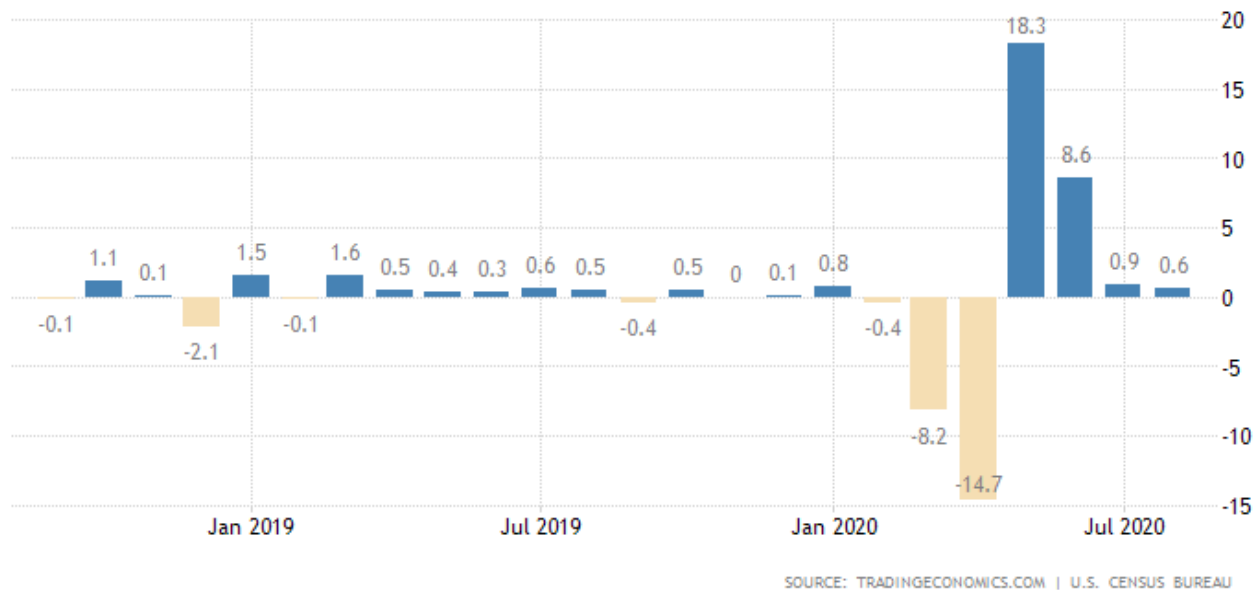
### Forty Years of Deflation



## The Economy

This week, retail sales showed further evidence that the euphoric rebound from the spending implosion in April and May is petering out. Most of the blame for this is going to benefit checks running their course and a new round of frugality stepping in after the \$600 in supplemental benefits ran out in July.

## The Recovery Slows



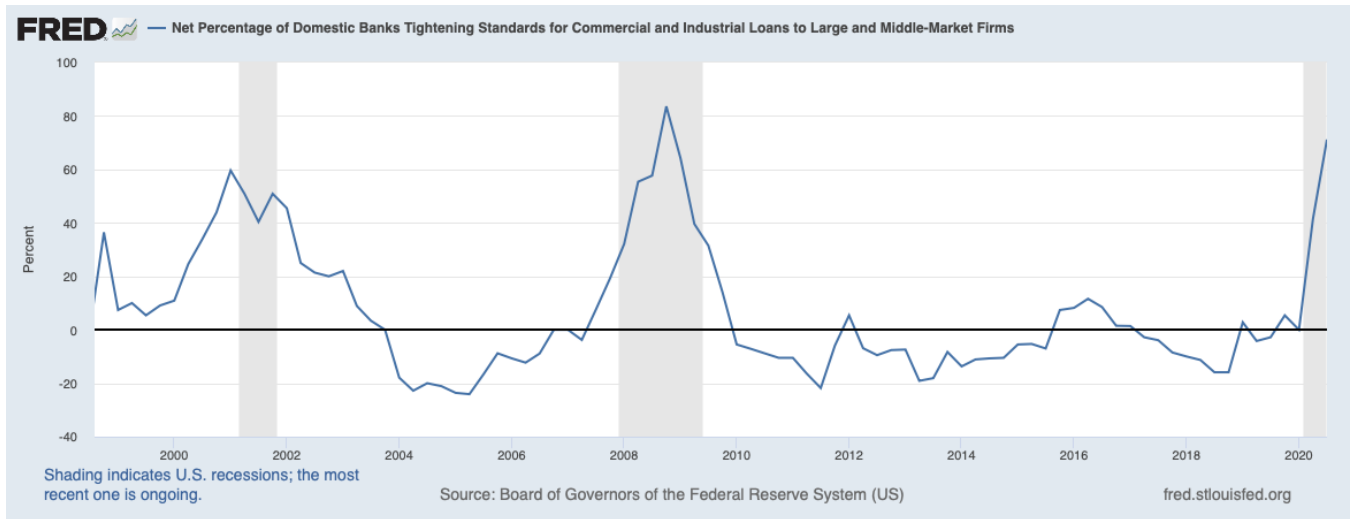
Of course, everything can change if those with their seats in Congress and the White House want to keep their jobs in November, and can manage to strike a deal to continue to support wages that have evaporated into the ether. Politico did a great job describing the level of behind the scenes rancor that has developed within the Democratic party, especially among those most vulnerable.

## No Time for Jazz Hands



One aspect of the pandemic recovery efforts, is the sheer ocean of liquidity the Fed has made available. But just because it's available, doesn't mean it's being absorbed into the real economy. Case in point, the \$600 billion set aside for Main Street small and mid-sized business lending has gone almost untapped as only \$2 billion in loans has been bought by the Fed from the banks originating the loans. That has left 99.8% of the money sitting there waiting to provide liquidity. The biggest problem with the program, is that loans need to be made to companies that can 'service' the debt. But with so many of the businesses in need of the money being shut down, it's tough to pass that test. And of course, now Fed Chair Powell vows to 'fix it'.

## Tightening Up Fast



## Markets

BloombergNewsweek, wrote up what many of us already know, Summer 2020 was one of the superlatives that an advanced generation of strategists and money managers had trouble making sense of. Was it too much liquidity, too many Robin Hoods, or was it something more of the leveraged kind? Turns out, the latter had a lot to do with a summer of disbelief, as levered options bets on the leaders of the Nasdaq turned minnows into whales. Nice piece of speculation that the September 2<sup>nd</sup> top coincided when students were due back in school.

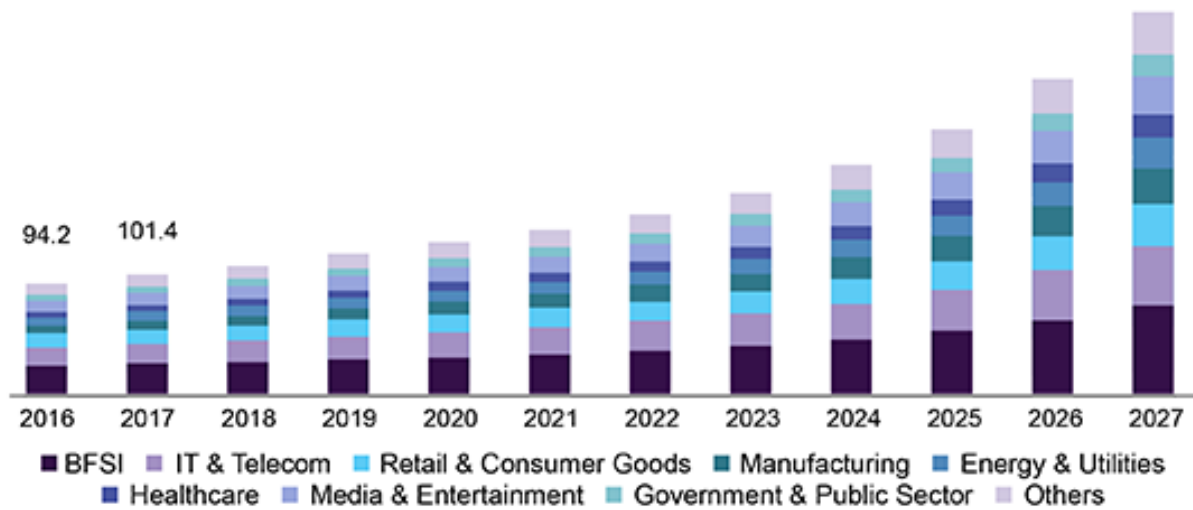
## Emoji Markets



With a massive risk on rally in place, it's tough to buy into BlackRock's house view that returns are going to be more tepid in the next decade. While the firm remains the world's biggest investment house, largely through their dominance in ETFs, if you Google some combination of "BlackRock" and "low returns", you see that they have been making the same call going back to 2016. We can only guess this goes back to the idea of under promising and over-delivering. Regardless, Rick Rieder, who is the chief market strategist for fixed income at the firm, is one of the most thoughtful in the business, and his comments on innovation in cloud computing were worth considering given the amount of money flowing into the sector.

## Hockey Sticking Technology

## U.S. cloud computing market size, by end use, 2016 - 2027 (USD Billion)



Source: [www.grandviewresearch.com](http://www.grandviewresearch.com)

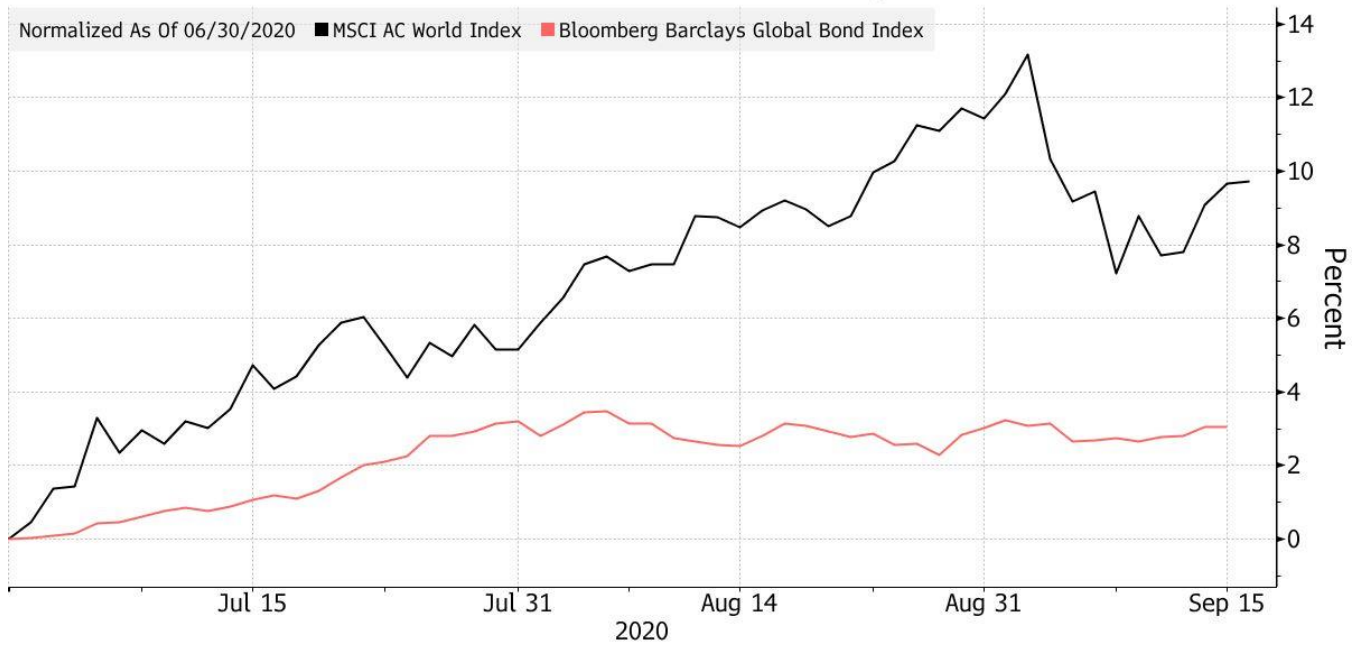
J.P. Morgan floated an interesting idea about what's next in the near term, when they opined that a \$200 billion rotation from stocks into bonds could be in the offing, as pension plans rebalance to bring fixed income back in-line with target allocations. All of which is a reasonable proposition given the run equities have had.

## Spread Widening



## Stocks Outperform

Global shares have done better than bonds so far this quarter

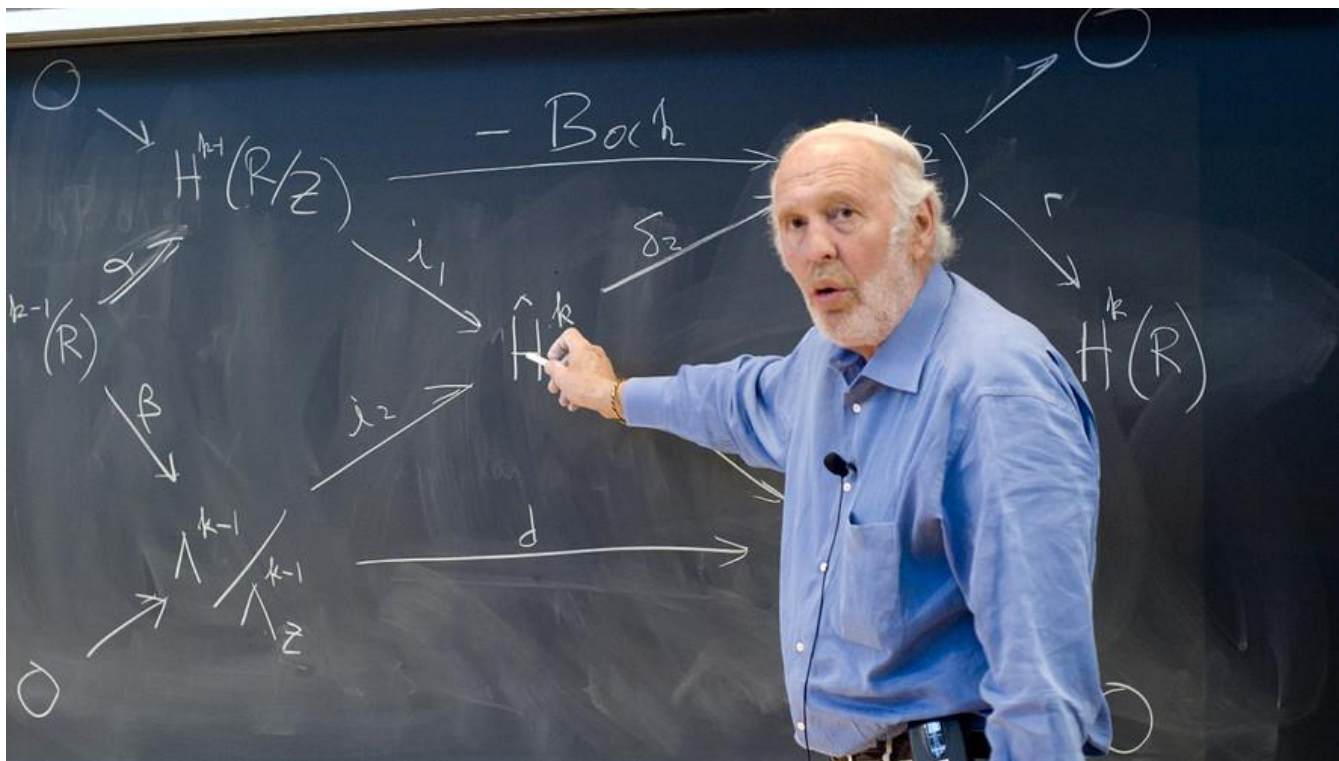


Source: Bloomberg

For all intents and purposes, this is a yawner unless the quants pick up on signals and join in on the trade. When that happens, people will begin to ask questions about who is in trouble, just as they did in March of this year. If it makes you feel any better, even the best in the business took some very serious lumps this spring. Included in that list was Renaissance Technologies founder, and quant godfather, Jim Simons.

Pay Attention, Class





## Living in the Clouds

In what can only be described as one of the great market shaking explosions in history, cloud computing software and services firm, Snowflake, quickly went from a pre-offering valuation of around \$15 billion to a mind blowing \$70 billion market capitalization by the close of trading on Wednesday. Think about that, in the course of less than 12 hours, the valuation of “SNOW”, with a sub billion-dollar revenue run rate, doubled. It doesn’t hurt when Warren Buffet’s Berkshire Hathaway was buying on the opening bid, and walked away with a \$1 billion opening day profit.

Very Special Indeed

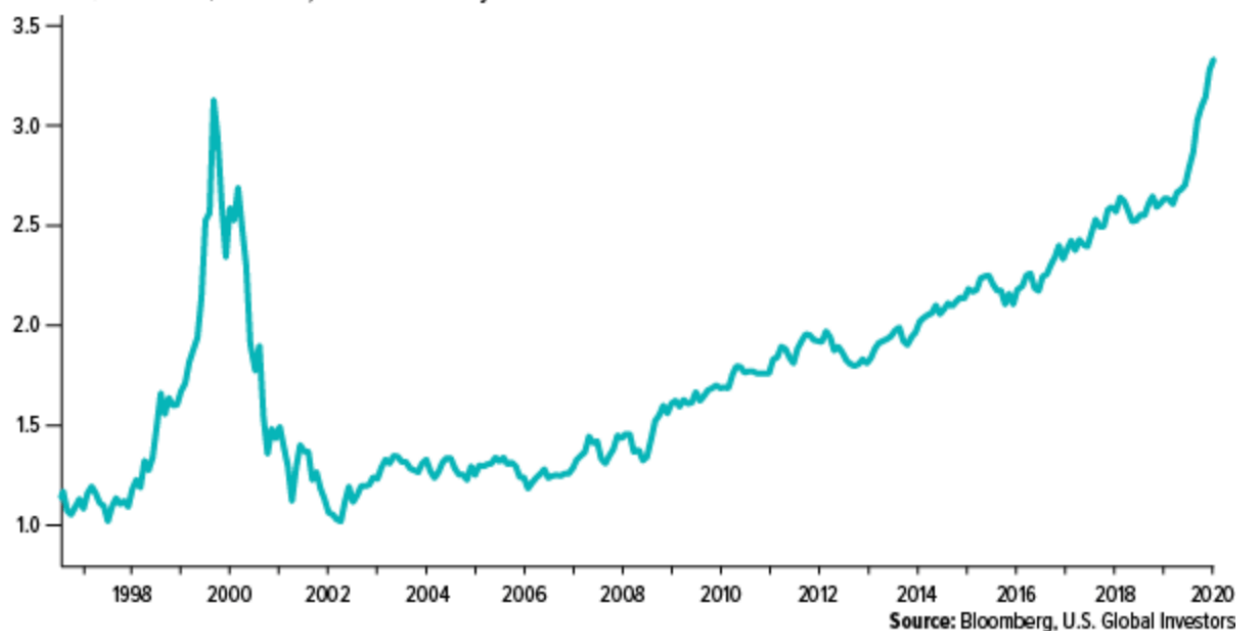


In case you have missed just about everything this year, there is a raging bull market in anything cloud, artificial intelligence, or fin-tech related. Sprinkle on top of that companies that benefit from an exodus from the city life, and you have some pretty thematic growth stories going on. Although anyone, including us, who lived through the bubble market of 1999-2000 can tell you, this feels very much the same. Which doesn't make it wrong, as there should be plenty of money to be made buying these trends. But as a cautionary note, thematic investing in technology tends to give way to 'growth at any price' investing. When that happens, you get the fear of missing out phenomenon that eventually ends badly.

## GAAP Valuations

### Tech Stocks Now More Overvalued Relative to the Market Than During Dotcom Bubble

NASDAQ 100 Index/S&P 500, Jan. 1997 – July 2020



Where we are in terms of that cycle is the question, because when the music stops, there aren't enough safe seats for everyone. That said, the tunes can go on for far longer than you stay solvent if you are on the other side of the trade.

### The (Un) Safety Dance





## The Bottoms Up

In a world that seems to want to go crazier and crazier by the day, we couldn't help but try to lighten the mood by highlighting that you can now go 'bottoms up' at Taco Bell in our 'The Bottoms Up' segment of This Week in the Markets. Jalapeno Noir is now available at Canadian outlets of the ubiquitous fast food Mexican chain, and will run you about \$20 U.S. The offering of fermented grape is meant to compliment the new Toasted Cheesy Chalupa. Sadly, American consumers are going to be left out in the cold, as there are no plans to roll out alcohol south of the Canadian border. Too bad, as nothing says 'Fiesta Pack' quite like a distilled cactus sidecar.

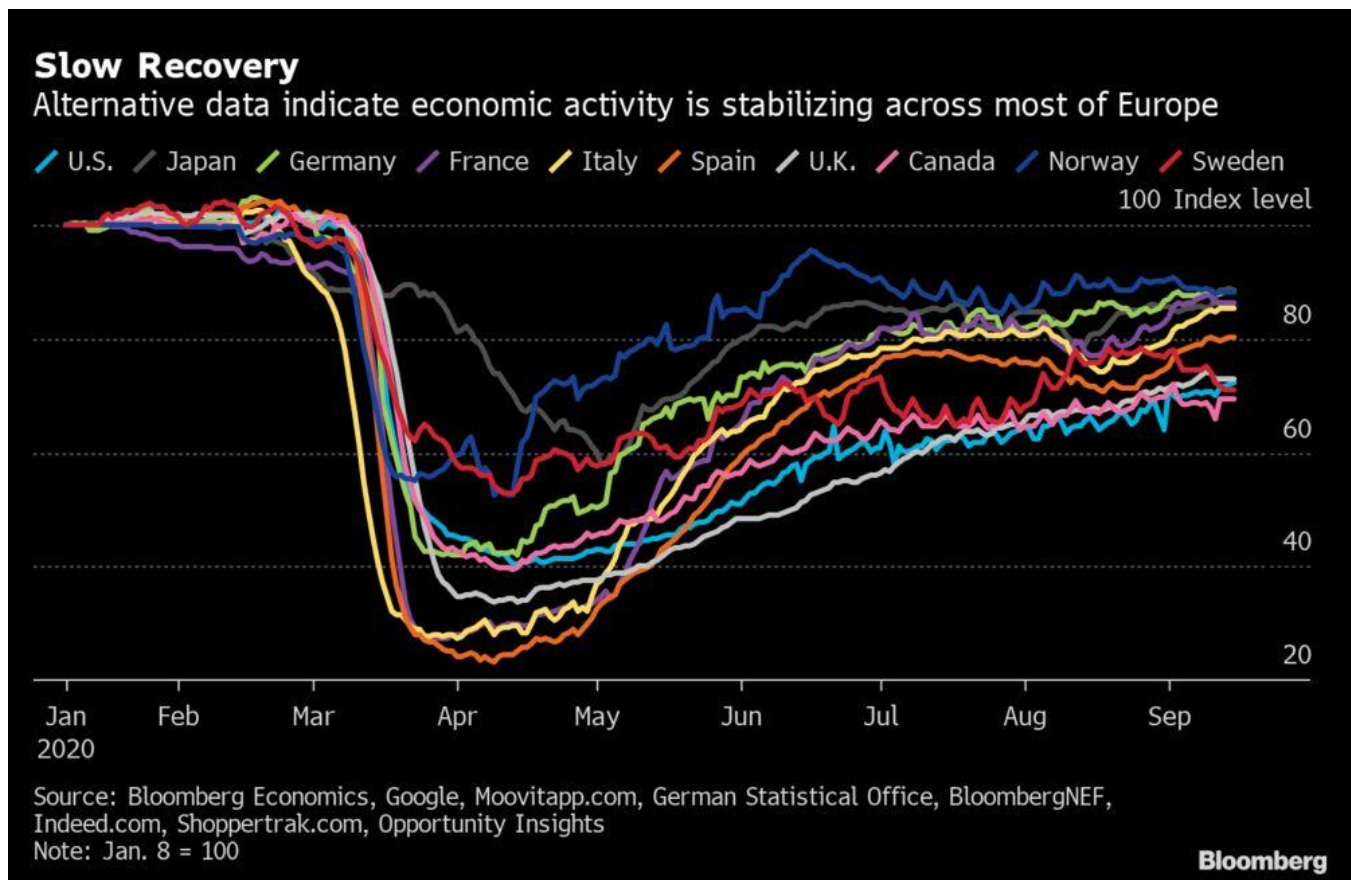
## Spicy Finish



## Hedge Funds & Trading

As mentioned earlier, artificial intelligence and data has become a huge presence in markets and trading. The precursor to this were indicators like satellite images of parking lot traffic or oil storage field levels. Today, that has become very advanced, even though the data is far more readily available. Case in point, a collage data from Google Analytics, Bloomberg, Shoptracker, Indeed.com, Movietapp, and Opportunity Insights, shows a leveling off of stabilization after a quick recovery from Covid.

AI Saying 'All Clear'



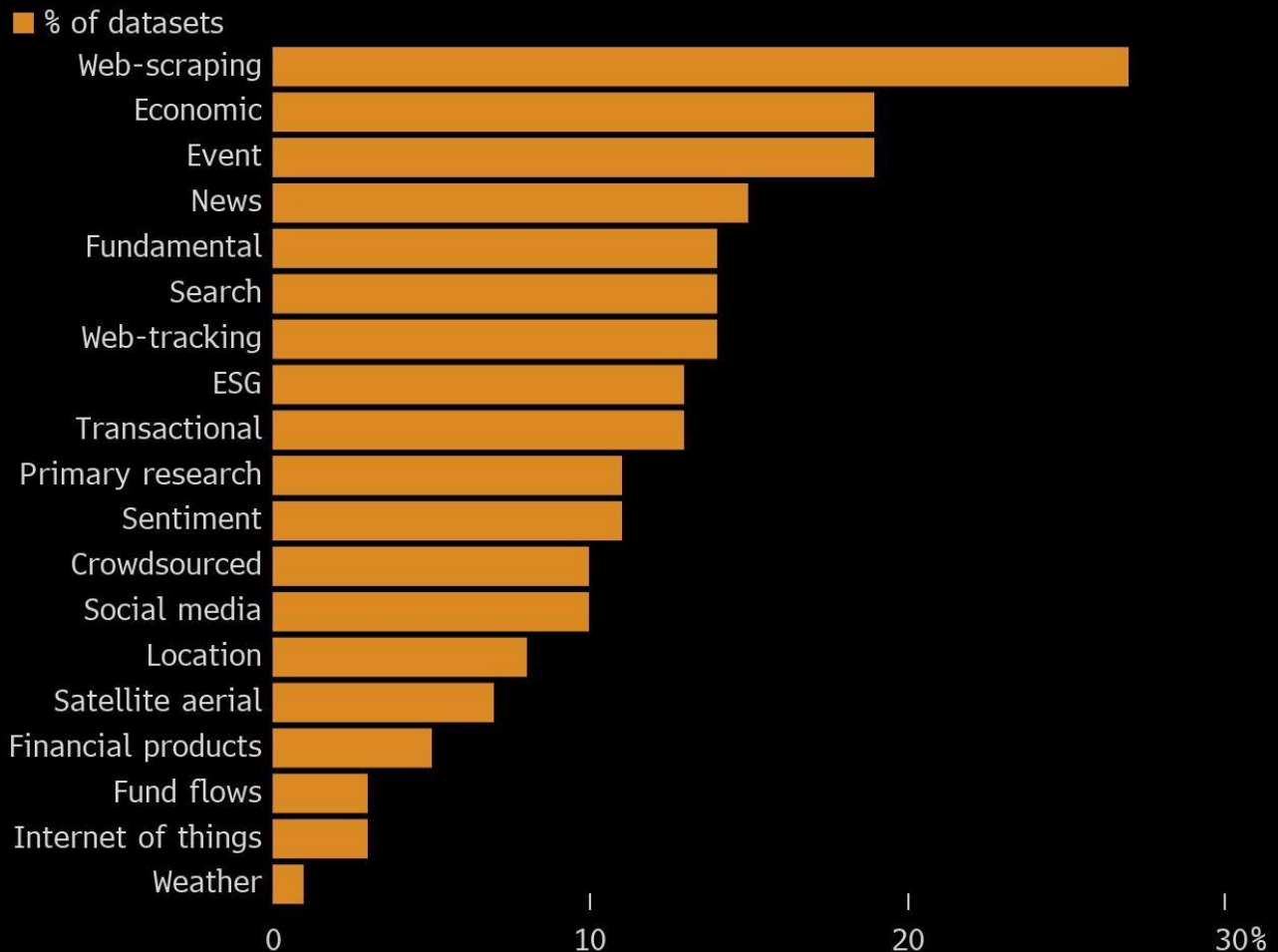
For a fascinating look into how this data is finding its way into the markets, listen to the Bloomberg podcast with Ben Breitholtz at Arbor Data Sciences, who explains the quantum leap being made in deciphering signals to get ahead of tradeable emerging trends. Given everything we have seen in terms of fast money quants and the day traders that are chasing them, it's well worth the time this weekend.

## Data Mining Set



## Data Everywhere

Alternative data can be harvested everywhere from Internet searches to geo-tracking and satellite images



Source: Neudata

Note: Some data sets are counted in multiple categories

**Bloomberg**

Towards the end of the interview with Ben, you hear him talk about how home improvement searches started to trend higher in March just as the market was pricing in end-of-days scenarios for the global economy. Turns out, that was one of the great tells of the crash and recovery as Home Depot and Lowe's have seen a huge surge in traffic, along with the other do-it-yourself serving companies.

## Rapid Rebound



## DIY During Lockdown

Year-over-year change in total daily foot traffic

Lowes's The Home Depot



Source: Bloomberg analysis of SafeGraph location data

Note: Daily foot-traffic data is normalized to adjust for daily fluctuations in number of device detected.

**Bloomberg**

Most observers of the world of hedge funds knows that the world's biggest, Bridgewater, is having a not so terribly good year. This has compounded performance problems that have been hobbling the firm for the past five years. For the intellectually curious, take time this weekend to read Institutional Investors lengthy and thoughtful article [profiling new CEO David McCormick](#), and what his plan is to fix it.

Radically Transparent

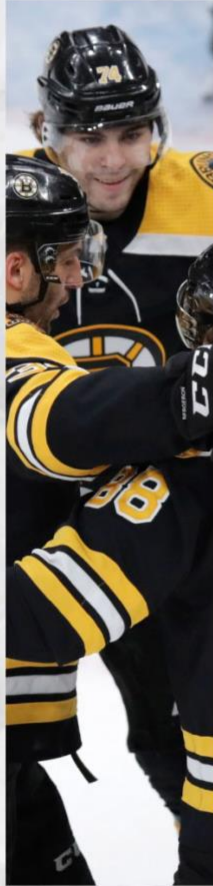


## Diversion

While it is far from normal, the start of NFL season last Sunday has put all major sports in play for the first time ever. And to be perfectly clear, it felt pretty good, empty stadiums and all. Here is your quick whip around the leagues and where things stand in the second week of the year to end all years, we hope.

# SPORTS EQUINOX

NFL, NHL, MLB, NBA, NASCAR, PREMIER LEAGUE  
ALL IN ACTION TODAY



NFL

NHL

MLB

NBA

NASCAR

PREMIER  
LEAGUE

On the hardwood, the Lakers are making it look easy. The Denver Nuggets are just the opposite, and ESPN looks forward to the Western Conference finals. Meanwhile, the Los Angeles Clippers have once again made the case that there is a post season curse on the franchise. Even though we have Laker blood running through us, it's tough to watch a team with the young talent the clips have lose a 3 to 1 lead in the fashion they did. Knowing how competitive Clipper's owner Steve Balmer is, we can't imagine what the daemons that came to party with him on Tuesday night looked like when the implosion was complete.

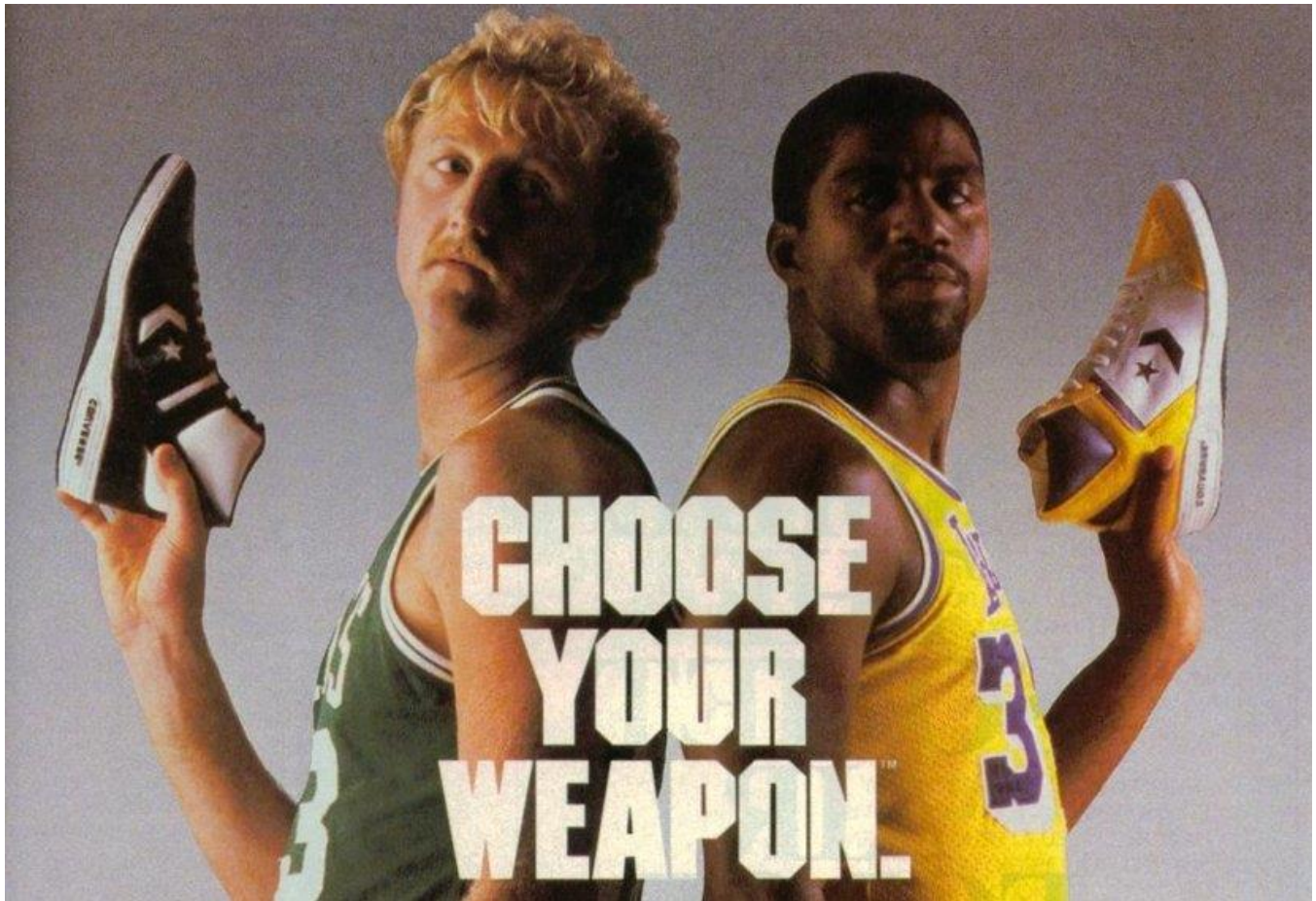


## Better Days



Over in the Eastern Conference, it's the Celtics versus the Miami Heat with the latter having won game one. In a year like this, wouldn't it be great to see a revival of the classic Lakers v. Celtics rivalry in the NBA finals, as the Magic/Bird era helped transform the league and give it a second coming during the 1980s.

## Bird & Magic



Over in Major League Baseball, the 'bubble' format for the playoffs has been announced, and the Global Life Field, the home of the Texas Rangers in Arlington, will be the designated neutral sight. CBS Sports answers all the questions you have as to the format, and how the MLB bubble will actually work. The Los Angeles Dodgers were first to clinch a playoff spot and now sit six wins away from the NL Championship series. This year we beg, nay beg and plead, that Dave Roberts does a better job of bullpen management and stops his insidious habit of draining every arm down the ball boys each time the team gets in trouble in the fifth inning. And to you Clayton Kershaw we say this, you simply don't want to be the greatest pitcher of his generation to not only not win a World Series, but to be blamed for chocking it away...again.

Bring It!!!





On the ice, the Dallas Stars punched their ticket to the Stanley Cup Finals with an overtime win against the upstart, the Las Vegas Golden Knights on Monday. That leaves the New York Islanders and the Tampa Bay Lightning to fight it out for the other half of the card. In theory, our allegiances should be with the Lightning, as they are owned by fellow money manager Jeffrey Vinik. But alas, we retreat back to our family roots and are ultimately pulling for Dallas, as the Stars were once the Minnesota North Stars, and cousin Alex Goligoski used to be a savage defenseman for the team.

Not to be Messed With



That leaves us with golf's second major of the year, the U.S. Open, which for the fifth time in history is being played at the fabled Winged Foot Golf Club in Mamaroneck, New York, just north of Manhattan. Once again, CBS Sports come through with live commentary from the course. As of early Thursday morning, Tiger has carded four birdies.

Founded in 1921





One of the more humorous pieces of the story going into the week, is that none other than Danny Noonan was going to be on the bag for club pro Danny Balin during his Monday practice round. Actor Micheal O’Keefe, who played Noonan, gave Golf Magazine an insider account of what Winged Foot looked and felt like from inside the ropes.

Balin and Noonan



And we leave you with this thought, life is lot like golf. Sometimes, when you think you have it squarely under control, all hell breaks loose and you find yourself scrambling for the save. Which is just what New York fan favorite Phil Mickelson would do fourteen years ago when the U.S Open was last played at Winged Foot. It's hard to follow golf, and not know the details of this epic meltdown, but for the uninitiated, Phil losing the only major that eludes him on the final hole on Sunday, was like the everyman needing a double bogey to beat his Wednesday group at the local muni. Which is not far from the truth.

In the Losing Throes





Because Phil is about my age, and the age of the rest of the 50 year old guys I know searching for the meaning of mid-life, I am pulling for him hard this weekend. Maybe it's the magic that Tiger showed last year at Augusta, or simply the fact that this aging face of a golden age of golf doesn't have many more of these chances left. Or perhaps it's the hope that his success is our success. The world these days feels a little like Phil's did on the 18<sup>th</sup> hole that day in 2006. May there be brighter days ahead, and perhaps at least one more major in all of us. Good luck out there.

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