PCG Capital Market Chronicle

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NORTHEAST SEQUOIA
PRIVATE CLIENT GROUP

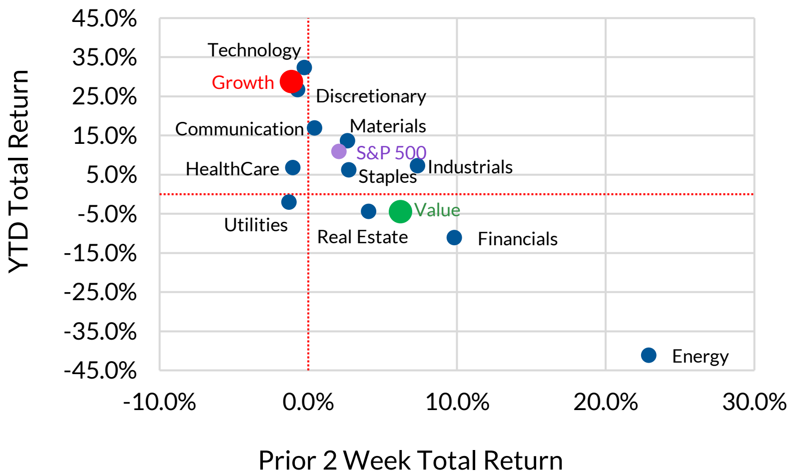
One Step Up and Two Steps Back

As we suggested in our last missive entitled, "The Great Reset," vaccinations and therapeutics targeting COVID19 are closer than previously anticipated. Since our post-election note, both Pfizer and Moderna have announced highly effective Phase III vaccination results, and are now both petitioning the FDA for emergency use authorization. The Milken Institute publishes a comprehensive global data base of vaccinations and therapeutics for COVID 19. Based on this list, we feel even more confident that it is a matter of when, not if, a cure for COVID is found.

But despite all the good COVID news over the last few weeks, there have been a couple of setbacks. First, although the overall mortality rate continues to decline, the transmission and hospitalization rates continue to rise. This has resulted in a roll-back of openings, increased restrictions and has stoked fears of a second economic shutdown. Secondly, despite mixed economic data and a surge in cases, there are concerns that additional COVID stimulus may not be passed by year-end. Add to this, some botched communication arising from the Treasury. While Secretary Mnuchin announced the sunset of many of the Fed's emergency lending facilities at year-end, he also asked to redirect $580 billion of unspent stimulus directly to small business and individuals.

Together, these two "steps back" are putting legislators and the Federal Reserve between a rock and a hard place. They can either wait until the unprecedented level of existing fiscal and monetary stimulus takes hold, or unleash even more stimulus (both fiscal and monetary), driving the US debt load and Fed's balance sheet higher, just as a highly effective vaccination is set to help resuscitate the broader economy. And remember, stimulus is nothing more than government spending without offsetting tax revenue. So regardless of who is in the White House, or what party controls Congress, taxes (in some form or another) have only one place to go from here.

Total Return Comps | By Industry



Source: NEPCG and FactSet

However, our premise of Value outperforming Growth has remained intact, despite the perplexing impact that recent COVID "hope and despair" news headlines have had on capital markets. For example, it is easy to argue that higher debt loads could dampen future economic growth, which may ultimately drive yields lower and thus flatten the yield curve. And as we pointed out in our last note, this type of dynamic could also cause deflation/Technology names to outperform the S&P 500. So although yields have come in, and the curve has flattened over the last two weeks or so (remember, we were expecting a Bear Steepener), we have found that Technology and Growth has still underperformed the S&P . In addition, shut-in/shut-down names like Amazon, Zoom and Netflix, have also underperformed the S&P, perhaps because a vaccination is in the offing. Further, we continue to notice that Cyclical-Growth sectors like Materials and Financials are also outperforming, whilst more Defensive sectors like Healthcare and Utilities, remain a source of funds. So, going forward, we believe this recent curve flattening will reverse, and at

the same time, Cyclical Growth outperformance will continue. In addition, we would not be surprised if REITs and Energy also continue to find a near-term bid, especially given their relative underperformance since 2017. So, investors should stay the course, but remain mindful of increased volatility in the near-term. We continue to promote clients to dollar-cost average into equity sectors and styles that are leveraged to The Great Reset, while allocating to fixed-income investments focused in Credit rather than Duration.

We'd love to hear your thoughts.