EQUITIES PERSPECTIVE

January 8, 2021
DJIA: 31,041

If you forecast for tomorrow what happened today … you're right some 70% of the time. And now you know all you need to know about forecasting the weather. As for the stock market, that's different. Arthur Burns suggested the secret to forecasting is to keep forecasting. Keynes seemed to agree, saying when things change he changes his mind. The philosopher Mike Tyson perhaps sums it up best – everyone has a plan until you get hit in the mouth. Keeping in mind you get what you pay for, our two cents is that it will be a good year, but a different one. While there are signs of euphoria and valuations that arguably are stretched, the technical backdrop remains sound – hence, a good year. History, however, suggests a different one. It's likely to be one of more muted gains and one with a different type of leadership.

The S&P was up 16% last year, and 29% in 2019. It is rare for the market to be up 10%+ three years in a row. Similarly, Tech stocks have had back to back 40% gains. Against that backdrop, it is rare that any group does not underperform the following year. We offer this not so much as a forecast, but rather an observation. The NAZ was up 40%+ last year and more than 50% of that was Apple (131), Tesla (825), Amazon (3165) and Microsoft (218). It's not hard to see how any underperformance by Tech could hold back the averages. Meanwhile, it's easy to see how the forlorn infrastructure stocks like United Rentals (264) and the metals and mining stocks could lift the market without giving a big boost to the averages. We're still positive on biotech, and gold finally has shaped up – silver even more so. And those energy stocks you've been meaning to sell, suddenly have come in handy.

If you saw *The Graduate*, surely you remember – plastics! Our update on that is – lithium! As measured by the Lithium ETF (LIT - 73) and the many stocks here, lithium has been on a tear. The main driver for lithium and materials like cobalt and rare earth elements is electric vehicles. Then, too, lithium isn't exactly new. Your smart phone, your laptop, your tablet are all devices that rely on lithium. It's electric vehicles, however, that seems behind the recent run. Bloomberg forecasts sales of electric cars will hit 41 million by 2040, representing 35% of all global new car sales. While EV sales in the US jumped 81% in 2019, that's a drop in the bucket compared to China where EV sales topped 1.2 million cars. You may not want to build your portfolio around lithium, but it should have a place.

If lithium is not to your liking, maybe we can interest you in a little Solar. Solar and its ETFs like the Invesco Solar (TAN - 121) and the iShares Global Clean Energy (ICLN - 33) have done quite well. Components like the Daqo Energy (DQ - 80), have done even better. We have thought of Solar as a hedge against the Georgia election, but that seems overthinking. Chinese President Xi Jinping, a man you can trust, has pledged to make his country carbon neutral by 2060. There's many a slip twixt the cup and the lip, and by then we just might be old. Still, given that China gets two-thirds of its power from coal, the implications are almost staggering. China has created seven of the world's top 10 Solar module manufacturers, according to Wood Mackenzie. Like lithium, Solar may not be something you want to build a portfolio around, but something that should be part of it.

So how about the market's reaction to the Georgia election outcome? The NAZ, that is Tech, did selloff, but on the NYSE breadth was more than respectable, and on the NAZ it was even better. A surprise, or validation of one of our long held beliefs – when it comes to the stock market, what we all know isn't worth knowing. And there is a rationale, well expressed by Nicholas Colas of Data Trek. If you ask CEOs how they feel about a two point hike in their tax rate in return for a $2 trillion stimulus plan, they're more than good with it. Amidst all that is going on, best to keep in mind the basics. For all that can be worried about both in and outside of the market, most days most stocks go up. When that changes, then heed the Keynesian advice. Meanwhile, as we suggested above, this year could be different. If you look at the charts, should you own Microsoft (218) or, of all things, US Steel (20)?

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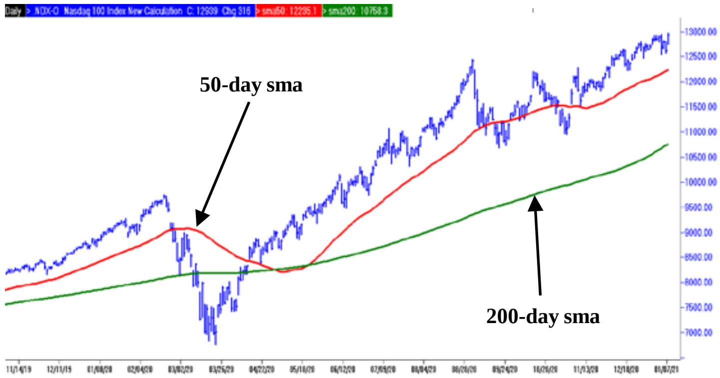
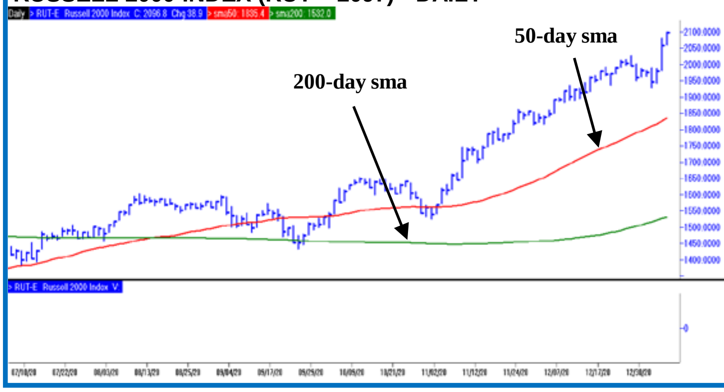
S&P 500 (SPX – 3803) – DAILY

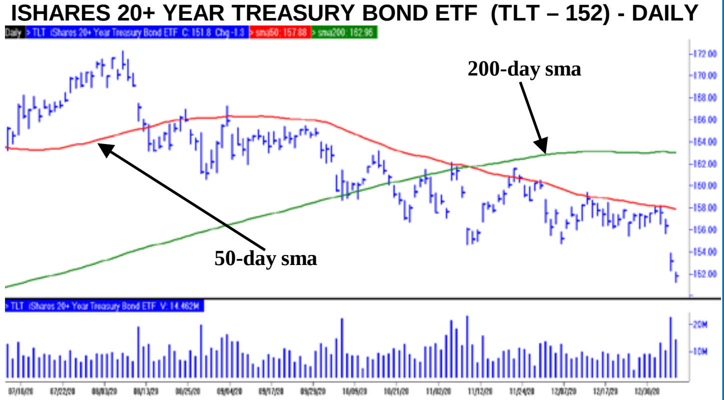
NASDAQ 100 (NDX – 12939) – DAILY



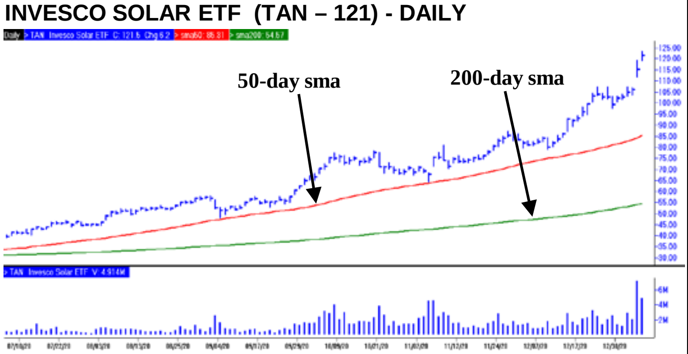
RUSSELL 2000 INDEX (RUT – 2097) - DAILY



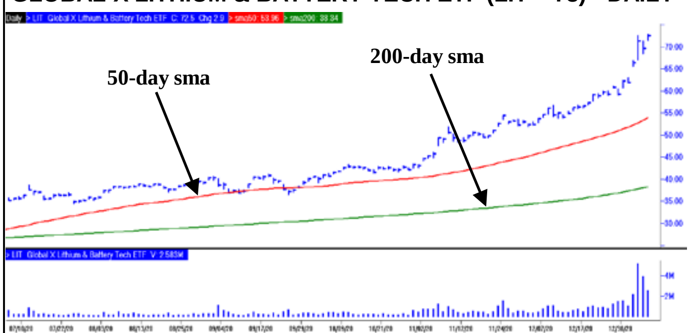
ISHARES 20+ YEAR TREASURY BOND ETF (TLT – 152) - DAILY



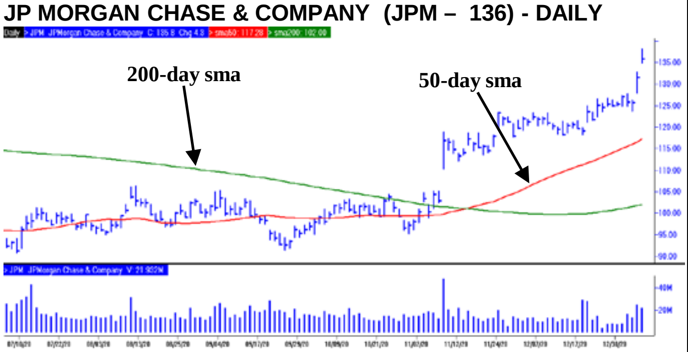
INVESCO SOLAR ETF (TAN – 121) - DAILY



GLOBAL X LITHIUM & BATTERY TECH ETF (LIT – 73) - DAILY

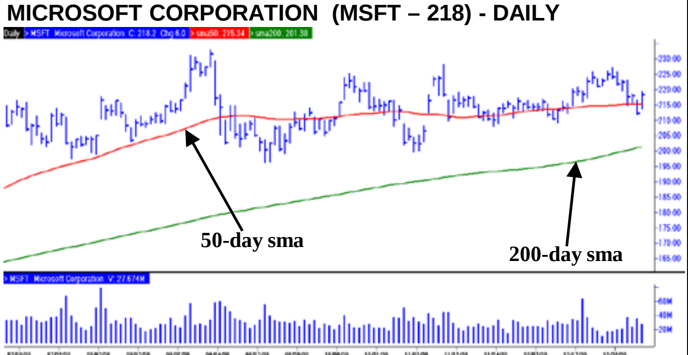


JP MORGAN CHASE & COMPANY (JPM – 136) - DAILY



UNITED RENTALS INCORPORATED (URI – 264) - DAILY

MICROSOFT CORPORATION (MSFT – 218) - DAILY



UNITED STATES STEEL CORPORATION (X – 20) - DAILY