

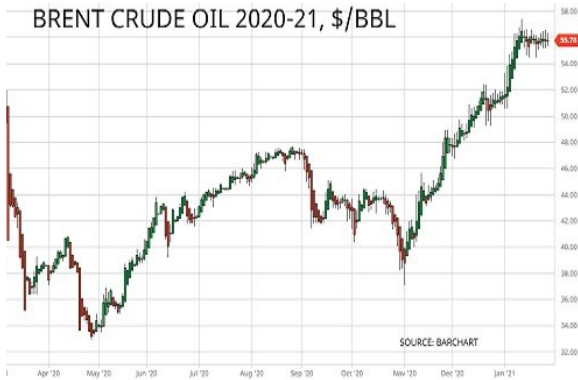
# Rising uncertainty hits market sentiment and prices

1 February 2021

Our move to become “cautiously bearish” on the S&P 500 proved prescient as it recorded its worst week since October. Behind the GameStop excitement, investors are clearly becoming more worried over the outlook.

## Oil

Brent had another extremely quiet week, finishing at \$55.78/bbl. Political pressures intensified as President Biden and the EU prepared for the COP26 Climate Change conference in November.



### HIGHLIGHTS

- ◆ Biden's Executive Order on **Climate Change** aimed at “putting the climate crisis at the center of United States Foreign Policy & National Security”
- ◆ The EU said it would use **energy diplomacy** to “discourage further investments into fossil fuel-based infrastructure projects in third countries”
- ◆ Saudi Arabia announced plans to generate **50% of its electricity** from renewables by 2030, displacing oil and natural gas
- ◆ GM announced an **end to sales of Internal Combustion Engine vehicles** by 2035, in a move that is sure to be followed by other majors

### WATCH FOR

Tensions rising at the next OPEC+ monthly meeting on 3 February, as Saudi output restraint has had little effect

## S&P 500

The S&P posted its worst week since October, falling to 3714, whilst the VIX volatility index jumped 51% to 33. Earnings numbers disappointed, whilst GameStop developments hit sentiment.



### HIGHLIGHTS

- ◆ We expect Biden's political skills to ensure passage of the \$1.9tn package: “We're not looking to split the package”
- ◆ The 'green-stimulus' package (potentially \$4tn) could be proposed sooner than expected, especially if the economic outlook weakens as we expect
- ◆ We assume the Fed's posture is unlikely to change: “It's very much appropriate that monetary policy be accommodative”
- ◆ But we are concerned by the disorderly market that developed mid-week, as retail investors “mobbed” certain hedge funds
- ◆ Cash balances also seemed to be stretched, with some investors needing to sell core stocks to meet margin calls

### WATCH FOR

Volatility to increase further as the earnings outlook erodes and sentiment is hit by GameStop-type developments

## Interest rates

The market held at the 1.09% level for a 3rd week, whilst the MOVE volatility index rose 10% to 47 as the 10-year rate traded between 1% – 1.10%.



### HIGHLIGHTS

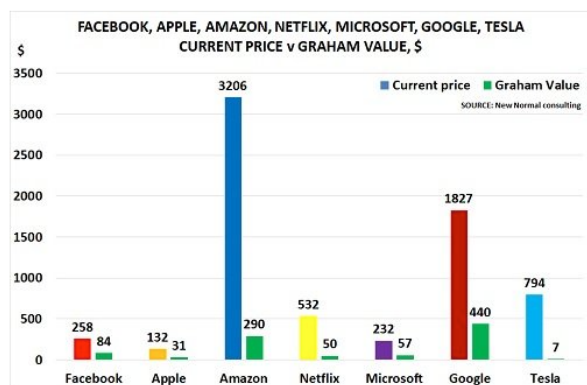
- ◆ Yields have steadied since the successful auction on 12 January
- ◆ Low Treasury borrowing rates remain crucial for deficit-financed stimulus packages
- ◆ Low rates also continue to underpin equity market sentiment for the short term
- ◆ Inflation bulls remain on the back foot for now

### WATCH FOR

Inflation expectations to remain subdued due to the fragile economic outlook.

## FAANMGs & Tesla

We update as promised on developments with the FAANMGs and Tesla, since our December series. Using the **Graham Value** methodology, they remain over-valued and liable to major falls.



### HIGHLIGHTS

- ◆ **Tesla** is the most overvalued, with its current price anticipating implied growth of 627%/year to 2030
- ◆ **Amazon** is next with its price anticipating 43%/year
- ◆ **Netflix** is similarly over-priced, anticipating 41%/year
- ◆ **Apple** is anticipating 14%/year
- ◆ **Microsoft & Google** anticipate 13%/year
- ◆ **Facebook** has the lowest valuation but is still anticipating 9%/year
- ◆ Such valuations might make sense for younger companies, but are unlikely to prove realistic for companies of their size and maturity

### WATCH FOR

Market commentary to turn less favourable as the S&P 500 continues to come to terms with the end of Trump's focus on the market

## Summary

They say that cats often sense earthquakes before they actually arrive, and provide early warning by leaving town. The Gamestop excitement might prove a similar warning for investors.

	Oil	S&P 500	Interest rates
<b>Market view today</b>	Some concerns	Some concerns	Expecting inflation
<b>Our current view</b>	Negative	Reversion to mean inevitable	Expect long-term deflation
<b>Positioning began</b>	December 2020	December 2020	December 2020
<b>Confidence level</b>			
Initial	●	●	●
Today	●	●	●
<b>Relevant positioning</b>	Cautiously bearish	Cautiously bearish	Neutral 10-year and longer-dated Treasuries

Confidence level: ● = 100%, ● = 75%, ● = 50%, ● = 25%

## Disclaimer

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