

## OBSERVATIONS

- COVID-19: Pfizer will deliver 120 million doses of its vaccine in Q1 and will be able to supply 200 million doses 2 months earlier than planned. Pfizer's total production will exceed 2 billion doses in 2021.<sup>1</sup>
  - As of 31-Jan, 94.4 million doses have been administered across 62 countries. The U.S. has administered 30.5 million doses and is averaging nearly 1.35 million doses per day.<sup>1</sup>
- Robust demand and record low borrowing costs bolster junk bond issuance which reaches \$38.05 billion in January setting a new record for the month – the previous record was January of 2020 (\$37.2 billion).<sup>1</sup>
- Federal Reserve holds rates steady at zero and maintains \$120billion/month of bond buying.<sup>1</sup>
- GDP grew by +4.0% in Q4 2020 (QoQ, annualized) bringing the full year decline in economic activity to -3.5% for 2020 - marking the 5<sup>th</sup> worst calendar year decline since 1930.<sup>1</sup>
- After making investments in blockchain based Venture Capital, some University endowments (e.g., Yale, Harvard, Brown, Michigan among others) are reported to have been investing in Bitcoin - starting in 2019.<sup>2</sup>
- European Central Bank member (and head of Ireland's central bank) Gabriel Makhoulouf joined other central bankers warning on Bitcoin, noting that investors should be prepared to "lose all their money."<sup>1</sup>
- Epic short squeeze in the most heavily shorted companies as speculation and excess liquidity meets broken markets (see one more thought). As of 26-Jan, the 50 most shorted stocks in the Russell 3000 were up over 33% YTD.<sup>1</sup>
  - Data firm Ortex estimates losses of more than \$50bn in January for short sellers.<sup>1</sup>
  - Robinhood is forced to raise \$1bn in capital (combination of equity and line of credit) to raise its regulatory capital buffer.<sup>1</sup>
  - Wall Street research firm Citron Research to discontinue short selling research.<sup>1</sup>
- The personal savings rate rose to 13.7% in December up from 12.9% in November and well above the long-term average of 8.9% since 1960.<sup>1</sup>
- Small cap stocks (Russell 2000) beat large cap stocks (Russell 1000) for the 5<sup>th</sup> consecutive month. The Russell 2000 has outpaced the Russell 1000 by +24.7% from September 2020 to January 2021.<sup>1</sup>
- Domestic Special Purpose Acquisition Companies (SPACs) – so called blank check companies – have raised nearly \$26bn across 91 deals in January alone, putting 2021 on pace to break 2020's record year of \$83.3bn raised for SPACs.<sup>1</sup>

## EXPECTATIONS

- Last week's short squeeze sideshow in markets took investor attention away from earnings reports. To date 37% of S&P 500 companies have reported Q4 results with 82% and 76% beating earnings and revenue expectations, respectively. 110 S&P 500 companies are set to report this coming week.<sup>3</sup>

## ONE MORE THOUGHT

In his "Financial Instability Hypothesis" economist Hyman Minsky posited that the extent of financial fragility of the system is related to debt and excesses that emerge therein. He identifies three stages (**chart of the week**); (1) Hedge finance – in which the economy is in equilibrium and stable (2) Speculative finance and (3) Ponzi finance – both of which create fragility and ultimately lead to an abrupt decline in asset values, now known as a "Minsky Moment"<sup>4</sup>. Recent days have brought on fresh criticism of markets and the Federal Reserve by a few highly regarded long term value investors. Two of note.

*"With so much stimulus being deployed, trying to figure out if the economy is in recession is like trying to assess if you had a fever after you just took a large dose of aspirin" ..... "The biggest problem with these unprecedented and*

<sup>1</sup> Bloomberg LP

<sup>2</sup> <https://www.coindesk.com/harvard-yale-brown-endowments-have-been-buying-bitcoin-for-at-least-a-year-sources>

<sup>3</sup> Factset Earnings Insight, 29-Jan

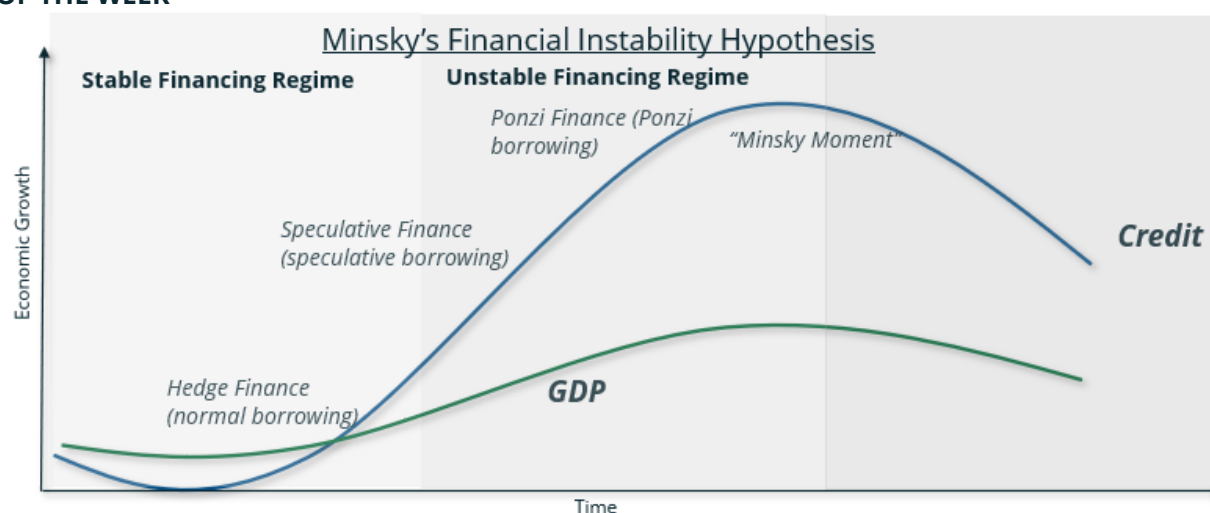
<sup>4</sup> "Minsky Moment" was a term coined by Paul McCulley (then of PIMCO) in reference to the Asian debt crisis of 1997.

sustained government and central bank interventions is that risks to capital become masked even as they mount.”<sup>5</sup>  
**- Seth Klarman, Baupost Group**

“You can't maintain this level of near-ecstasy. It can't be done because you've put in your last dollar. You are all in. What are you supposed to do beyond that point? You can't borrow any more money. You can't take any more risk. How do you keep that level of enthusiasm going indefinitely?”<sup>6</sup> **- Jeremy Grantham, GMO**

There are no shortages of signs of excesses in capital markets be it margin debt, penny stock trading volumes, option volumes, cryptocurrency speculation, IPO and SPAC craze – the list goes on. Where we are in the scheme of Minsky's framework is not clear but many of these observations are characteristic of a speculative/Ponzi like regime. So, should investors abandon their long-term plan? No. Should investors make sure their asset allocation is reflective of their long-term objectives? Yes. Should investors avoid investing with leverage? Yes. Since the lows of 23-March-2020, the S&P 500 has rallied +68.4%<sup>7</sup> with just 4 pullbacks greater than -5% (none more than -10%). Are market conditions suggestive of a reconciliation of sorts – approaching a “Minsky Moment”? We think it's best described as “when” not “if” excesses in markets begin to reverse. To that end, investors are likely to benefit by having expectations which include periods of pronounced volatility in markets in the coming weeks and months.

### CHART OF THE WEEK



Source: Clearstead, MSIM Global Multi Asset Team, “Financial Instability Hypothesis” - Hyman P. Minsky, <http://www.levyinstitute.org/pubs/wp74.pdf>

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<sup>5</sup> FT, Baupost Group Q4 Investor Letter

<sup>6</sup> <https://markets.businessinsider.com/currencies/news/jeremy-grantham-biden-stimulus-inflate-stock-market-bubble-tesla-bitcoin-2021-1-1030000109>

<sup>7</sup> Bloomberg LP, total return 23-March-2020 to 31-Jan-2021

## Total Returns as of 31-Jan-2021

	<u>1-Month</u>	<u>Quarter-to-Date</u>	<u>Year-to-Date</u>	<u>1 Year</u>
<b><u>U.S. Equity Markets</u></b>				
Index				
DJIA	-2.0%	-2.0%	-2.0%	8.5%
S&P 500	-1.0%	-1.0%	-1.0%	17.2%
Russell 2000	5.0%	5.0%	5.0%	30.1%
Russell 1000 Growth	-0.7%	-0.7%	-0.7%	34.5%
Russell 1000 Value	-0.9%	-0.9%	-0.9%	4.1%
<b><u>International Equity Markets</u></b>				
Index				
MSCI ACWI ex USA	0.2%	0.2%	0.2%	14.0%
MSCI EAFE	-1.1%	-1.1%	-1.1%	8.9%
MSCI Emerging Markets	3.1%	3.1%	3.1%	27.9%
MSCI EAFE Small Cap	-0.4%	-0.4%	-0.4%	15.3%
<b><u>Fixed Income Markets</u></b>				
Index				
BarCap US Aggregate	-0.7%	-0.7%	-0.7%	4.7%
BarCap Global Aggregate	-0.9%	-0.9%	-0.9%	6.9%
BarCap US High Yield	0.3%	0.3%	0.3%	7.4%
JPM Emerging Market Bond	-1.2%	-1.2%	-1.2%	2.8%
BarCap Muni	0.6%	0.6%	0.6%	4.0%

Source: Clearstead, Bloomberg LP