



Weekly Observations

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One Chart for the Weekend

Allowing fundamentals to select your universe and technicals to dictate your action can increase the odds of success. The Value & Momentum ETF has a small/mid-cap value bias with a momentum factor overlay. Beyond just the theory, VAMO is making new highs on both a price & momentum basis and is gaining strength versus the S&P 500.



Willie Delwiche, CMT, CFA
Investment Strategist | All Star Charts

Observations

Financial Liquidity

- 2-year TIPS inflation breakeven rates have hit a new 10-year high. It's almost as if the bond market can look past current inflation data and see the price pressure in the pipeline.
- Long-term regression-based yield trends for both the 10-year T-Note and BAA Corporates have turned higher. Rising bond yields are gaining sustainability.

Economic Fundamentals

- \$DIS might be the epitome of our K-shaped environment: stakeholders suffering (15% of workforce laid off, another 15% on furlough) while shareholders are celebrating (stock made another new high today). Losses are being socialized (via public support/stimulus for those laid off) while gains remain privatized. If we are going to count on Leviathan to absorb/offset losses, it will also want to eat the gains.
- The Case/Shiller price index seems to suggest that the housing component of the CPI (which is 40% of the overall index) could accelerate upward in coming months. An uptick in inflation seems to be on the horizon.
- University of Michigan inflation expectations have risen to their highest level since mid-2014.

Valuations / Earnings

- Fine with saying that valuation concerns are less immediate given the liquidity sloshing through the system & bullish breadth backdrop. Just please don't say that stocks are not expensive right now.
- Good stuff from Myles Udland (@MylesUdland): "For fundamental analysts... at a major Wall Street firm, valuations are a North Star." We need to weigh what might be (valuations) vs what is (price). Many spend way more time on the former, but investors are paid on latter.

Sentiment

- Equity ETF inflows ran hot from November 2020 to January 2021 and have stayed that way in February, with only 3 days of outflows so far this year. Equity ETF's have seen nearly \$50 billion of inflows already this month and over \$200 billion since November 1.
- Active investment managers have piled back into equities. NAAIM came roaring back this week, rising to 110. Deviation collapsed as everyone moved to one side of the boat.

Market Trends & Momentum

- Over the past decade, most spikes in trading volume have been associated with market weakness. That's not currently the case. Record volume is coming with market strength.
- Bullish momentum tends to fade rather than instantly evaporate.

Breadth

- Even things that have a downward bias (like the NASDAQ A/D line) are moving higher. The 706 new highs on the NASDAQ on Monday was the most ever (back to 1979). There is impressive evidence of strength on display here.
- For those playing along at home, we are back to 76% of world markets above their 50-day averages. Breadth bending but not breaking is bullish.

Portfolio Management

- Think you could do a lot worse than this approach: Use fundamentals to define the universe but let technicals dictate the action.
- Could not agree more with this from Cathie Wood: "This move toward passive investing we've seen over the last 20 years...that now is a setup for disappointing returns." But Wall Street wants you to buy & hold & hope while they get paid on your assets.

Behavioral

- Wall Street firms want you to be active enough to bring your funds to them and passive enough not to do anything once you are there.
- Market doesn't care if you are an institution or retail trader, it rewards good decision making and punishes bad decision making.