Global Equity Long-Short Quantamental Strategy

Stouff Capital

Update as of March 1st, 2021 | Letter 54

The Art of Tragedy

Prologue

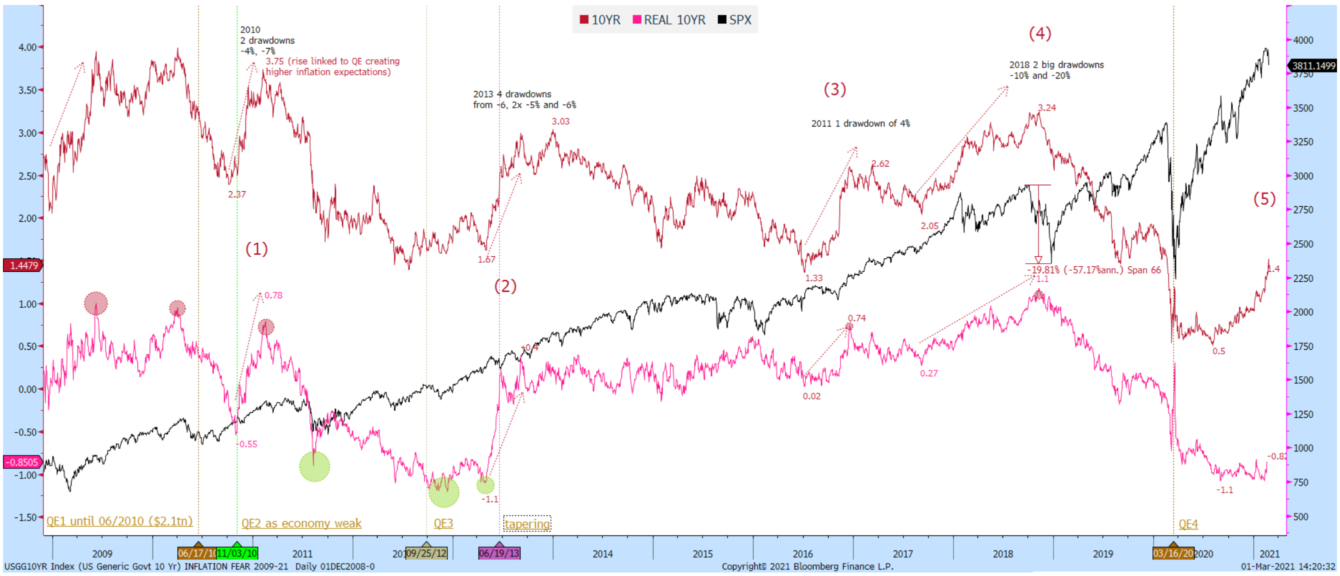
From 2013 to 2014, we named the market anxiety on the Fed tapering (reversal of quantitative easing policy) the "Art of Tragedy". As *a déjà vu* concept, the Art of Tragedy is haunting investors again with the steep rise of inflation breakeven and long-term rates. This has recently put pressure on risky assets as their (very) high valuations must now incorporate the end of the extreme dovish monetary conditions.

Tragedy, a western civilization's invention, is based on human suffering that invokes in its audience (who knows that is going to end badly) an accompanying catharsis. Its rules are strict and consist in 3 unities:

(1) Unity of Location: Washington DC, where FOMC members will meet for the much expected and feared outcomes.
(2) Unity of Action: the tapering drama.
(3) Unity of Time: September 22, 2021 FOMC meeting.

But before we reach the *parodos*, the spectator must endure many acts like in all good tragedies. First act, the presentation of the various characters: the ultra-dovish Fed under the traits of Jerome Powell, the ultra-spender newly elected US government under the familiar character of Janet Yellen, and the facetious *Robinhood investors*, born out of the worst pandemic in a century, driving the Retail exuberance. In this first act, at one point, everything becomes upside down, such as the correlation between bonds and equities becoming positive. A too fast rise of long-term rates and inflation breakeven make bonds and equities fall together. This first act is reminiscent of previous tragedies, as shown in the below chart, (1) the end of QE1 in 2011, (2) the Bernanke tapering, (3) Yellen tapering and (4) Powell rising rates. The chart shows the relationships between 10 YR US interest rates in red, 10 YR US real yields (10YR – 5 YR inflation expectations) in pink and the S&P500 in black. Our focus is to assess the size of the corrections happening during these 4 past strong rates rise, in order to have a market map for the current one.

10 YEAR US RATES (RED), REAL RATES (PINK), S&P500 (BLACK) FROM 2009 TO 2021



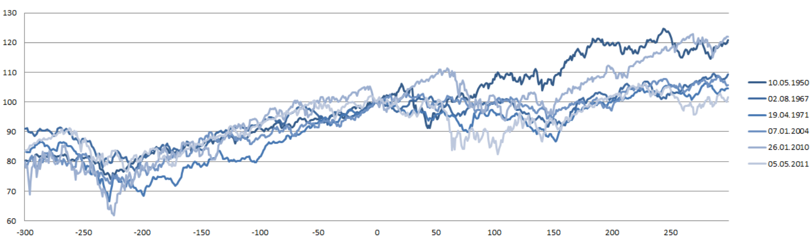
Source: Bloomberg – Stouff Capital 2021

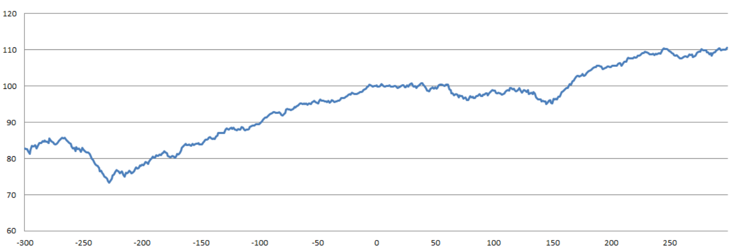
A simple statistical analysis since 1955 of the impact of a steep rate rise in just a 30-day period (right hand table), shows that the S&P500 lost -83 bps in the following month. Positively, the medium-term effect (3 months) was more neutral with 62% of positive observations. The right-hand below chart confirms this statistical study with an auto correlogram of the S&P500, that screens for the biggest correlations of the recent 250 days' price action for the S&P500 with its own past since 1928. While finding a strong auto-correlation with 1987 & 2010 (seems logical with the March 2009 and 2020 similar crashes), the ensuing average price evolution of the S&P500 is slightly bearish (no more than 4%) for the next weeks before rebounding.
Thus, if history rhymes with the past, we should expect a period of consolidation for a few weeks. But let's dig into more details by looking at the 4 previous "tragedies" since 2010, before concluding that the current Tragedy is best described by one of the rare comedies of Shakespeare "Much ado about Nothing". Chart 2 shows the period (1) from Oct 2010 to Feb 2011, when US 10YR rises from 2.37% to 3.75% and real 10YR from -0.55 to 0.78%, SPX will have a first -4% drawdown, and after the rate rise ends, a -6.4% correction in March 2011. This period is rhyming a lot with today, as it follows the 2008-2009 recession.

The performance of the SPX INDEX is given on several time periods each time when :
- the return of USGG10YR INDEX on 30 days is between 30% and 250%

% Positives	46%	62%	46%	62%
% Negatives	54%	38%	54%	38%
Average Positives	2.07%	3.32%	6.30%	5.75%
Average Negatives	-4.11%	-7.47%	-6.56%	-8.83%
Maximum	5.20%	5.73%	13.96%	11.59%
Minimum	-20.68%	-23.25%	-20.97%	-14.13%
STDev	6.24%	7.86%	8.60%	8.34%

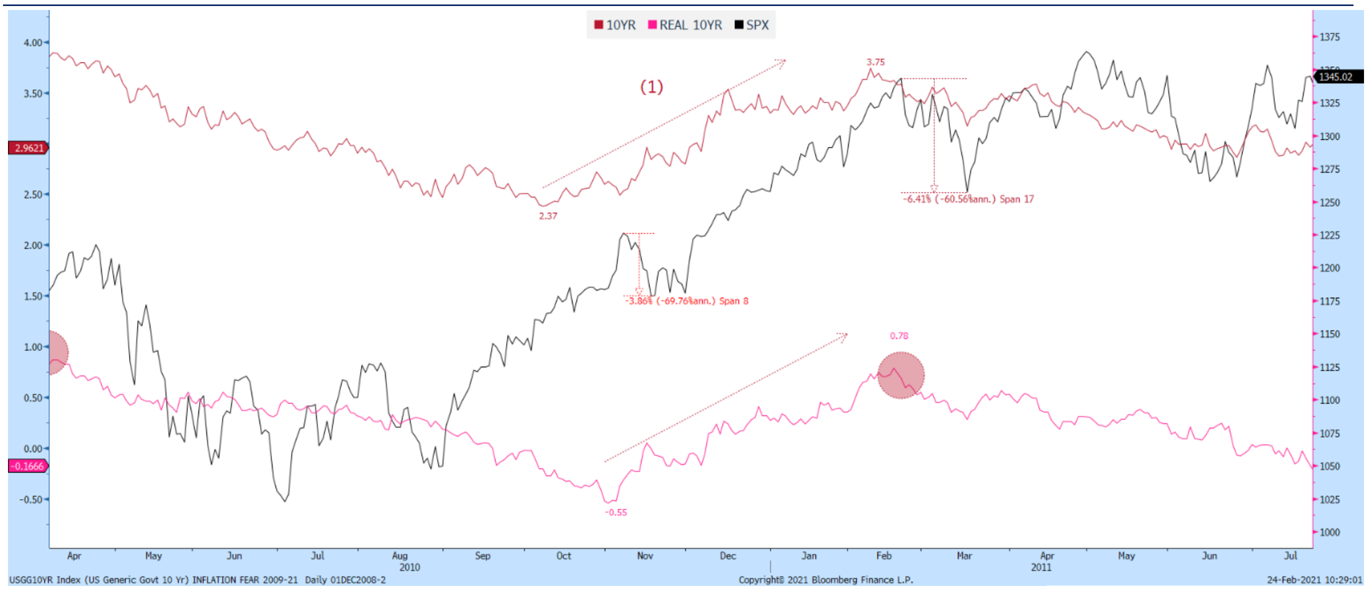
	Number of days after			
	7	20	60	90
AVERAGE	-1.26%	-0.83%	-0.63%	0.14%
Performance	**t +7**	**t +20**	**t +60**	**t +90**
vendredi, 26 septembre 1969	-1.14%	4.12%	-3.88%	-8.79%
mardi, 19 février 1980	-1.98%	-9.61%	-7.00%	1.38%
jeudi, 30 avril 1981	-2.36%	-0.17%	-2.22%	-11.84%
mercredi, 14 octobre 1987	-20.68%	-23.25%	-20.97%	-14.13%
mercredi, 31 août 1994	-1.97%	-2.83%	-5.00%	-2.95%
mercredi, 29 septembre 1999	5.20%	2.21%	13.96%	11.59%
mercredi, 12 mai 2004	-0.34%	3.51%	-2.97%	2.88%
jeudi, 10 décembre 2009	1.06%	3.97%	3.85%	9.21%
vendredi, 31 mai 2013	-0.28%	-1.51%	1.58%	1.50%
jeudi, 6 février 2014	3.73%	5.73%	6.08%	9.08%
vendredi, 3 février 2017	1.73%	3.33%	4.00%	5.94%
vendredi, 20 octobre 2017	0.00%	0.14%	8.30%	4.41%
mercredi, 1 août 2018	0.71%	3.52%	-3.91%	-6.45%





Source: Bloomberg – Stouff Capital 2021

CHART 2: 10 YEAR US RATES (RED), REAL RATES (PINK), S&P500 (BLACK) IN 2010-2011



Source: Bloomberg – Stouff Capital 2021

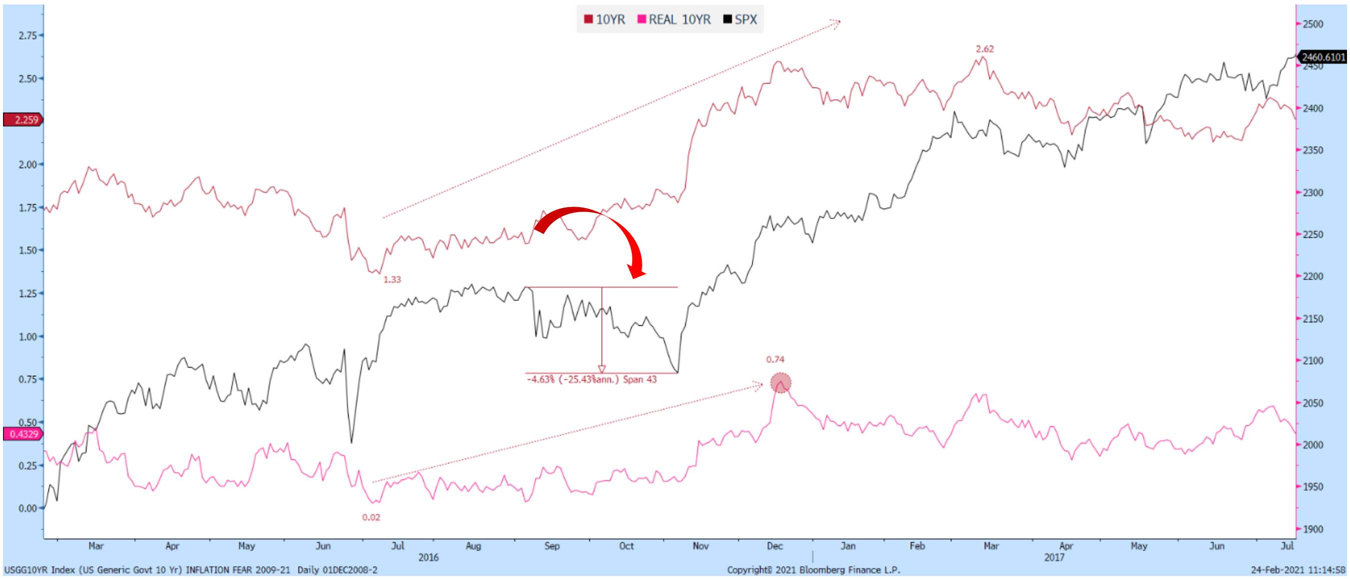
(2) From May 2013 to December 2013, 10YR rises from 1.67% to 3.03% and real yields from -1.1% to +0.4%, SPX has 4 drawdowns, the fist -6% when Bernanke announces its tapering on June 19th, twice -5% in august and October 2013, and -6% in January 2014 – this is probably what we should expect if the tapering debate accelerates in the coming months or as we dumbed it in French: "l'étau(x) se resserre".

CHART 3: 10 YEAR US RATES (RED), REAL RATES (PINK), S&P500 (BLACK) IN 2013

Source: Bloomberg – Stouff Capital 2021

(3) from July 2016 to March 2017, US 10YR rises from 1.33% to 2.62% and real 10YR from +0.02 to 0.74%, SPX will have a -4.6% drawdown.

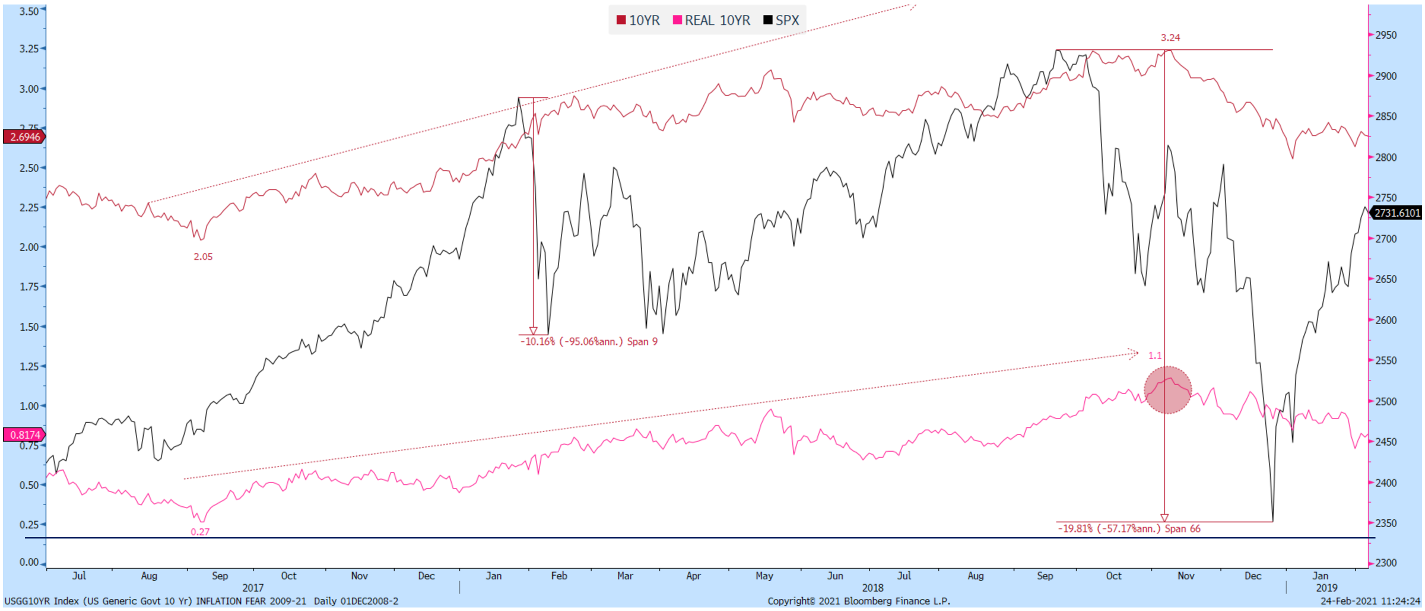
CHART 3: 10 YEAR US RATES (RED), REAL RATES (PINK), S&P500 (BLACK) IN 2016-2017



Source: Bloomberg – Stouff Capital 2021

(4) from September 2017 to November 2018, US 10YR rises from 2.05% to 3.24% and real 10YR from +0.27 to 1.11%, SPX will have 2 big drawdowns, one of 10% in January 2018 (the short VIX crash) and -20% in 4Q 2018. The second sell-off was probably a "débutant" mistake from a too hawkish Powell in the Trump era.

CHART 4: 10 YEAR US RATES (RED), REAL RATES (PINK), S&P500 (BLACK) IN 2018



Source: Bloomberg – Stouff Capital 2021

All these charts and studies show positively that 10YR rises are positively correlated with higher equities. The correlation becomes only negative (rates up and equities down) when the rise of rates is too steep, just like now, but the corrections while lasting many weeks are limited to an average 4% drawdown. 2018 big drawdowns may not repeat as Fed Chairman Powell has learned from its early mistake of being too hawkish.

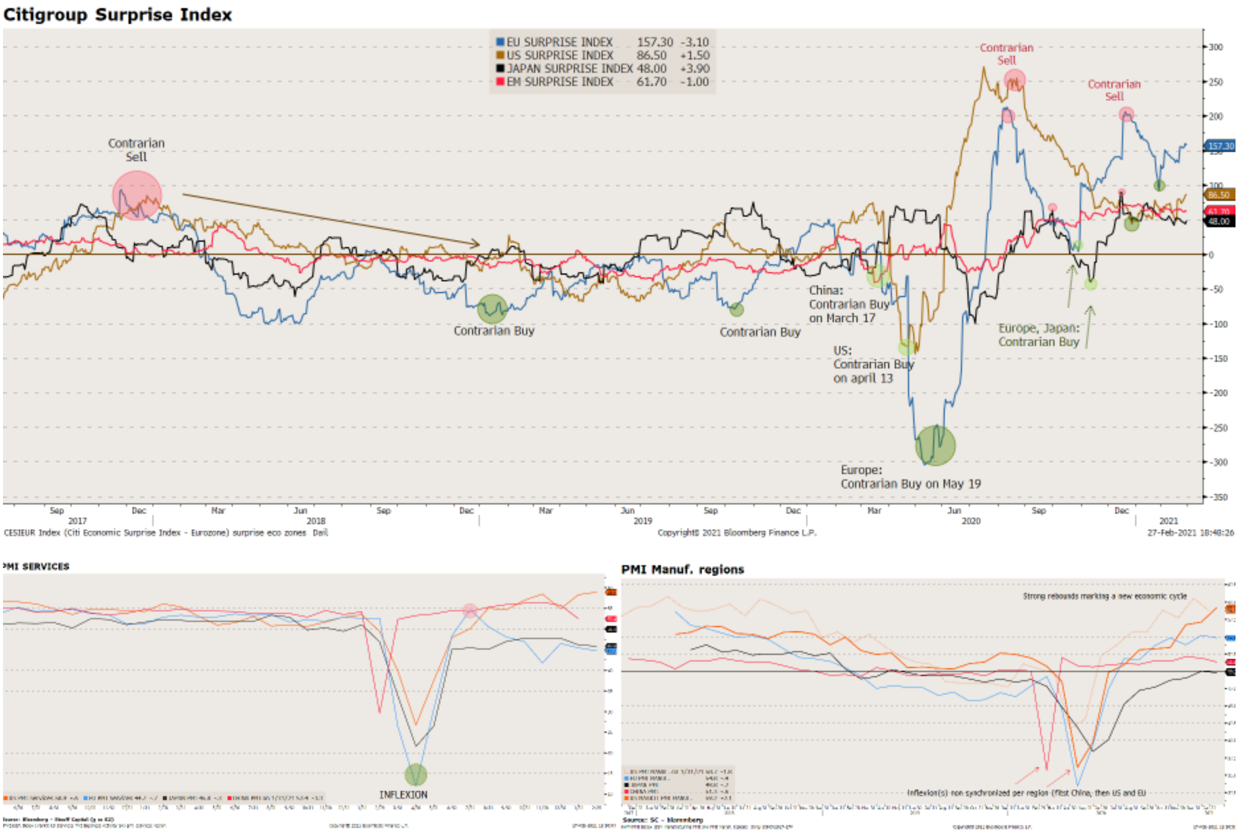
On a negative side, the Art of Tragedy derived from past occurrences must not neglect the current toxic environment with its new actors. With the retail exuberance, the market narrative is increasingly becoming more complex. Let us dig into our Equity regional Matrix to obtain other clues for the future. In line with the previous studies, the Matrix is very bullish on the medium run, with an OW in Europe, a neutral rating in US and UW in EM (with UW in China, which has been added for the first time in our matrix) but slightly bullish for the short term. Trend grades are 100% bullish in all regions except EM but falling on the short term owing to the recent correction. Both the Liquidity grade and the Economics grade are ultra-supportive again.

EQUITY REGIONAL GRADES, GLOBAL EQUITIES MATRIX 01.03.21

EQUITY REGIONAL GRADES			100%	above 30%	above 30%	from 10 to 30%	from -10% to +10%	from -10% to +10%
Three month outlook	Very bullish	32%		Very bullish	Very bullish	Bullish	Neutral	Neutral
One month outlook	Bullish	16%		Bullish	Bullish	Neutral	Neutral	Bullish
01.03.2021				U.S.A.	Europe	Emerging equities	JAPAN	China
				NEUTRAL	OVERWEIGHT	UNDERWEIGHT	UNDERWEIGHT	UNDERWEIGHT
Matrix recommended net exposure				18% 34%	23% 39%	2% 30%	-1% -1%	21% -1%
		Weight CPD	Weight					
Trend (one month outlook in blue)		40%	40%	60% 100%	60% 100%	0% 70%	70% 100%	64% 8%
Contrarian trend				OB OS 6%	OB OS 7%	OB OS 12%	OB OS 2%	OB OS 4%
Relative valuation since 1995			20%	Exp. Cheap -100%	Exp. Cheap -81%	Exp. Cheap -90%	Exp. Cheap -53%	Exp. Cheap -61%
Liquidity delta			10%	Low High 100%	Low 50%	Low High 78%	Low High 100%	Low High 88%
Economics delta			10%	Growing Slower 0% 83%	Growing Faster 0% 33%	Growing Faster 0% 41%	Growing From contracting 0% 17%	Growing Slower 0% 33%
Contrarian Sentiment		20%	20%	Neg. Po 42% -34%	Neg. Pos 20%	Neg. Pos. 15%	Neg. Pos -3% Downside Inflexion CPD	Neg. Pos. -29%
Investing Phases with Trend Charts				INVESTMENT	INVESTMENT	INVESTMENT	INVESTMENT	INVESTMENT

This matrix ranks from -100% to +100% the 4 regions (US, Europe, EM and Japan) with respect to 5 factors (Trend/Valuation/Liquidity/Economics/Sentiment). It suggests which region to overweight or underweight for a long only or a trader.

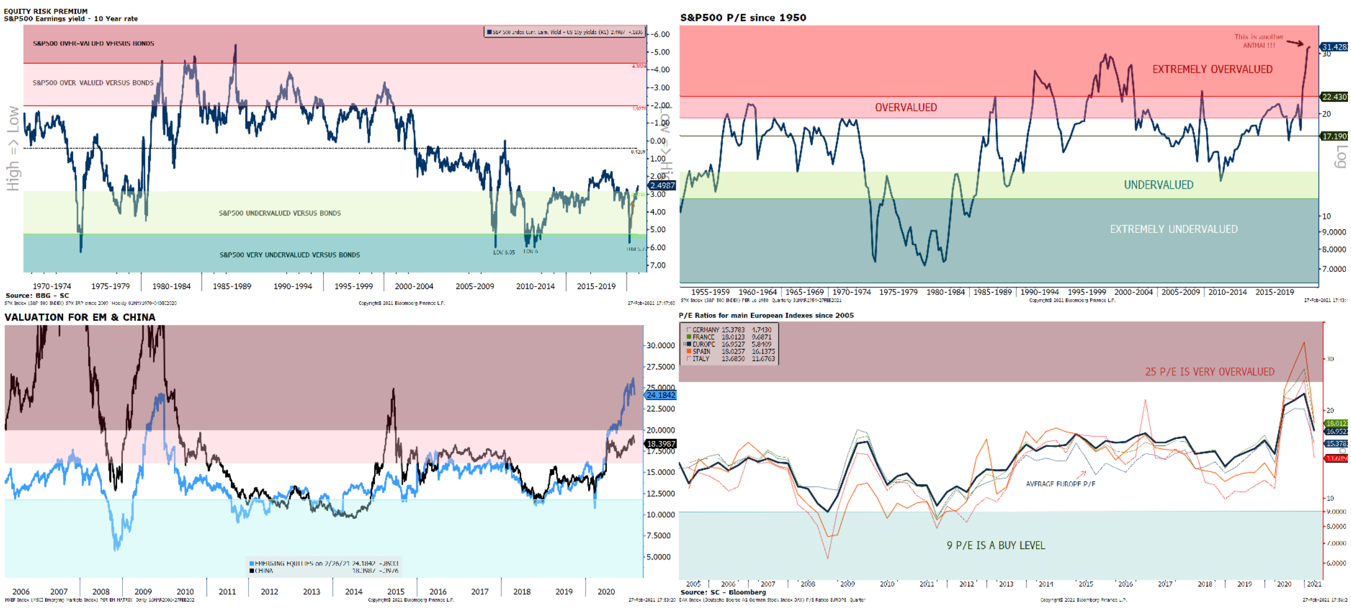
CHART 5: ECONOMICS GRADE – CITI SURPRISES & PMI - 26.02.22



Source: Bloomberg – Stouff Capital 2021

The "**Economics delta**" grade still confirms that we started a new economic cycle in May 2020. Indeed, the Citigroup surprise indicator (chart 5 upper panel), which compares expected versus actual economic releases, and PMI Manufacturing continue their strong respective rise.
Now, the very weak part of the Matrix: **Valuation** is extreme in terms of P/E compared to the last 50 years and has also gotten out of its attractive zone in terms of Equity Risk Premium **in US**, that compares an investment in Bonds with one in equities. **While European P/E have moderated, Emerging markets Price to earnings ratios are extremely high** [these expensive valuations should be reduced by better earnings in 2021 (3811/ est. 2021 EPS 170=22,64)]. This extreme valuation is all the more a headwind than the Art of Tragedy is the new market focus. Rising rates with extreme P/E are a recipe for disaster.

CHART 6: GLOBAL VALUATIONS – US ERP & PE, EM & CHINA, EUROPE – 26.02.22

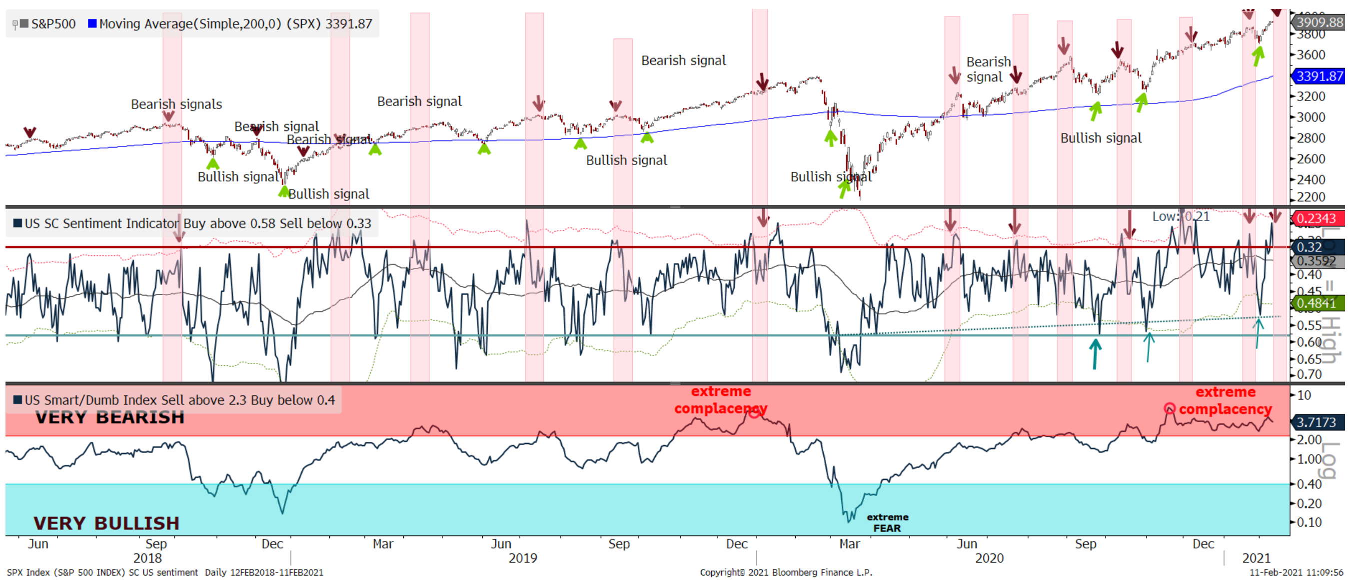


Source: Bloomberg – Stouff Capital 2021

Another headwind refers to Sentiment. A number of technical indicators are stretched as shown by our US SC sentiment indicators on chart 8 [any reversal of more than 2% from the high would trigger a change point detection status].
No surprise also that Bank of America's latest monthly survey of fund investors found their cash levels at the lowest since March 2013, global equity allocations at a 10-year high, and a record number of respondents reporting taking a "higher than normal" level of risk.
Risks in the short- to medium-term appear high, and the persistent last-hour selling adds to those concerns. Never before have we seen so many days when the S&P 500 was in the upper 90% of its 1-year range while the Smart Money Index is in the bottom 10% of its own 1-year range. As shown on the right-hand chart, this represented in the past major tops.
Our Smart indicator (blue line) is hanging near its lows despite indexes being at new highs (candle chart).

Source: Bloomberg – Stouff Capital 2021

CHART 8: SC US SENTIMENT READINGS ARE TOO COMPLACENT - 24.02.21



Source: Bloomberg – Stouff Capital 2021

TRADING PLAN

CHART 9: TRADING PLAN FOR THE S&P500 - 01.03.21

Source: Bloomberg – Stouff Capital 2021

Both our regional Matrix and our studies on the Art of Tragedy preach for a continuation of the rise with some small -2 to -4% corrections. The market narrative is focused on the macro with the Art of Tragedy, earnings compensating high valuation, and stimulus as a cure versus the pandemics. If we are right on the still benign impact of higher rates, a continuation of the rise for the MSCI World towards 719 (chart 10), and the S&P500 eventually rising to 4020, or another 5% return in a less volatile environment (VIX falling to 15… see annex 1 & 2) is possible.

This is the good news: we fear that once this target is reached, the Art of tragedy will become the new main market focus, triggering a meaningful correction around the September FOMC meeting. We must say that while 10YR US rates have already risen from 0.5 to 1.5, real rates are just up 25 bps. It means that rates mostly reacted to higher inflation and not (yet) to a normalization of monetary conditions after the Covid-19 pandemic. Real yields will rise when the US economy gets back to a maximum employment and inflation crosses 2%. We are not yet in the taper tantrum or 2018 “volmageddon”. This is a process or a market map to be ready for the Art of Tragedy which, we think, will dominate in the near future (in the fall probably) all worries. Another medium-term headwind for us is the positioning of investors.

CHART 10: TRADING PLAN FOR THE MSCI WORLD - 01.03.21

Source: Bloomberg – Stouff Capital 2021

Our recent survey shows that 65% of respondents think equities are up in 2021 with 40%, up more than 7%. The lowest percentage bets on a fall between 0 and -7%, which by the way is our target. We also learn that they believe EM and Tech (with Amazon as the best performer) should be the best region and sector, followed by US and Energy. What does our matrix think?

In 2021 Global equities will

Fall more than -7%	20%
Be Negative -7% to 0%	16%
Be Up 0 to 7%	25%
Be Up more than 7%	40%

153 votes •

Which sector outperform?
You can see how people vote. Learn more

Technology	45%
Financials	25%
Staples	2%
Energy	27%

44 votes • Poll closed

Which equity region outperforms in 2021
You can see how people vote. Learn more

Us	32%
Europe	2%
Japan	7%
Em	59%

41 votes • Poll closed

Which FAANG has the best 2021 return ?
You can see how people vote. Learn more

Facebook	3%
Apple	37%
Amazon	53%
Google	7%

30 votes • Poll closed

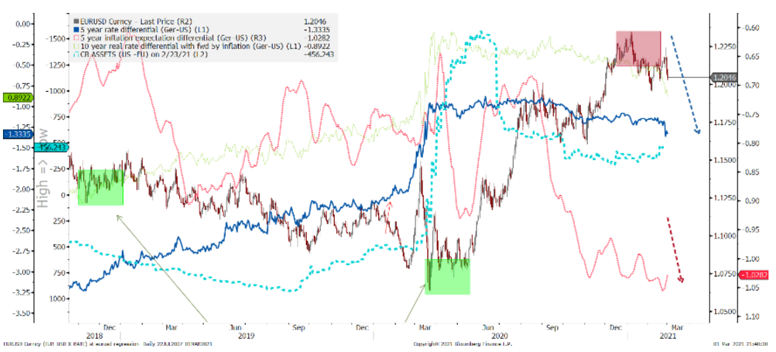
Source: Bloomberg – Stouff Capital 2021

Contrary to this survey, our regional matrix is Overweight Europe, while being UW EM & China while US is neutral. Many factors favor Europe: a better valuation, the rotation from growth to value/cyclicals and a cautious sentiment (like in the above survey). US, China and EM are very expensive, their positioning / sentiment extremely complacent, driven by the new retail investors. What's more, our FX models favor a higher dollar, which is bullish Europe and Japan but bearish EM.

In chart 11, Euro versus dollar rate, real rate & inflation expectation differentials, new central bank assets differential calculate an equilibrium price between 1.15 and 1.18. Rising US yields & stronger US growth should drive USD up. The overall equity market typically performs better when USD is weaker, with the correlation between global equities and USD pretty consistently inverse (see chart 12). If USD were to show a notable strengthening this year, that would go against the consensual bullish equity market call.

Eurozone equities have underperformed the rest of the world (ROW) when Euro fell since 2011, but also continued their underperformance when Euro rebounded (chart 13). We think there is such a big alligator spread that, even if the Euro were to fall again, MSCI Europe could outperform the ROW. To the contrary, EM equities (chart 14) traditionally show a strong negative link to the USD. Say differently, EM equities tend to do poorly in strong dollar regime. This justifies our recent hedge on EEM.

CHART 11 & 12: EURO VERSUS USD EQUATION, CORRELATION MSCI / DXY- 01.03.21



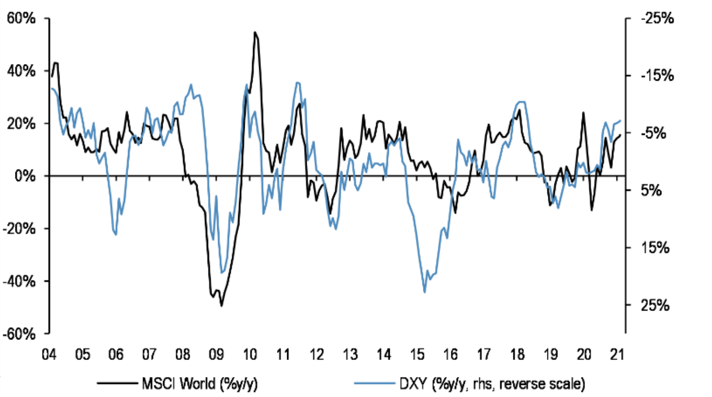
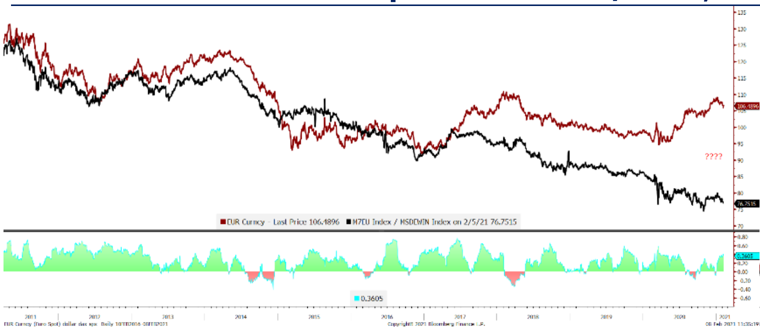
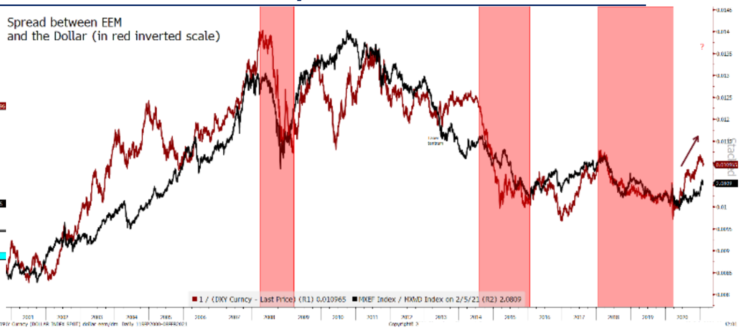


CHART 13 & 14: Euro & spread MSCI EU/ROW, Dollar inverted & EEM/ROW





Source: Bloomberg – Stouff Capital – JPM

In terms of sectors, our Sector matrix is aligned with the message of the Bond vigilantes: OW Financials, value, cyclicals, UW Utilities, Staples and neutral Tech. Annex 2 to 5 show the performances of sectors in the 4 previous inflation fears. In 2013 (annex 2) Utilities XLU falls from 91.7 to 73.7, while Financials outperform (XLF rises from 97.5 to 102), Softwares outperform in the first step (IGV rises from 122 to 131 then falls to 124). In 2016 (annex 3), Financials outperform by 20%, while Softwares underperform by 5% and Utilities by 12%. In 2018, (annex 4), XLU falls from 91 to 74 in a first step before rebounding towards 95, while financials outperform (XLF rises from 108.5 to 120.4) before falling to 108.5 (4Q18), Softwares are in line with the S&P500 before outperforming during the big sell-off (IGV rises from 175 to 207). This time may be different for Softwares as they are much more expensive today. Conclusion is straightforward, stay long Financials, underweight Utilities and find level to reduce Softwares. Moreover, 10 YR breakeven tend to all the more help forecast the outperformance of Financials versus the benchmark once 10YR rates catch them, like in 2012, than the positioning is bullish bonds.

CHART 15: US SECTOR MATRIX

27.02.2021		XLF	XLE	XLV	XRT	XLI	XLP	XLB	VOX --> XLC	XLU	XLK	XLRE
Sector Grade (from -100% to 100%)		42%	50%	41%	13%	46%	-7%	40%	10%	-20%	39%	3%
Period change												
S&P 500 Sector ranking		3	1	4	7	2	10	5	8	11	6	9
		Financials	Energy	Health Care	Discretionary	Industrials	Staples	Materials	Communication	Utilities	Technology	Real Estate
S&P 500 Weight per sector	100% Weight	11%	3%	13%	12%	8%	6%	3%	11%	3%	27%	3%
Trend	40%	100%	100%	70%	70%	100%	-50%	70%	70%	-50%	70%	70%
Contrarian trend		-9%	-14%	13%	13%	-4%	21%	2%	-3%	21%	8%	5%
Relative valuation since 1995	15%	25%	-98%	-45%	-97%	-100%	-33%	-79%	-50% adjus. with GICS chg	-32%	-57%	-99%
Earning momentum	10%	0%	78%	-39%	50%	11%	-72%	33%	0%	-83%	0%	-78%
Short-term intra sector perf	10%	92%	100%	33%	25%	75%	17%	58%	67%	8%	42%	0%
		yield curv mortgage whol. Spr	Oil	Fed spending drugs deals >65 pop	apparel consumer watch. Sales	dur. Goods PMI manuf	beverage Cpi care Cpi tobac	PPI cement Steel cap uti	rates	rates, prod util	Equp. Booking mobile sales	Yield curves
Factors	10%	-11%	100%	100%	-11%	75%	78%	67%	-100%	-67%	100%	11%
Contrarian Sentiment	15%	-45%	-52%	32%	-42%	-22%	47%	-19%	-39%	73%	16%	-38%
Weight (OW, Neutral, UW)		OW	OW	N	N	OW	UW	N	N	UW	N	UW
Catalyst (green: bullish; red:bearish)		(+) Deregulation, better BS, split congress (+) Higher rates and Yield curve	Oil up	(+) Secular tailwinds with Grey economy (-) Blue wave	(+) Opening economy (-) Covid19	increased fed spending Biden infrastructure plan	(+) Covid19, grocery rush (-) Opening economy	Rebounding commodities	(+) FANG favored with covid19 (-) political headwinds FANG	Higher rates, low foreign exposures useless with lower dollar	(+) innovation cycle (AI, cloud) (-) GDPR regulation	cloud industry warehouse REIT space, (-) covid19 headwind for rental
Sentiment details												
12month etf flows	26650	9990	11539	1509	395	5033	-4034	1942	584	99	810	-1219
3month etf flows (3m=72,20d=26)	9390	8525	4586	-1194	604	616	-3069	1008	90	-438	-1340	0
20d etf flows (too high is negative)	2/3	-82%	-87%	34%	-77%	-32%	62%	-29%	-57%	81%	11%	-62%
smart sentiment	1/3	29%	18%	26%	26%	-1%	18%	-1%	-3%	56%	27%	11%

Source: Bloomberg – Stouff Capital – 2021

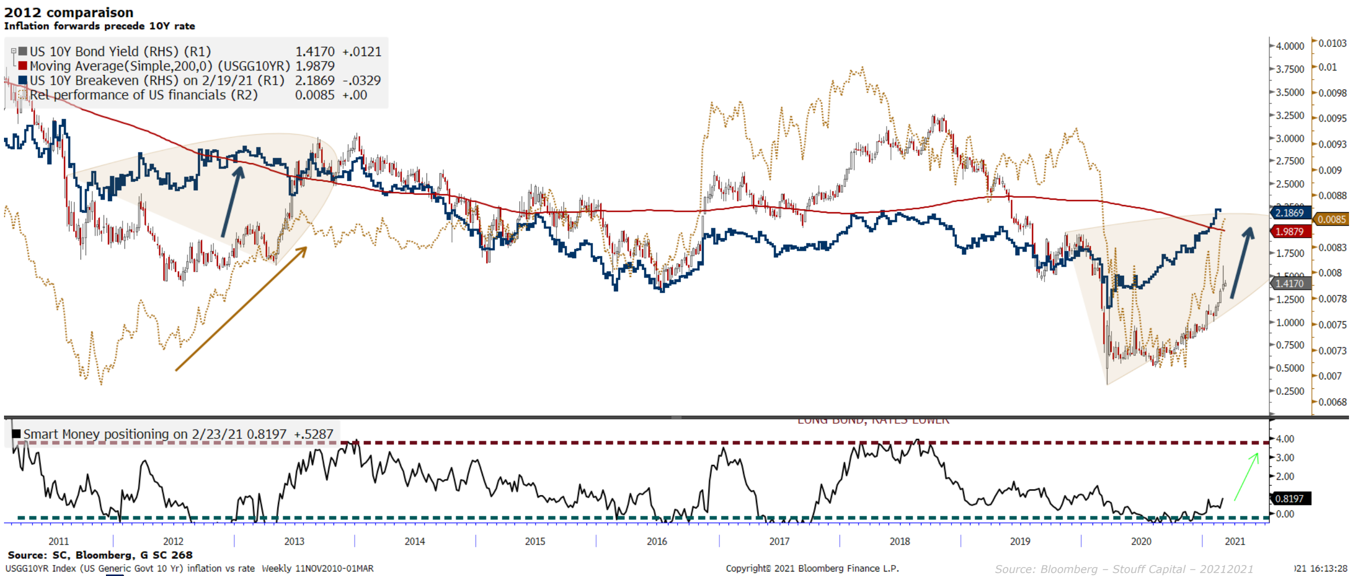
CHART 15: EU SECTOR MATRIX

27.02.2021		SX7PEX	SXEPEX	SXDPEX	SXAPEX	SXNPEX	SX3PEX	SXPPEX	SXKPEX	SX6PEX	SX8PEX	SREEEX
Sector grade (-100 to 100%)		54%	40%	-25%	13%	18%	-10%	21%	5%	-11%	32%	-19%
Period change												
Europe Sector ranking		1	2	11	6	5	8	4	7	9	3	10
		Financials	Energy	Health Care	Discretionary	Industrials	Staples	Materials	Communication	Utilities	Technology	Real Estate
Stoxx 600 Weight per sector	99.4% Weight	14%	4%	13%	14%	14%	13%	9%	4%	5%	7%	2.0%
Trend	40%	93%	100%	-60%	87%	70%	15%	68%	70%	-10%	70%	40%
Contrarian trend		0%	-7%	19%	0%	3%	0%	0%	14%	24%	4%	12%
Relative valuation since 1995	15%	17%	-87%	-48%	-93%	-98%	-98%	-81%	-18%	-56%	-66%	-100%
Earning momentum	10%	47%	81%	-78%	5%	22%	-51%	45%	-72%	-26%	-39%	-85%
Short-term intra sector perf	10%	63%	44%	-89%	38%	33%	-56%	15%	-78%	-100%	0%	-56%
		yield curv Italy NPL TLTRO	Oil	drugs deals >85 pop	Retail sales German tyres autos	PMI manuf ind. Prod	beverage Cpi tobac	PPI cement Steel cap uti	rates	rates, nat gaz	Equp. Booking mobile sales	rates
Factors	10%	88%	100%	100%	-78%	-7%	67%	78%	-100%	0%	100%	-100%
Sentiment	15%	-37%	-42%	35%	-30%	-9%	19%	-51%	-6%	33%	38%	-7%
Weight (OW, Neutral, UW)		OW	OW	UW	N	N	N	N	N	UW	OW	UW
Catalyst (green: bullish; red:bearish)		Higher rates	Oil rebounding from multi-years LOW	product cycle COVID19	COVID19 impact fading ?	EU Recovery fund	COVID19 impact fading	(+) EU go green (-) EU go green	weak pricing and increased capex	(+) EU go green (-) higher rates	Innovation cycle	Higher rates, Covid19
Sentiment details												
3month etf flows	1489	774	388	-7	16	103	-74	302	83	-124	22	4
etf flows	2/3	-50%	-81%	31%	-40%	-12%	19%	-63%	-36%	45%	54%	-22%
smart sentiment	1/3	-10%	34%	43%	-10%	-3%	18%	-27%	55%	9%	6%	23%

Source: Bloomberg – Stouff Capital – 2021

Under the surface there will be winners and losers from a higher-yield backdrop. High-multiple, long-duration stocks like those of many highflying software companies will be disadvantaged. Bond-proxy sectors like utilities will appear less attractive relative to risk-free Treasuries. The vaccine should drive underperformance of companies experiencing a decline in earnings and sales' growth in 2021, after getting strong growth in 2020 which explained their strong 2020 price returns. In our updated quantitative list of stocks to short (click here and annex 5 & 6), we screen for bad quantitative Growth grades mixed with a bad 9th November's return and now a bad daily return when rates rose a lot (2 dates: Jan 6, 2021 and Feb 16th). We find Shorts, such as Gold miners, tech names like Coupa, Splunk, Mongodb, Roku, Beyond Meat, Pagerduty, Twilio, Godaddy, Campbell Soup, Iliad, Xilinx, Ubisoft, Vonovia. A lot of Tech, Telecommunications, Confinement consumer goods' companies make the list.

CHART 15: US 10YR BREAKEVEN (BLUE), XLF/SPX (dooted gold) & US 10YR RATES



Source: Bloomberg – Stouff Capital – 20212021

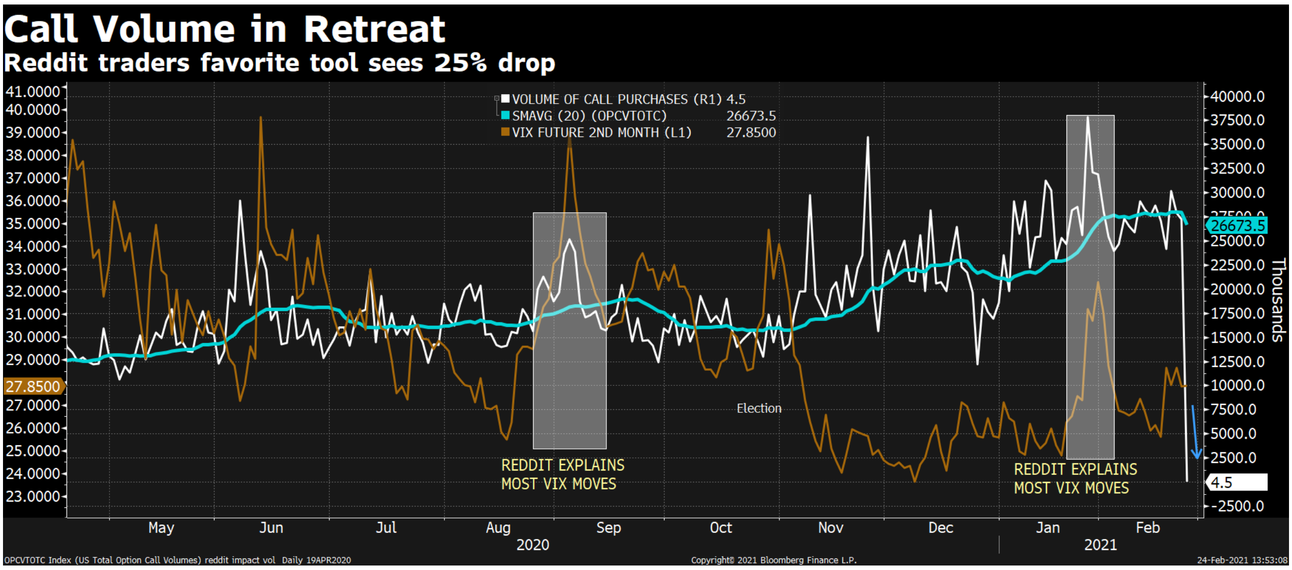
Parodos

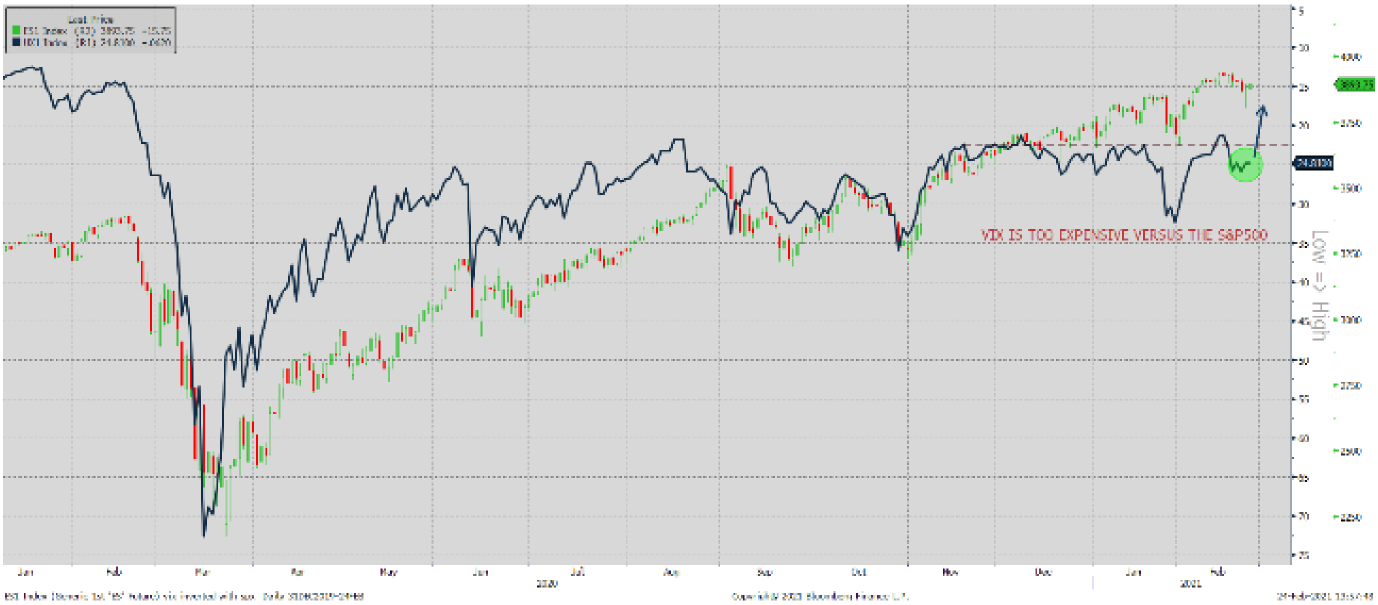
The current positive bond-equity correlation starts the "Art of Tragedy", when stocks have struggled in past when 10y Treasury yield has moved up by ~100-125bps. We think all conditions are not yet in place for a significative equity correction as there is no pressure on the Fed to hike before "seeing actual progress, not forecast progress towards its employment and inflation goals". Long bonds are taking steep losses, but this is not the taper tantrum or "volmageddon." It is still simply a modest reversal and a return to yields that at least somewhat resemble normal. Furthermore, most of the rise in yields has been from higher inflation compensation amid greater optimism about the economy. Of the roughly 110-basis-point increase in the 10-year yield from the cycle's lows, only 25 basis points have been in the real yield. The real yield on 10-year Treasury inflation-protected securities is still negative, at minus 0.7%. Rising rates and rising stocks go hand in hand more often than not. An apt parallel might be 2009, when the 10-year Treasury yield increased by 1.6 percentage points and the S&P 500 returned 26%. In the coming weeks, the tug of war over multiples and when the Fed might flinch will inject volatility, but not yet ends the bull market; we expect global equities to not correct more than 4% during this turbulence and rises another 5%, with Europe outperforming US and EM.

But we think sooner the FOMC September meeting arrives, then the delicate balance may switch to the ugly side. GOOD shall become BAD. Good economic data & earnings will become evil for the stock market, because faster inflation and the speed of the recovery could force the Fed to take its foot off the gas sooner than expected. Slowing in the pace of growth in central bank balance sheet expansion has been associated with valuation contraction in the past. Chinese free liquidity peaked in Q3 last year (see here). We have already reduced our allocation to EM and specifically for China by adding new hedges.

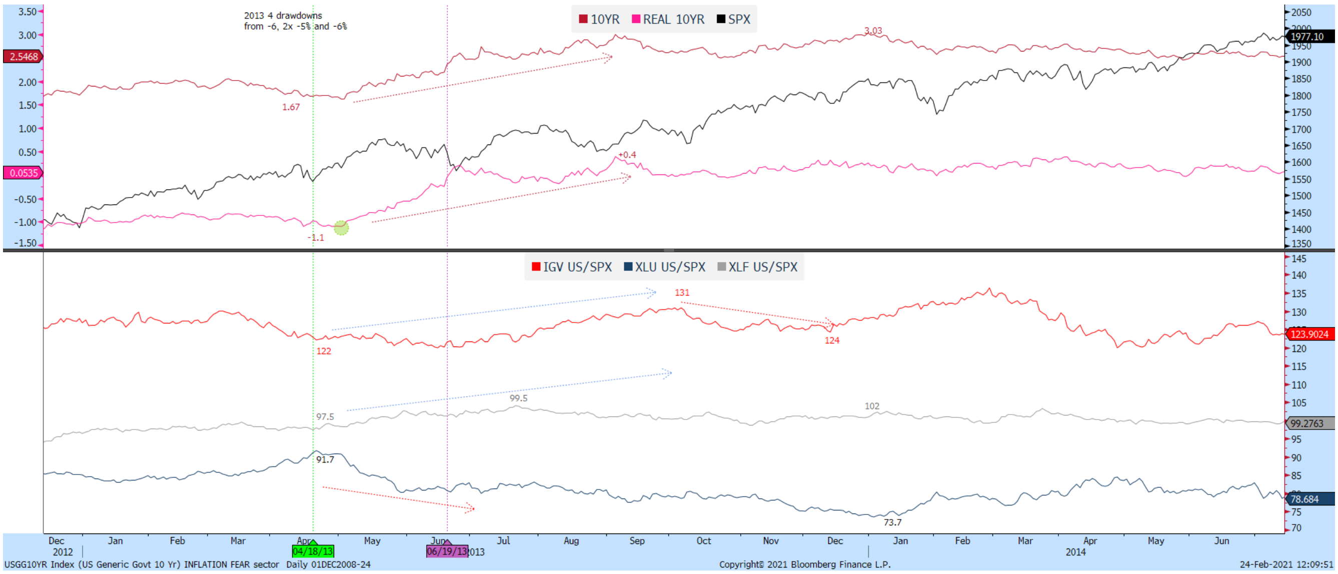
In terms of price action, we expect the S&P500 to trade between 3658 and 4020 during the first semester of 2021, with a sell-off of the VIX towards 15. We still expect the biggest returns from the companies benefitting from the rotation from confinement to the Vaccine theme over time. Then, the Art of Tragedy should intensify as we attend the September FOMC meeting and our best guess is that a strong correction could then emerge, with global equities finishing in negative territory in 2021.

Annex 1: VIX MODEL CALLS FOR A 15 LEVEL



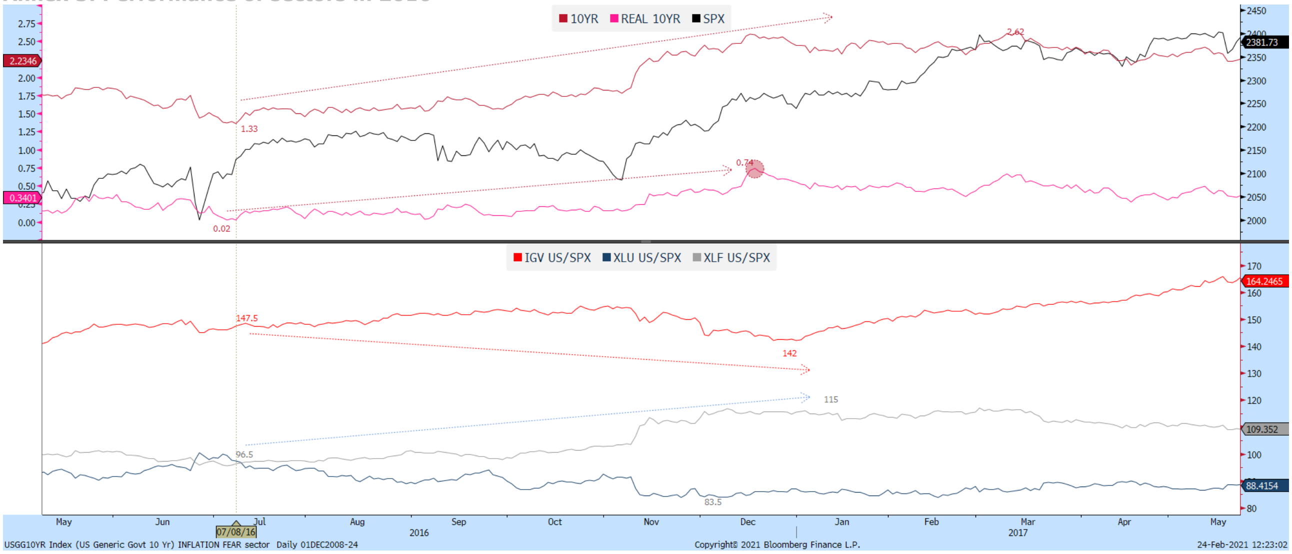


Annex 2: Performance of sectors in 2013

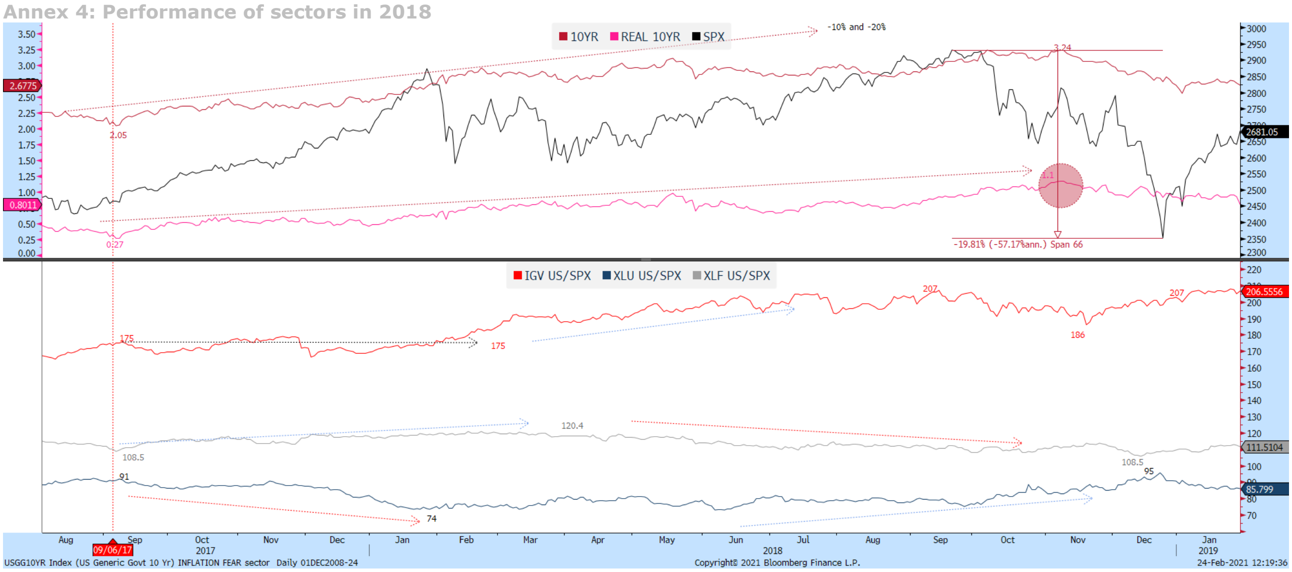


Source: Bloomberg –Stouff Capital

Annex 3: Performance of sectors in 2016



Annex 4: Performance of sectors in 2018



Annex 5: List of stocks to short in an environment of rotation from growth towards value and rising rates

Which stocks to short based on EPS growth below 45, sentiment below 44%, volume flow between 10% and 49%)

Ticker	NAME	comment	GICS_SECTOR_NAME	GG	GG chg ..	SALES	SS	MF	RV	EQ	global	K	yield..	1602	REL_1M	REL_3M	RSST
CHTR US EQUITY	CHARTER COMMUNICA..	Hold	Communication Services	38	-17.0	59.0	55	79.0	36	49	51.1	126.3	-1.9%	0.8%	-6.9	-12.5	56
CPB US EQUITY	CAMPBELL SOUP CO	Hold	Consumer Staples	38	-2.0	36.0	5	30.0	62	57	52.2	14.7	-2.0%	-1.4%	-8.1	-11.6	33
EXAS US EQUITY	EXACT SCIENCES CORP	Sell	Health Care	16	-15.0	68.0	85	37.0	46	50	34.4	23.0	-2.0%	-0.5%	-6.4	7.4	86
XLNX US EQUITY	XILINX INC	Sell	Information Technology	44	-3.0	57.0	15	13.0	24	67	37.9	34.7	-2.1%	-2.2%	-12.5	-12.1	82
ZEN US EQUITY	ZENDESK INC	Sell	Information Technology	41	-14.0	87.0	5	24.0	27	50	43.1	16.4	-2.3%	-2.2%	-0.4	1.5	89
PLD US EQUITY	PROLOGIS INC	Buy	Real Estate	43	4.0	64.0	85	50.0	31	43	62.3	72.5	-2.4%	-1.0%	-3.9	-2.9	50
WDAY US EQUITY	WORKDAY INC-CLASS A	Sell	Information Technology	31	-18.0	69.0	95	5.0	34	47	42.1	43.5	-2.4%	-2.3%	7.2	10.8	78
ZNGA US EQUITY	ZYNGA INC - CL A	Sell	Communication Services	44	-3.0	85.0	75	2.0	41	50	46.4	10.5	-2.4%	-0.9%	7.0	30.2	85
NKTR US EQUITY	NEKTAR THERAPEUTICS	Sell	Health Care	27	-21.0	39.0	55	8.0	38	34	28.6	3.3	-2.5%	-1.7%	23.7	29.1	42
GDDY US EQUITY	GODADDY INC - CLASS A	Sell	Information Technology	38	12.0	63.0	5	87.0	38	50	42.4	14.2	-2.6%	-0.9%	-2.0	-2.8	51
BL US EQUITY	BLACKLINE INC	Sell	Information Technology	29	-24.0	74.0	5	22.0	27	50	32.1	7.8	-2.8%	-3.5%	-6.7	0.0	91
UBER US EQUITY	UBER TECHNOLOGIES I..	Sell	Industrials	39	-5.0	47.0	75	14.0	46	50	36.8	96.2	-2.8%	-0.2%	-0.4	-4.0	81
SPLK US EQUITY	SPLUNK INC	Sell	Information Technology	29	0.0	55.0	75	19.0	45	30	33.2	28.4	-3.1%	-2.3%	-16.1	-30.8	25
AYX US EQUITY	ALTERYX INC - CLASS A	Sell	Information Technology	23	-25.0	57.0	75	13.0	35	50	30.8	7.4	-3.2%	-2.7%	-20.5	-21.8	5
VRSN US EQUITY	VERISIGN INC	Hold	Information Technology	40	-21.0	47.0	55	12.0	28	44	53.8	24.5	-3.4%	-2.1%	-2.4	-9.2	32
NTNX US EQUITY	NUTANIX INC - A	Sell	Information Technology	33	9.0	56.0	85	75.0	47	43	45.0	6.2	-3.4%	0.6%	-7.8	4.3	24
TWLO US EQUITY	TWILIO INC - A	Sell	Information Technology	28	-7.0	85.0	75	3.0	28	30	33.8	51.4	-3.6%	-3.2%	6.9	17.2	99
PD US EQUITY	PAGERDUTY INC	Sell	Information Technology	40	-3.0	71.0	15	12.0	41	50	31.9	3.6	-3.7%	-2.1%	-7.2	27.1	95
PLAN US EQUITY	ANAPLAN INC	Sell	Information Technology	31	-18.0	68.0	85	79.0	44	50	41.2	10.3	-3.8%	1.8%	1.6	-9.4	56
TEAM US EQUITY	ATLASSIAN CORP PLC-C..	Sell	Information Technology	37	0.0	83.0	85	18.0	25	38	44.4	30.8	-4.2%	-1.6%	4.4	1.8	84
FIVN US EQUITY	FIVE9 INC	Sell	Information Technology	29	-14.0	91.0	65	10.0	22	50	36.0	11.6	-4.5%	0.5%	11.1	18.9	96
COUP US EQUITY	COUPA SOFTWARE INC	Sell	Information Technology	34	-4.0	78.0	15	30.0	30	39	31.6	24.8	-4.6%	-2.5%	10.7	-2.7	94
RETA US EQUITY	REATA PHARMACEUTIC..	Sell	Health Care	39	-6.0	28.0	45	78.0	43	40	30.8	4.0	-4.6%	0.5%	5.8	-23.1	2
BIGC US EQUITY	BIGCOMMERCE HOLDIN..	Sell	Information Technology	39	0.0	80.0	85	96.0	44	50	41.4	4.3	-4.7%	-0.3%	-26.8	-25.1	97
SMAR US EQUITY	SMARTSHEET INC-CLAS..	Sell	Information Technology	42	-3.0	71.0	65	81.0	44	50	42.4	8.6	-5.0%	-2.5%	2.1	19.1	78
SNOW US EQUITY	SNOWFLAKE INC-CLASS..	Sell	Information Technology	44	-5.0	59.0	75	96.0	43	50	40.3	15.4	-5.6%	-1.6%	-6.9	-18.6	95
MDB US EQUITY	MONGODB INC	Sell	Information Technology	33	-3.0	74.0	15	92.0	44	50	36.0	21.9	-5.7%	-3.5%	7.3	35.7	97
FSLY US EQUITY	FASTLY INC - CLASS A	Sell	Information Technology	14	-22.0	66.0	75	2.0	44	50	29.5	9.2	-5.9%	-4.5%	-32.2	-17.7	99
BYND US EQUITY	BEYOND MEAT INC	Sell	Consumer Staples	45	21.0	58.0	65	1.0	38	50	34.8	7.9	-6.7%	-1.4%	-22.7	-2.4	68
AVLR US EQUITY	AVALARA INC	Sell	Information Technology	23	-15.0	81.0	15	15.0	40	50	31.4	14.5	-8.0%	-3.0%	3.6	-11.3	90
BAND US EQUITY	BANDWIDTH INC-CLASS..	Sell	Communication Services	32	-19.0	77.0	75	5.0	32	50	36.8	3.5	-8.4%	2.1%	-5.8	5.5	96
WBA US EQUITY	WALGREENS BOOTS AL..	Sell	Consumer Staples	30	-7.0	46.0	75	29.0	78	52	44.3	34.3			-1.4	17.1	38

Annex 6: List of stocks to short in an environment of rotation from growth towards value and rising rates (3 dates <0)

Which stocks to short based on EPS growth below 45, sentiment below 44%, volume flow between 10% and 49%)

Ticker	NAME	comment	GICS_SECTOR_NAME	GG	GG chg 1m	SALES	SS	MF	RV	EQ	global	K	nov9	6jan	1602	REL_1M	REL_3M	RSST
GRUB US EQUITY	GRUBHUB INC	Sell	Consumer Discretionary	42	4.0	75.0	15	100.0	46	50	44.0	6.9	-10.9%	-1.8%	-1.1%	-15.7	-14.2	67
ZNGA US EQUITY	ZYNGA INC - CL A	Sell	Communication Services	44	-3.0	85.0	75	2.0	41	50	46.4	10.5	-8.9%	-2.4%	-0.9%	7.0	30.2	85
BKI US EQUITY	BLACK KNIGHT INC	Hold	Information Technology	35	-15.0	66.0	35	75.0	30	50	51.9	13.9	-8.1%	-0.3%	-6.0%	-3.2	-19.1	49
YRI CN EQUITY	YAMANA GOLD INC	Sell	Materials	40	-14.0	44.0	45	29.0	65	50	39.7	5.5	-6.4%	0.0%	-3.0%	-15.6	-23.9	22
COUP US EQUITY	COUPA SOFTWARE INC	Sell	Information Technology	34	-4.0	78.0	15	30.0	30	39	31.6	24.8	-6.2%	-4.6%	-2.5%	10.7	-2.7	94
TWLO US EQUITY	TWILIO INC - A	Sell	Information Technology	28	-7.0	85.0	75	3.0	28	30	33.8	51.4	-6.2%	-3.6%	-3.2%	6.9	17.2	99
GDDY US EQUITY	GODADDY INC - CLASS A	Sell	Information Technology	38	12.0	63.0	5	87.0	38	50	42.4	14.2	-5.8%	-2.6%	-0.9%	-2.0	-2.8	51
BL US EQUITY	BLACKLINE INC	Sell	Information Technology	29	-24.0	74.0	5	22.0	27	50	32.1	7.8	-5.7%	-2.8%	-3.5%	-6.7	0.0	91
TEAM US EQUITY	ATLASSIAN CORP PLC-C..	Sell	Information Technology	37	0.0	83.0	85	18.0	25	38	44.4	30.8	-5.4%	-4.2%	-1.6%	4.4	1.8	84
FLO US EQUITY	FLOWERS FOODS INC	Buy	Consumer Staples	36	-16.0	45.0	45	84.0	58	60	63.4	4.9	-5.0%	-0.1%	-1.4%	-3.1	-5.1	35
PLD US EQUITY	PROLOGIS INC	Buy	Real Estate	43	4.0	64.0	85	50.0	31	43	62.3	72.5	-5.0%	-2.4%	-1.0%	-3.9	-2.9	50
FSLY US EQUITY	FASTLY INC - CLASS A	Sell	Information Technology	14	-22.0	66.0	75	2.0	44	50	29.5	9.2	-5.0%	-5.9%	-4.5%	-32.2	-17.7	99
MDB US EQUITY	MONGODB INC	Sell	Information Technology	33	-3.0	74.0	15	92.0	44	50	36.0	21.9	-5.0%	-5.7%	-3.5%	7.3	35.7	97
BYND US EQUITY	BEYOND MEAT INC	Sell	Consumer Staples	45	21.0	58.0	65	1.0	38	50	34.8	7.9	-4.1%	-6.7%	-1.4%	-22.7	-2.4	68
PSA US EQUITY	PUBLIC STORAGE	Buy	Real Estate	43	-1.0	54.0	85	50.0	35	48	62.2	40.1	-4.0%	-1.6%	-0.8%	7.4	3.3	45
CPB US EQUITY	CAMPBELL SOUP CO	Hold	Consumer Staples	38	-2.0	36.0	5	30.0	62	57	52.2	14.7	-3.9%	-2.0%	-1.4%	-8.1	-11.6	33
PD US EQUITY	PAGERDUTY INC	Sell	Information Technology	40	-3.0	71.0	15	12.0	41	50	31.9	3.6	-3.2%	-3.7%	-2.1%	-7.2	27.1	95
SGEN US EQUITY	SEATTLE GENETICS INC	Sell	Health Care	29	-26.0	44.0	85	28.0	40	53	37.2	33.7	-3.0%	-1.3%	-3.9%	-12.6	-14.0	72
XLNX US EQUITY	XILINX INC	Sell	Information Technology	44	-3.0	57.0	15	13.0	24	67	37.9	34.7	-2.5%	-2.1%	-2.2%	-12.5	-12.1	82
SPLK US EQUITY	SPLUNK INC	Sell	Information Technology	29	0.0	55.0	75	19.0	45	30	33.2	28.4	-2.3%	-3.1%	-2.3%	-16.1	-30.8	25
K US EQUITY	KELLOGG CO	Buy	Consumer Staples	43	-2.0	44.0	95	71.0	67	50	68.7	21.4	-2.2%	-0.8%	-0.9%	-3.1	-12.0	26
OTEX US EQUITY	OPEN TEXT CORP	Sell	Information Technology	41	2.0	70.0		72.0	53	60		12.5	-1.9%	-1.8%	-1.5%	-2.9	-2.6	41
NKTR US EQUITY	NEKTAR THERAPEUTICS	Sell	Health Care	27	-21.0	39.0	55	8.0	38	34	28.6	3.3	-1.9%	-2.5%	-1.7%	23.7	29.1	42
VRSN US EQUITY	VERISIGN INC	Hold	Information Technology	40	-21.0	47.0	55	12.0	28	44	53.8	24.5	-1.6%	-3.4%	-2.1%	-2.4	-9.2	32
NVTA US EQUITY	INVITAE CORP	Sell	Health Care	30	-6.0	72.0	85	14.0	38	50	34.2	8.7	-1.2%	-1.5%	-5.4%	-16.9	-19.5	92
WDAY US EQUITY	WORKDAY INC-CLASS A	Sell	Information Technology	31	-18.0	69.0	95	5.0	34	47	42.1	43.5	-0.7%	-2.4%	-2.3%	7.2	10.8	78
ZEN US EQUITY	ZENDESK INC	Sell	Information Technology	41	-14.0	87.0	5	24.0	27	50	43.1	16.4	-0.7%	-2.3%	-2.2%	-0.4	1.5	89
EXAS US EQUITY	EXACT SCIENCES CORP	Sell	Health Care	16	-15.0	68.0	85	37.0	46	50	34.4	23.0	-0.7%	-2.0%	-0.5%	-6.4	7.4	86
TMUS US EQUITY	T-MOBILE US INC	Hold	Communication Services	42	-17.0	69.0	85	51.0	35	36	59.6	165.3	-0.6%	-0.2%	-1.4%	-7.5	-11.0	69
AYX US EQUITY	ALTERYX INC - CLASS A	Sell	Information Technology	23	-25.0	57.0	75	13.0	35	50	30.8	7.4	-0.2%	-3.2%	-2.7%	-20.5	-21.8	5

Annex 7: List of EU stocks to short in an environment of rotation from growth towards value and rising rates (3 dates <0)

Ticker	NAME	comment	GICS_SECTOR_NAME	GG	GG chg 1m	SALES	SS	MF	RV	EQ	global	K	nov9	6jan	1602	REL_1M	REL_3M	RSST
ROSE SW EQUITY	ZUR ROSE GROUP AG	Sell	Consumer Staples	29	-4.0	58.0	15	70.0	43	41	29.2	3.3	-11.5%	-2.1%	-1.6%	-5.3	54.2	99
CLNX SM EQUITY	CELLNEX TELECOM SAU	Hold	Communication Services	27	3.0	79.0	95	44.0	34	43	51.8	30.1	-6.2%	-5.7%	-0.7%	-16.8	-17.6	34
DHER GR EQUITY	DELIVERY HERO SE	Sell	Consumer Discretionary	26	-7.0	72.0	55	10.0	45	32	33.1	32.5	-5.8%	-4.0%	-1.9%	-20.2	4.2	81
UBI FP EQUITY	UBISOFT ENTERTAINM..	Sell	Communication Services	45	0.0	56.0	15	46.0	48	51	46.5	12.1	-5.4%	-0.9%	-1.1%	-21.8	-15.7	28
ARGX BB EQUITY	ARGENX SE	Sell	Health Care	14	-8.0	63.0	75	58.0	37	50	38.8	15.7	-5.2%	-3.9%	-2.4%	6.3	16.4	92
GIVN SW EQUITY	GIVAUDAN-REG	Buy	Materials	43	-4.0	46.0	75	46.0	35	48	62.3	39.0	-5.0%	-0.8%	-1.5%	-4.0	-4.7	47
VNA GR EQUITY	VONOVIA SE	Buy	Real Estate	42	1.0	61.0	85	70.0	27	52	63.8	41.6	-4.3%	-4.0%	-1.2%	-4.1	-11.0	38
CRBN NA EQUITY	CORBION NV	Hold	Materials	45	-5.0	37.0	75	58.0	19	40	53.5	3.4	-3.7%	-0.2%	0.0%	3.8	7.2	78
MOR GR EQUITY	MORPHOSYS AG	Hold	Health Care	45	1.0	56.0	75	90.0	46	40	54.9	3.7	-3.7%	-1.0%	-0.7%	-16.6	-12.1	13
EBRO SM EQUITY	EBRO FOODS SA	Buy	Consumer Staples	38	-7.0	34.0	95	51.0	71	50	65.9	3.6	-3.2%	-0.2%	-0.8%	-7.1	-2.2	49
ROG SW EQUITY	ROCHE HOLDING AG-GE..	Buy	Health Care	42	-1.0	31.0	75	48.0	51	50	61.8	245.0	-3.1%	-1.0%	-0.5%	-4.6	-3.5	21
RO SW EQUITY	ROCHE HOLDING AG-BR	Sell	Health Care	42	-1.0	31.0		56.0	50	58		55.9	-2.5%	-0.7%	-0.9%	-4.7	-1.2	27
MRK GR EQUITY	MERCK KGAA	Buy	Health Care	37	-8.0	57.0	55	84.0	44	44	60.8	22.0	-2.2%	-0.5%	-1.1%	-4.1	-1.6	58
VIS SM EQUITY	VISCOFAN SA	Buy	Consumer Staples	38	-3.0	52.0	55	64.0	51	52	60.7	3.4	-1.8%	-0.8%	-0.7%	-7.4	-6.0	54
ENX FP EQUITY	EURONEXT NV	Buy	Financials	45	-18.0	80.0	75	52.0	40	57	64.3	7.9	-1.6%	-0.5%	-0.7%	-5.4	-2.1	53
OSR GR EQUITY	OSRAM LICHT AG	Hold	Industrials	40	-19.0	40.0	25	33.0	46	51	57.9	6.1	-1.1%	0.0%	-0.5%	-1.2	-5.5	47
NVS US EQUITY	NOVARTIS AG-SPONSO..	Sell	Health Care	42	-6.0	37.0		42.0	49	58		225.0	-0.9%	-1.2%	-0.6%	-9.1	-7.8	35
SCHN SW EQUITY	SCHINDLER HOLDING A..	Sell	Industrials	40	-2.0	40.0		53.0	41	61		18.0	-0.9%	-0.3%	-0.3%	9.4	2.3	57
GNS LN EQUITY	GENUS PLC	Hold	Health Care	42	-12.0	59.0	25	95.0	22	40	52.4	3.7	-0.3%	-0.8%	-0.3%	6.4	15.1	83

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The Equity quantitative grades
EPS Growth Grade: The EPS Growth Grade is a proprietary formula made up of earnings revisions momentum, past earnings growth, earnings stability, and current and long-term earnings growth. A grade above 55 is considered bullish on a 3-month basis, bearish below 45 and neutral between 55 and 45.
Sales Grade: The Sales Grade is a proprietary formula made up of current and next year's sales momentum, past sales growth, sales stability, and current and long-term sales growth. A grade above 55 is considered bullish on a 3-month basis, bearish below 45, and neutral between 55 and 45.
Relative Value Grade: The Relative Value Grade is a proprietary formula made up of estimated P/E, P/B, P/S and P/CF ratios. 40% of the grade is based on historical values and 60% on current market data. A grade above 55 suggests a stock is cheap, below 45 expensive, and neutral between 55 and 45.
Quality Grade: The quality rating is a proprietary formula that focuses on the balance sheet (i.e. change in accruals, change in free cash flows and profitability). A grade above 55 suggests a stock with a good balance sheet.
Volume Flow Grade: The Volume Flow Grade is a proprietary formula that gives the accumulation/distribution based on the volume flows of a stock. A grade above 55 indicates good money flow and a grade below 45 suggests weak money flow.
Global Grade: The Global Grade is a weighted average of the Growth, Value, Berkshire, Quality and Money Flow Grades.
Relative Strength (RS) Grade: The RS grade measures the price momentum of a stock over its 1-year price performance.
Smart Sentiment Grade: Sometimes referred to as "Smart Sentiment," the Sentiment Grade ranks the sentiment of the smart money. The first digit of the figure goes to the level of bullishness, and the second digit goes to predictability. For example, a sentiment grade of 97 indicates 90% bullishness and 70% predictability.

The Regional MATRIX grades
The Regional Matrix grades range from -100% to +100%. We consider a grade above 30% to be very bullish, a grade above 10% to be bullish, and a grade between -10% and 10% to be neutral. A grade between -10% and -25% we consider bearish and a grade below -25% very bearish. This Regional Grade is a benchmark for the net exposure of the Urizen Fund.
Regional Grade: The Regional Grade (-100 to +100) is an indicator of a structural bull market or not. It is calculated by combining and applying weight to each of the other grades that make up the Regional Matrix (Trend, Contrarian Trend, Relative Valuation, Liquidity delta, Economics delta, and Contrarian Sentiment). If we believe equities to be in a structural bull market, we use 15 years of data to assess Valuation.
Trend Grade: The Trend Grade (-100% to +100%) is based on a moving averages model adjusted according to the overbought/oversold conditions of the region's main indices.
Relative Valuation Grade: The Valuation Grade (-100% to 100%) is based on the percentile rank of the regional Index stocks' P/E ratios since 1995 (current year estimated).
Economics delta Grade: The Economics delta Grade (-100% to 100%) is based on a combination of manufacturing and non-manufacturing PMIs and the Citigroup Surprise Indices. The Citigroup Economic Surprise Indices are an objective and quantitative measure of economic news and are defined as weighted historical standard deviations of data surprises (actual releases vs. Bloomberg survey median). A positive reading of the Economic Surprise Index suggests that economic releases have on balance beaten the consensus.
Contrarian Sentiment Grade: The Contrarian Sentiment Grade (-100% to 100%) is based on various contrarian and non-contrarian indicators.

The SC quantamental portfolios
The SC quantamental portfolios refer to our regional single stocks portfolios which are constructed through a mixed process of algos and fundamental analysis