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Taking stock as we enter 2021

2H/20 driven by global recovery theme. For the full calendar year 2020, the Nasdaq Composite (NAZ), Russell 2000 (RTY) and S&P 500 (SPX) Indices were up 43%, 18%, and 16%, respectively. While the weak-economic-growth mega-cap stay-at-home theme drove the markets in the first half, the second half was dominated by relative outperformance in areas that should benefit the most from a synchronized global recovery. We would like to make a few observations about the second-half market ramp:

- *Smaller was better.* All the annual gains for the SPX and RTY came in the second half with the SPX and RTY up 21% and 38%, respectively. In addition, the S&P 500 Equal Weighted Index (SPW) was up 25% as the NYSE Cumulative Advance/Decline Line consistently made new record highs.
- *Cyclicals were the leaders.* The top three performing sectors since the end of June were the Industrials, Materials and Financials with six-months gains of 29%, 28%, and 27%, respectively.
- *Emerging outperformed.* The US Dollar Index dropped 7.6% and the MSCI Emerging Market Index gained 30% as investors began to accept the possibility the global economy was beginning to recover from a total shutdown.
- *Economic-sensitive commodities jumped.* The Refinitiv Equal Weight Commodity Index (CCI) surged 26% since the end of June, with generic copper and oil up by 30% and 24%, respectively.

Staying with favored areas while watching indicators. The second half of 2020 was very different than the first half because investors began to discount the potential impact of historic excess liquidity on global expectations following the discovery of multiple Covid-19 vaccines. As we kickoff 2021, three of our four key tactical indicators remain stretched, which creates an environment ripe for consolidation as investors weigh worsening Covid-19 trends, the Georgia runoff election, and implications of a state-sponsored hacking of US government agencies and businesses:

- *Euphoric optimism is waning.* Following a record string of weeks over 100, the NAAIM Exposure Index has shown less equity market enthusiasm despite new highs in many closely watched market indices (Figure 1).
- *An extreme intermediate-term overbought condition.* Our trusty 14-week stochastic indicator for the S&P 500 (SPX) remains in extreme territory at 97 (Figure 2).
- *Volatility sending mixed message.* As the major market indices have made a record run, the CBOE Volatility Index (VIX) has dropped toward the pandemic lows but remains in elevated territory given the issues highlighted above (Figure 3).

Summary – the turn of the year shouldn't change our game plan. We continue to hold existing positions given our positive core fundamental thesis but are patiently waiting for our key tactical indicators to suggest a more attractive entry point, such as the September swoon and late October whoosh. The early week Georgia Senate runoff election and slew of significant economic data throughout the week should keep volatility with us for the time being, and we stand ready to add to any exposure investors might have on any meaningful weakness.

Figure 1: NAAIM Exposure Index suggests optimism beginning to wane

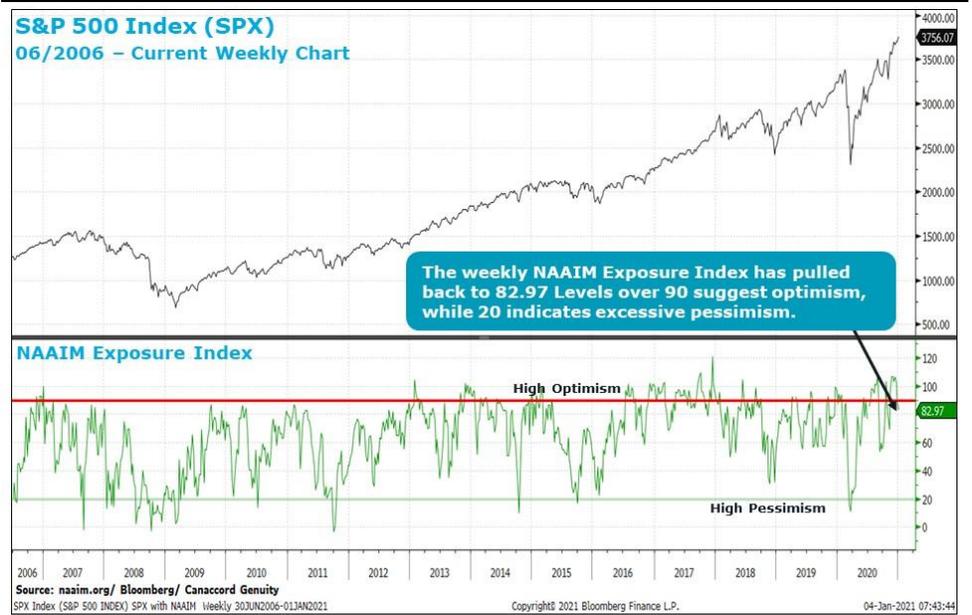
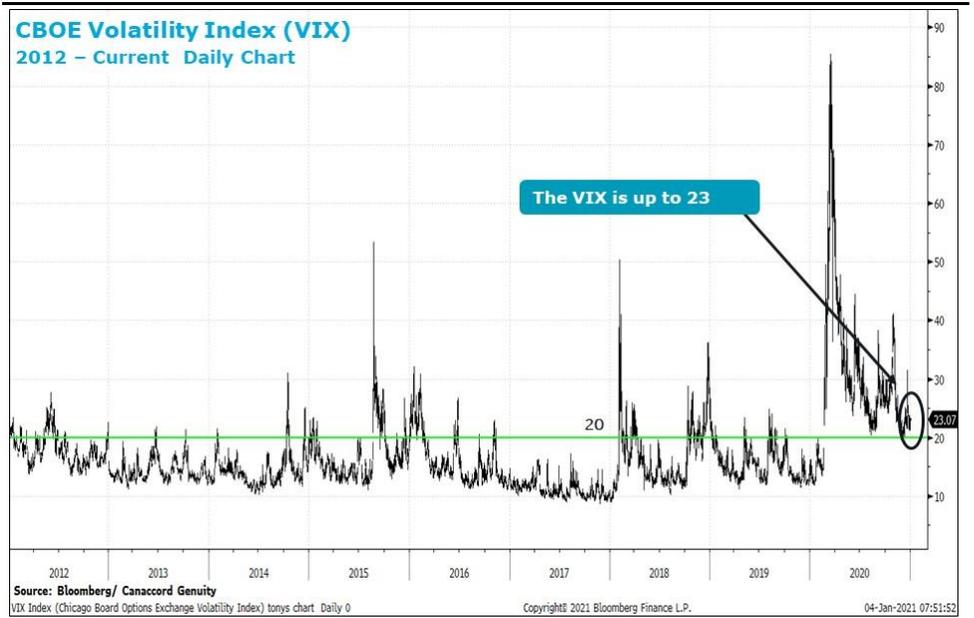


Figure 2: SPX weekly stochastic still extreme



Figure 3: The VIX is sending mixed messages



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Date and time of first dissemination: January 04, 2021, 08:38 ET

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	895*	100.0%	

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