

January 30, 2021

**In this strategy briefing...**

Although we are seeing some 'growing pains' in the US vaccination process, COVID-19 progress has been mostly positive. Stocks have positive risk/reward in the near term and I see several factors supporting collapse in equity risk premia. – Strategy – [Page 3](#)

My technical view remains unchanged. I'm expecting a more choppy, volatile trading range through Q1 that should create timely opportunities to increase exposure to cyclicals in Q2. I'm using CAT as a barometer to track the overall rebound in cyclicals. – Technical – [Page 7](#)

There have been talks behind the scenes that indicate the White House would like to find a bipartisan COVID relief deal. It wants the basic blueprint of the programs to remain intact though the dollar amount could be reduced below \$1.9T. – Policy – [Page 11](#)

**FS Insight Investment Views**

<b>Near Term View:</b>	Overweight Assets with Positive Beta to "Inflation Risk Premia"
<b>'21 Target:</b>	4,300 (YE P/E 21.1x · 2022 EPS \$204)
<b>Granny shots:</b>	AAPL, CSCO, INTC, MXIM, NVDA, EBAY, KLAC, GRMN, GOOG, MNST, MSFT, AMZN, QCOM, TSLA, PYPL, AXP, BF/B, PM, XLNX, TGT, PG, XOM, VLO, GL, RF, ATVI, BBY, GE, AMAT, LRCX, MU, HPQ
<b>Additions:</b>	TGT, ATVI, BBY, AMAT, LRCX, XOM, VLO, GL, RF, GE, PG, MU, HPQ
<b>Deletions:</b>	LEN, OMC, GWW, LOW

**The Wall Street Debrief**



**Vito J. Racanelli**  
Senior Editor & Marketing Intelligence Analyst  
Formerly a Senior Writer at Barron's, where he covered stocks, bonds, and financial markets

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**S&P Loses 2% On Week But Data and Earnings Largely Positive**

The S&P 500 closed last Friday at 3,841.47 and closed at 3,714.24 this afternoon. This was the worst weekly performance since October's pre-election jitters. It was certainly a wild week on the street. All and all though, when we look at the data and earnings, we are still convinced of our base case; stocks will consolidate in a mid-bull market correction down to around the 3,500 level for the S&P before resuming their upward trend and finishing the year significantly higher than current levels. Of the 154 companies that have reported so far 82% are beating earnings estimates by a median of 13%. On the top line, 78% are beating by an average of 9%. We're going into the new year with a fresh rise in household income and savings.

Do we think anything that happened this week suggests a watershed moment marking the beginning of a bear-market? Certainly not. We find elevated retail participation to be generally a good thing. More buyers and sellers ultimately should mean better markets. One thing that we think is incredibly important is to listen to markets and the very definitive language they speak in: price. Shouting at the market can end up being a rather expensive habit; best to stick to slogging it out on the links.

We want you to remember something very crucial; the moment you think you have markets nailed is probably when you're about to lose money. Mr. Market is fickle, he always has been and likely always will be. Markets are messy and they can provoke rage, joy and nearly everything in between. Despite all our collective team has experienced over the years, from crises and bull markets to new regulatory frameworks and founding new companies, we find the most important guiding principle is consistent analytical discipline.

Check out a quote from the first title ever written about stock markets. It is aptly called *The Confusion of Confusions* and was published in 1688. The setup is a philosopher asks the shareholder to explain to him this new trend he has heard of; stocks. This is how the

Analysis not opinions

shareholder responds in a way that’s simultaneously meant to be funny while also accurately describing the, at the time, new innovation of markets to a layman. This is how De La Vega’s shareholder responds:

*I really must say that you are an ignorant person, friend Greybeard, if you know nothing of this enigmatic business [stocks] which is at once the fairest and most deceitful in Europe, the noblest and most infamous in the world, the finest and the most vulgar on earth. It is the quintessence of academic learning and a paragon of fraudulence; it is a touchstone for the intelligent and a tombstone for the audacious, a treasury of usefulness and a source of disaster, and finally a counterpart of Sisyphus who never rests as also of Ixion who is chained to a wheel that turns perpetually.*

*Confusion of Confusions, Joseph de le Vega, 1688*

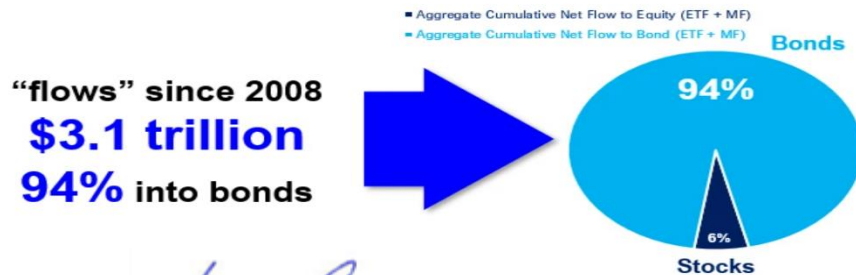
We also want you to remember that when you feel like you have a monopoly on being confused about stocks, that people have been confounded by markets since their inception. Joking aside, there is a perennial element of truth in this quote. If stocks are making you feel confused this week, or any week for that matter just know that you are not alone. We think an anchored analytical approach grounded in the data is a better and more consistent way of getting returns than any other.

Markets are always evolving. In the 1970s, there was a shortened trading week due to a ‘Paper Crunch’, meaning there was literally too big of a backlog of paper orders. Back then, people speculated whether Wall Street would be able to continue growing.

One of our major strategic themes in our ‘Granny Shots’ portfolio, which was rebalanced this week, is the rise of the Millennial generation to their economic peak. This process has clearly begun, but it is also only in its early stages. Will there be some bumps along the road, inefficiencies, and mistakes at the hands of novice investors? Sure, there will be, but the shift of markets being comprised of a new generation inevitably happens with time and there are some compelling reasons to think that the economic ascent of the most educated, and now largest generation on Earth will be majorly positive for the equity asset class as a whole and the valuation of major indexes. We are big fans of the stock market.

We are also big fans of retail investors which is exactly why we started FSInsight. We have a unique product-structure and groups of stock lists that are produced for self-directed investors. We like to focus on explaining why stocks will be beneficiaries of major economic forces and educating our readers to think about markets like those who study them for a living do.

We also think that there are more reasons to be excited and optimistic about the future of stocks than there has been in a long-time. My colleague will discuss why he thinks the decade-long trend of capital favoring bonds over equities could be coming to an end.



Source: FSInsight, ICI

*Vito Racanelli*  
Vito Racanelli, Sr. Editor & Marketing Intelligence

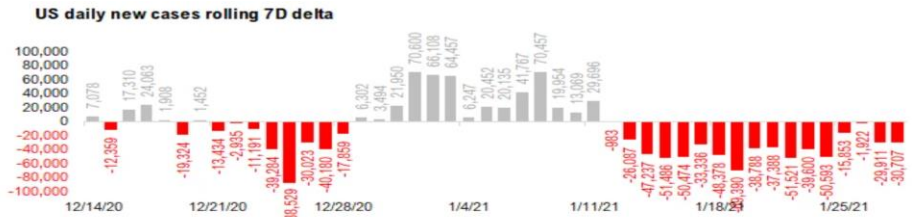


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 J.P. Morgan from 2007 to 2014, top  
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[@Fundstrat](#)

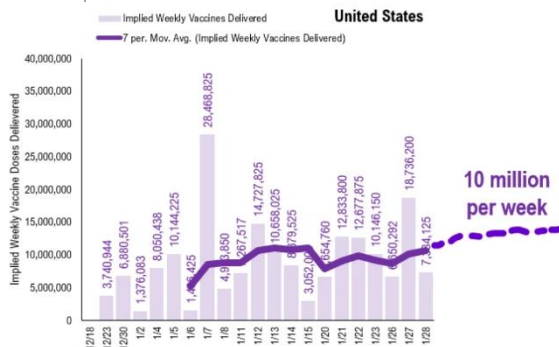
## Virus Still Receding, Millennial Investors' Rising Influence

COVID-19 Progress has been mostly positive. Novavax and Johnson & Johnson both made progress on vaccines. AstraZeneca-Oxford's vaccine was also approved by a European regulator. US daily cases are in a downward trajectory and may fall below 100,000 new cases a day in the next ten days. The ratio of vaccines to new cases is at 9x and could exceed 10x as early as next week. We are happy to report that COVID-19 cases have now been falling for 17 consecutive days. We are now definitely seeing the strongest retreat in cases since Wave 2.



Source: FSInsight, COVID Tracking Project

Despite this positive news, we are still seeing some 'growing pains' in the US vaccination process. Moderna and Pfizer's vaccines are the only ones approved for EUA in the US. Right now, this is contributing to supply-constraints. The Biden administration recently announced that weekly deliveries should reach 10 million doses, higher than the current level of around 8 million. Until more vaccines are approved in the United States, delivered vaccines can be considered a 'ceiling' and until that number grows the number of doses is essentially constrained. On Thursday, nearly one and a half million Americans received a dose.



Source: FSInsight, CDC

**STRATEGY: 2021 is already proving to be as challenging as 2020... Millennials are structurally changing markets..**

2021 is proving to be as challenging as 2020, and the tumultuous trading in heavily shorted stocks is the current "mass extinction" event. In our many zooms with institutional investor clients (so many zooms this week), the obvious question is whether the surge in retail trading is a structural change, or merely transitory. The

latter camp believes that the surge is a result of stimulus checks and stay-at-home orders and is a temporary phenomenon. The structural camp thinks that Millennials' generational preferences will forever and significantly change markets; like their preference to direct their own funds instead of giving them to money managers.

While this is not a 'this or that' answer, I believe the rise of retail investors is structural and led by Millennials. Please see my blast from earlier today where I highlighted the e-mail I received from a well-informed source on the issue. In essence, this individual believes the Reddit WSB/Robinhood trading style stems from the Millennial cohort. This is the best educated generation in history, they are thoughtful and cost-conscious, and they have very different habits than their predecessors that have already disrupted other major industries; Airbnb, Uber, Electric Vehicles.... Perhaps now it is the turn of financial markets?

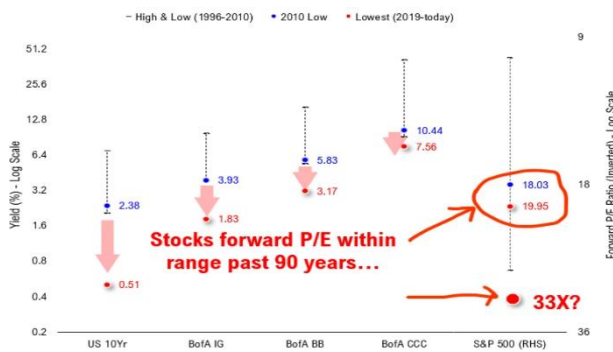
We repeatedly have pointed out that Millennials are set to inherit \$68T over the next twenty years, or about 70% of the approximately \$100T controlled by US households. Boomers have dominated markets for the last 20 years and naturally Millennials will dominate the next 20. We'd like to reiterate our thoughts on this change.

Millennials	Baby Boomer
Stock Heavy	Bond Heavy
Self-Directed	Hedge/Mutual Funds
Robinhood	White Shoe Investment Banks
Reddit/TikTok	Grant's Interest Observer
Thematic	Fundamental
Digital/Crypto	Gold

We think the overall impact of this generational shift will be a substantial inflow of at least \$6T of investor inflows into equities in the next decade. Of this, \$3T is investors taking 10% of capital allocated to bonds over into stock and the other \$3T is investors' savings flow. Remember 94% of inflows went to bonds over equities since 2008. Given that over the past decade total equity inflows were only a mere fraction of what we are predicting at only \$180 billion, we are predicting a significant collapse in equity risk premia. We think this process could result in the P/E multiple for the entire S&P 500 rising to a neighborhood of 30x. These projected inflows are so large that they likely cause "all boats to rise."

In our January 26<sup>th</sup> note we noted the similarities between bonds in 2011 and equities in early-2021. Bond valuations in 2011 were at 'all-time' lows when looking at historical data. Thus, many investors who thought bond valuations were historically stretched got an unpleasant lesson. Bond shorts got demolished because the market was re-rating bonds; 7.5% was the yield for IG bonds for years and now this is what CCC junk grade is yielding. If stocks are in a similar situation to bonds in 2011, which we think they are,

then the P/E ratio of the S&P 500 will likely go far higher than consensus expects. Investors who 'insanely' poured their money into bonds trading near 'all time' lows were handsomely rewarded. We think those calling valuations 'extended' or in bubble-territory are as wrong as people that were bearish on bonds in 2011.



\* Red dot for S&P 500 is CY 2022 P/E Ratio (P/2022 EPS)  
Source: FSInsight, FRED, Bloomberg

Central banks are dovish. We think generational factors and increased savings will result in equity inflows over the next ten

years many factors higher than in the past.

**Bottom Line:** We think stocks have positive risk/reward in the near term. Our base case remains seeing the S&P 500 reach 3,900-4,000 sometime between Feb and April. We still think this will represent a local top before a large correction ensues.

Thomas Lee, Co-Founder & Head of Research

Figure: Way forward → What changes after COVID-19

Per FSInsight

Structural Change	Rationale	Stranded Capital	New Capital
1. Supply chain moves back to USA	From China → USA	Foreign factories Foreign supply chains	Domestic factories Domestic supply chains
2. De-urbanization	Cities → suburbs	Urban restaurants Urban shopping City-centric services	Housing + furnishing Infrastructure Home entertainment Home delivery Suburban entertainment Suburban amenities
3. Work from home	Office → home	Office space midtown/ urban office services	Home technology Home furnishings
4. Buy USA	Global → USA	Foreign-based asset	US based assets
5. Violence in cities	Reversing crime surge difficult	Cities	Create distance (cars, homes) Personal defense Sentry + security svcs Weapons

New for 2021

Figure: FSInsight Portfolio Strategy Summary - Relative to S&P 500

\*\* Performance is calculated since strategy introduction, 1/10/2019

Fundstrat Theme	Execution of Strategy	Date Added	Last 3 Months			FY20				Since Inception Rel. Return
			Oct	Nov	Dec	1Q21	2Q21	3Q21	4Q21	
S&P 500	S&P 500 Price Index		-2.8%	10.8%	3.7%	16.3%	0.8%	-	-	45.9%
Granny Shot	Intersect of below investment strategy	1/10/19	-1.6%	4.7%	0.2%	30.1%	2.3%	-	-	55.2%
<b>Tactical — 6-12M</b>										
1 Value / Growth Tilt	Market re-discovered valuation risk. • Quality Cyclical • Value Quality	1/10/19	1.0%	1.9%	-0.8%	18.2%	2.2%	-	-	32.5%
2 Seasons the NEW Seasonality	Overweight groups with good seasonals. CURRENT: Advt., Online Retail, Cable, Home Improv., Semis, Homebuilder, Managed Health Care, System Software	1/10/19	-2.8%	3.0%	-2.1%	-8.8%	2.2%	-	-	-6.7%
3 PMI Recovery*	Sectors and style that benefit from PMI recovers above 50. • Tech, Industrials, Financials, Energy + Value	12/13/19	3.7%	5.8%	1.1%	0.4%	1.9%	-	-	0.6%
<b>Thematic — 3-5 years</b>										
4 Millennials prime years	Millennials driving >50% GDP growth. • Millennial transformation. • Millennial accelerates growth.	1/10/19	-1.2%	7.3%	3.7%	36.0%	2.4%	-	-	50.5%
5 Labor shortage— AI/ automation	World is short 78 million workers. • Automation/ AI suppliers. • Beneficiaries of Automation/ AI	1/10/19	2.3%	6.7%	3.6%	25.5%	2.0%	-	-	40.4%
6 Higher inflation— Assets vs OpEx	Inflation trending higher long term. • Assets over OpEx.	1/10/19	-1.0%	0.8%	1.0%	-2.6%	1.0%	-	-	-2.6%

Source: FSInsight, FactSet

\* Portfolio strategy introduced in December '19 rebalance, replacing 2019 portfolio recommendation – "FANG in odd years"



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 Former Managing Director leading RBC's U.S. Technical Research team with over 26 years of expertise in investment research and technical analysis.

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## Market Chop Can Provide Good Entry, Watching CAT

**Yet another record making week** – The bull market off the March 2020 crash has already notched a number of records that history students will study for years to come. This past week only added to the story with focus on retail investors rattling seasoned hedge fund professionals with eye-popping short squeezes. For those of you that were able to successfully trade these stocks, congratulations! For those of you with less appetite for those type of volatile trades, let's stay focused on the bigger macro picture that is unfolding.

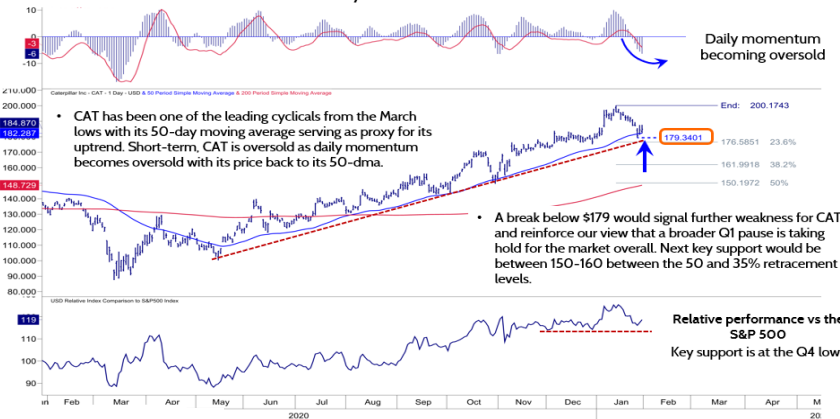
**Signs of a tactical Q1 peak developing but don't overreact, the long-term cycle is intact.** My technical view remains unchanged. Intermediate-term indicators, that track 1-2 quarter directional shifts in markets, are showing evidence of peaking and turning negative. What does this really mean to you as an investor? I'm expecting a more choppy, volatile trading range through Q1 that should create timely opportunities to increase portfolio exposure to cyclicals in Q2.

**Digging deeper, leadership beginning to churn** - Markets ebb and flow. A pullback or pause should not be surprise in the coming weeks particularly after the rally we've seen in 2020. Stocks such as CAT, DE and FCX, to mention just a few of the leading deep cyclicals, have pulled back on higher volume following almost linear rallies from their March lows. Similarly, semiconductors are beginning to pause while many lagging groups, from growth stocks to more defensive groups, are beginning to rebound following 3-5 month pullbacks. I view this group rotation as normal bull market behavior, similar to a relay race, with leadership passing from leading groups to lagging groups every few months. A multi-week, multi-month pause is healthy technical development that helps cool some of the overbought condition that has developed and should set the stage for another upside move to take hold later in Q1/early Q2. For the very short-term traders, look for another bounce early next week following 1-2 week pullbacks, many to trading support at 50-dma's.

**Monitoring CAT as a barometer for leading cyclicals** – CAT is one of the barometers I'm using to track the overall rebound in cyclicals. We've been bullish on CAT since the spring as part of our recommended bar bell exposure to both growth and cyclical stocks.

The recent pullback is now oversold short-term as CAT tests its 50-day moving average just as it announces positive earnings. I'm expecting CAT to bounce from current levels which will make the recent lows at \$179 as a demarcation line. As one proxy for the overall rebound in cyclicals, CAT above 179 is 'good' while a break below that level would signal to me we are seeing more evidence of a tactical peak developing in the market.

**Monitoring CAT as a cyclical barometer**  
 \$179 is a key technical level for CAT

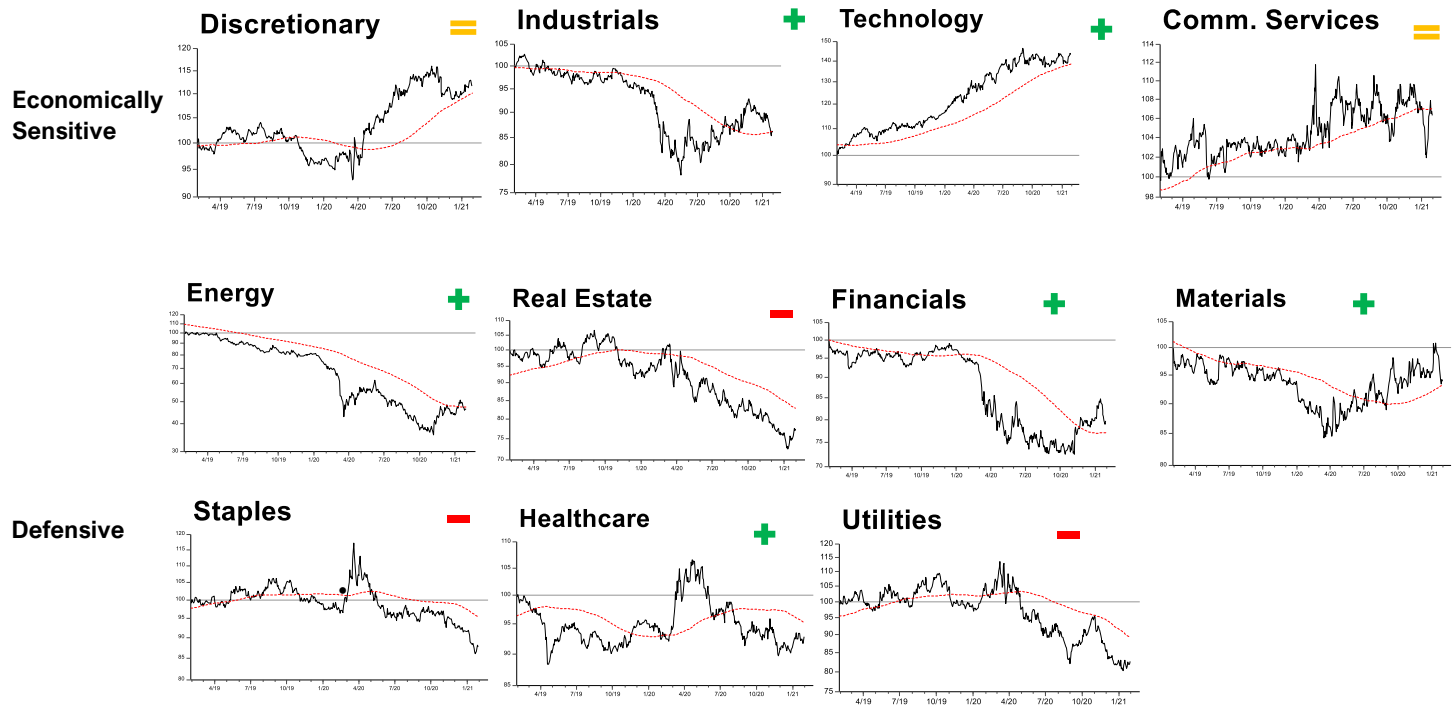


Source: FSInsight, Bloomberg, Optuma

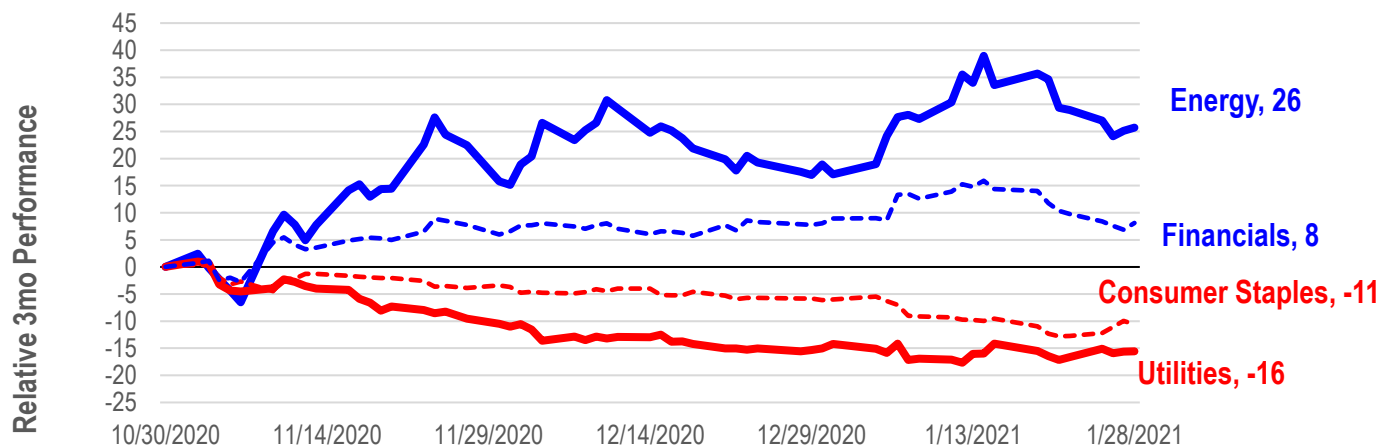
**Figure: Weekly Sector Review**

Source: FSInsight, FactSet

- Growth sectors, technology and consumer discretionary, remain range bound above their long-term uptrends and have yet to show evidence of breaking down as many have predicted.
- Following up on last week's comment, Cyclical sectors pulled back the past week but are already showing signs of stabilizing short-term. Expect further choppy trading well into Q1.
- Similarly, safety sectors bounced back from oversold levels this week with Healthcare noteworthy as it begins to reverse its H2 2020 relative performance downtrend.



**Figure: Best and worst performance sectors over past 3 months**

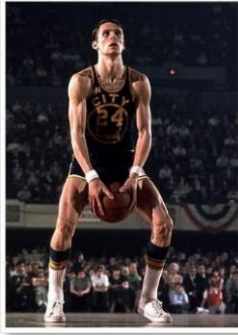


Source: FSInsight, FactSet

*Robert Sluymer*

Robert Sluymer, Head of Technical Analysis Strategy

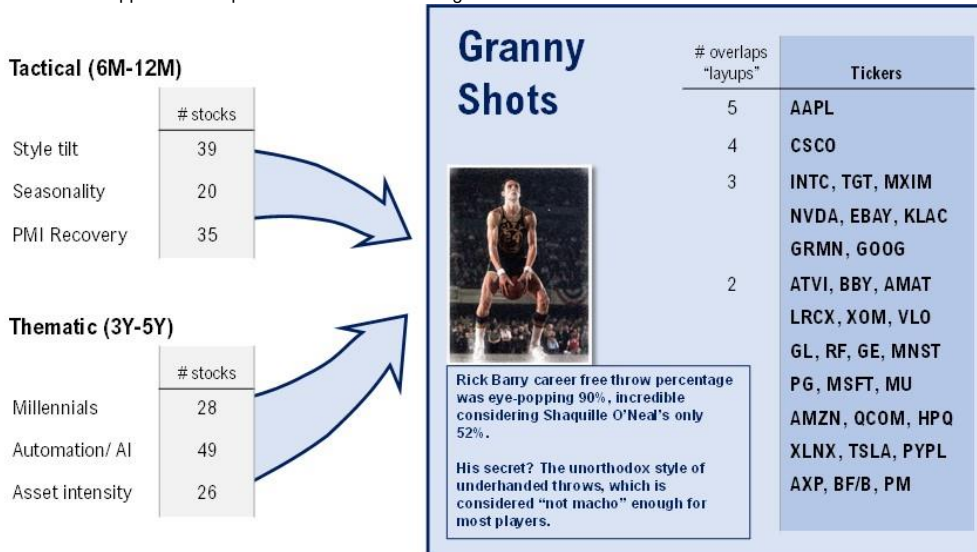
**GRANNY SHOTS: Best bets in 2021**



Below we've highlighted stocks that we recommend across at least two of our investment strategies for 2021. These companies could benefit from multiple themes and secular tailwinds – clear picks in our view.

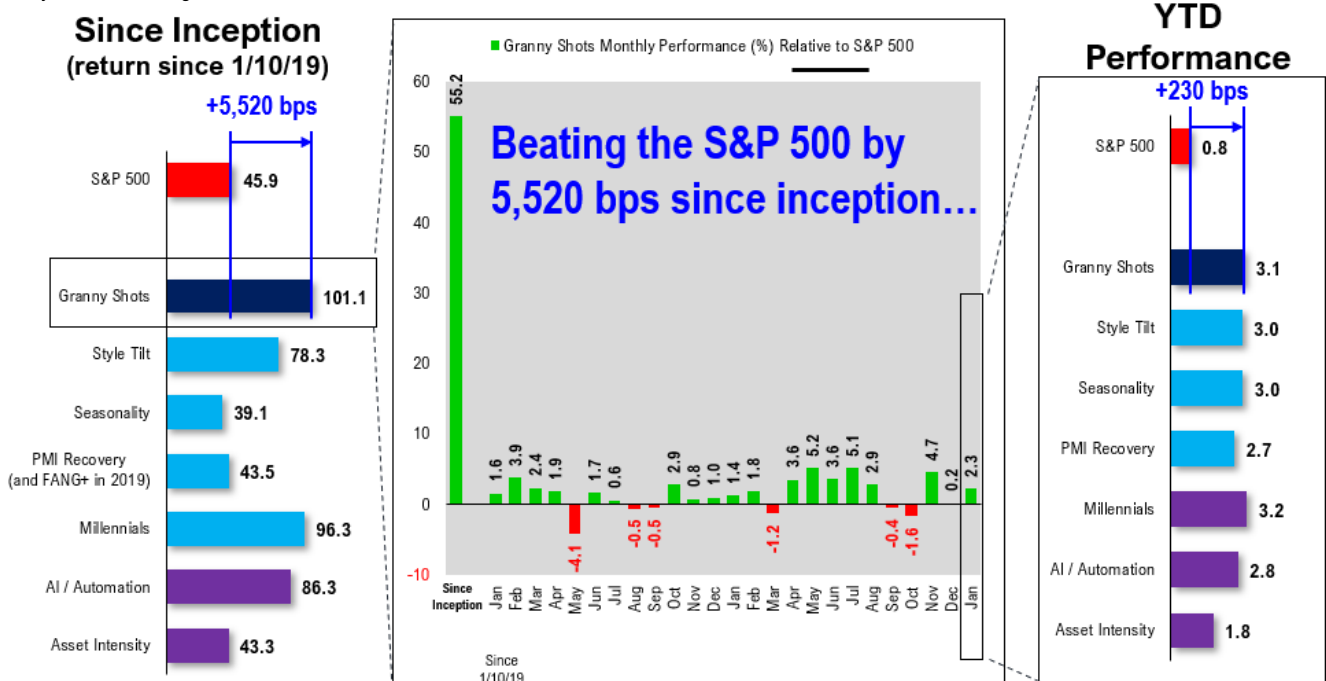
**Figure: Granny Shots are the “best of the best”**

Stocks which appear in multiple themes. Source: FSInsight



**Figure: Granny Shots Portfolio Performance**

Monthly. Source: FSInsight. FactSet as of 01/28/21





**Figure: Intersection of investment recommendations by strategy**

As of 01/28/21, Source: FSInsight, FactSet

Ticker	Company	Mkt Cap (\$M)	YTD perf (relative to S&P 500)	P/E ('21E)	Value / Growth Tilt	Seasonality	PMI Recovery	Millennials	AI / Automation	Asset Intensity	Strategy Count
1	AAPL	Apple Inc	\$2,271,982	1.8%	30.9x	•	•	•	•	•	5
2	CSCO	Cisco Systems Inc/Delaware	\$191,422	1.3%	14.3x	•	•	•	•	•	4
3	INTC	Intel Corp	\$231,290	14.3%	12.0x	•	•	•	•	•	3
4	TGT	Target Corp	\$91,311	3.3%	21.0x	•	•	•	•	•	3
5	MXIM	Maxim Integrated Products Inc	\$23,823	0.2%	30.5x	•	•	•	•	•	3
6	NVDA	Nvidia Corp	\$329,354	1.9%	46.0x	•	•	•	•	•	3
7	EBAY	Ebay Inc	\$39,058	12.7%	15.3x	•	•	•	•	•	3
8	KLAC	Kla Corp	\$44,687	11.3%	22.5x	•	•	•	•	•	3
9	GRMN	Garmin Ltd	\$22,020	(3.8%)	22.4x	•	•	•	•	•	3
10	GOOG	Alphabet Inc	\$1,164,182	5.7%	29.9x	•	•	•	•	•	3
11	ATVI	Activision Blizzard Inc	\$70,345	(2.0%)	26.1x	•	•	•	•	•	2
12	BBY	Best Buy Co Inc	\$28,911	11.9%	14.6x	•	•	•	•	•	2
13	AMAT	Applied Materials Inc	\$90,895	15.2%	19.6x	•	•	•	•	•	2
14	LRCX	Lam Research Corp	\$70,707	4.5%	19.9x	•	•	•	•	•	2
15	XOM	Exxon Mobil Corp	\$193,886	11.2%	22.8x	•	•	•	•	•	2
16	VLO	Valero Energy Corp	\$24,268	5.2%	148.1x	•	•	•	•	•	2
17	GL	Globe Life Inc	\$9,565	(3.8%)	12.2x	•	•	•	•	•	2
18	RF	Regions Financial Corp	\$16,891	9.1%	10.0x	•	•	•	•	•	2
19	GE	General Electric Co	\$97,454	3.0%	38.4x	•	•	•	•	•	2
20	MNST	Monster Beverage Corp	\$46,763	(4.2%)	33.6x	•	•	•	•	•	2
21	PG	Procter & Gamble Co/The	\$319,063	(6.9%)	22.8x	•	•	•	•	•	2
22	MSFT	Microsoft Corp	\$1,791,804	6.8%	32.6x	•	•	•	•	•	2
23	MU	Micron Technology Inc	\$88,576	5.3%	19.0x	•	•	•	•	•	2
24	AMZN	Amazon.Com Inc	\$1,620,656	(0.8%)	71.5x	•	•	•	•	•	2
25	QCOM	Qualcomm Inc	\$180,395	4.7%	22.1x	•	•	•	•	•	2
26	HPQ	Hp Inc	\$32,176	1.5%	9.5x	•	•	•	•	•	2
27	TSLA	Tesla Inc	\$784,170	17.2%	212.9x	•	•	•	•	•	2
28	PYPL	Paypal Holdings Inc	\$280,972	2.4%	52.8x	•	•	•	•	•	2
29	AXP	American Express Co	\$94,740	(2.7%)	18.0x	•	•	•	•	•	2
30	BF/B	Brown-Forman Corp	\$34,032	(7.8%)	38.9x	•	•	•	•	•	2
31	PM	Philip Morris International In	\$126,485	(1.9%)	14.0x	•	•	•	•	•	2
32	XLNX	Xilinx Inc	\$32,905	(5.3%)	40.1x	•	•	•	•	•	2
<b>Average (relative to S&amp;P 500)</b>		<b>\$326,400</b>	<b>3.5%</b>	<b>35.8x</b>							
<b>Median (relative to S&amp;P 500)</b>		<b>\$91,103</b>	<b>2.7%</b>	<b>22.7x</b>							

The stocks in the Granny Shots portfolio collectively outperformed the S&P 500 by 5,520 bps since its inception (S&P 500 is up 45.9% during the same period).



**L. Thomas Block**  
**Washington and Policy Strategist**  
 Formerly Global Head of Government Relations at J.P. Morgan for 21 years, and previously served as Legislative Assistant and Chief of Staff in the House, and Legislative Staff Director in the Senate

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## Biden and Congress focus on relief strategy; GameStop grabs attention

### Covid Relief

The Democratic leaders in Congress are working with the White House to determine the best strategy to get a big Covid Relief bill through Congress by the target date of March 14. Why March 14? Under the Covid bill passed at the end of last year, extended unemployment and the \$300 a week federal supplemental payment expire on March 14, a date that is being referred to in DC as the Unemployment Cliff.

In the Senate a bipartisan group of 16 Senators has met with senior White House staff in an effort to reach an agreement; but at this point it is not clear if compromise is possible. Democrats have made clear that in 2009, after President Obama's landslide victory, Democrats spent too much time on both financial crisis relief and immigration negotiating with Republicans. Most Democrats are convinced that because of the fruitless talks they ended up with weaker legislation. Congressional Democrats are committed to not make the same mistake this time even though they are holding weaker cards with paper thin majorities in both the House and the Senate.

Both Schumer and Pelosi have announced that they are going to put the machinery in motion that is needed to approve the Biden Covid package through Reconciliation. Reconciliation is part of the budget process and the first step is the approval of a budget for Fiscal Year 2021. Last year there was no budget resolution due to divisions between the House and the Senate. Both chambers will start the budget resolution process next week but getting it through the Senate with rules allowing for unlimited amendments will be time consuming. However, having started the budget process will give the Democrats some negotiating strength as they sit down with Republicans.

There have been talks behind the scenes that indicate the White House would like to find a bipartisan deal; but it wants the basic blueprint of the programs to remain intact though the dollar amount could be reduced below \$1.9T. Read this to say that there is some negotiating room on the size of the proposed \$1,400 individual stimulus checks.

### Washington's Reaction GameStop and Robinhood

When talking to students I often make the point that the political spectrum in the US often looks more like a circle than a line; and the issue of GameStop/Robinhood and other exchanges closing down certain trades has demonstrated this fact.

Both liberal and conservatives have called for hearings on the GameStop/Robinhood issue. Making the rounds on Capitol Hill was the story of how AOC tweeted the unfairness of the Robinhood action against small investors, and Senator Ted Cruz Tweeted: "fully agree." The House and Senate Banking Committees have both announced hearings, and the SEC, as expected with a disrupting market event, has announced they are looking into the issue.

Another tidbit making the rounds in DC is that on Friday Robinhood posted a job for a Manager of Federal Affairs. Robinhood has been represented in DC by an array of firms; but with all the attention of the past week, and the promise of hearings, they decided there was a need for their own person on the scene. Likely more smoke than fire at the hearings but definitely an emerging issue in the new Congress.

L. Thomas Block, Washington and Policy Strategist



 [@federalreserve](https://twitter.com/federalreserve)

## Fed Holds Course Steady, Powell Opines on Financial Stability

The Federal Reserve held its first meeting of 2021 and announced that it will maintain its accommodative posture toward monetary policy and keep interest rates near-zero. The Fed's statement had some significant language changes including noting that the economic and employment activity had significantly moderated.

The Fed also noted that those sectors most adversely effected by social distancing and the pandemic are struggling the most. Chairman Powell also noted that unemployment rate, when calculated to include those who have also left the workforce is near 10%.

The tone of this announcement was largely the same as previous meetings. Again, the Fed highlighted that there are still considerable and plentiful downside risks to the economy as we proceed through a deadly and uncertain winter. The language of this statement was also similarly tweaked with a focus on the monitoring of vaccines. The other big language change, which could be taken as a positive, was the Fed replacing taking out the 'medium-term' of the period where the virus poses the most risks. Powell expanded on the change, clarifying that due to vaccine developments, "The risks are in the near-term, frankly.'

Of course, what made more headlines during this wild week on Wall Street was Powell's answer to the first question he received about the short-squeezes and volatility occurring on Wall Street. Powell avoided the issue directly and instead spoke to his assessment of financial stability in general. The questioner has noted that the Fed's macroprudential tools primarily apply to banks and their supervision but does not cover non-bank entities. Powell was asked about the risks he saw in these non-bank areas.

He noted that the Fed does not directly supervise non-bank entities, other than those designated as Systemically Important Financial Institutions (SIFIs) but that through the Financial Stability Oversight Council he coordinates with agencies that do. He also noted that a lot of the risks that made themselves apparent in the Global Financial Crisis appeared in the non-bank sector and the Fed has learned valuable lessons from that. He did not seem to indicate that new tools or more nuanced approaches to the non-bank sector were needed.

He generally opined that the macro-prudential tools had been quite useful. He pointed to the strength of the banking system in February and March as evidence of the effectiveness of their tools. He stressed that for matters of financial stability, tools other than monetary policy are most effective. He said, very importantly, that he thinks preliminary tapering or 'cooling' to fight asset bubbles is not proven to be positive and may actually cause more harm than good.

Asset purchases continued at a pace of \$40 billion a month for MBS and \$80 billion a month for Treasuries. The benchmark yield on the 10 year is 1.07% down from last week 1.09%.

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