

## 2022 **Strategy Outlook**

**Stocks + Treachery =  
Challenging but +11%**



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## SAVE THE DATE: 2022 Outlook upcoming webinars

Date	Webinar	Time
1/13/2022	2022 Global Portfolio Strategy Outlook <b>Brian Rauscher</b>	TBD
1/20/2022	2022 Technical Outlook <b>Mark Newton</b>	TBD
2/1/2022	2022 Bitcoin and Digital Asset Outlook <b>Thomas Lee and Sean Farrell</b>	TBD
2/10/2022	2022 Quantitative Strategy Outlook <b>Adam Gould</b>	TBD

Source: FSInsight

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DIGITAL ASSETS DIGITAL ASSET CONSULTING

**RIA/ Retail:** fs INSIGHT

Source: FSInsight, Bloomberg

## 7 GENERAL PRINCIPLES: What is evidence-based research

1. **Nothing new under the sun:** Importance of looking at cycles
2. **Equities junior in capital structure:** Bonds lead stocks
3. **Don't shout at the market:** Market doesn't care about my opinion
4. **Stop carrying a "Lehman hammer":** Avoid cognitive bias
5. **Confidence drives markets:** Confidence changes faster than fundamentals
6. **Demographics are destiny:** Every market cycle is a demographic cycle
7. **Don't Fight the Fed:** Fed is most powerful entity in the World
8. **If in doubt, refer to rule above:** self-explanatory

## STRATEGY: Highest probability double-digit gains but with 1H turmoil

- **SUMMARY:** Economic growth remains robust = resilient equity markets
- **TARGET:** Base case S&P 500 YE target to 5,100, all the gains in 2H
- **Key drivers:**
  1. Pent-up demand
  2. Operating leverage
  3. Inflation is transitory → biggest pivot point in 2021
  4. Fed tightening cycle scares market in 1H
  5. Midterm election uncertain
  6. TINA – With inflation >3%, guaranteed to lose on bonds and credit

- **STRATEGY:** Epicenter, FAANG and Healthcare are top sectors
  1. Market difficult in 1H, but strong in 2H
  2. Defensive tone in 1H, Risk-on 2H
  3. Upgrade Healthcare to OW given 1H, and HC looks like Energy 2021
  4. In 2H, we like Epicenter stocks given the macro recovery. Energy remains our favorite sector, given the positive supply/demand dynamics in oil

## TARGET: S&P 500 YE Target 5,100

**2023 EPS**  
**(% vs 2022)**

**\$250**  
**(+7.5%)**

**P/E 2023**

**20.5X**

**Implied Price**

**5,100**

**P/E 10-yr bond**

**71.0X**

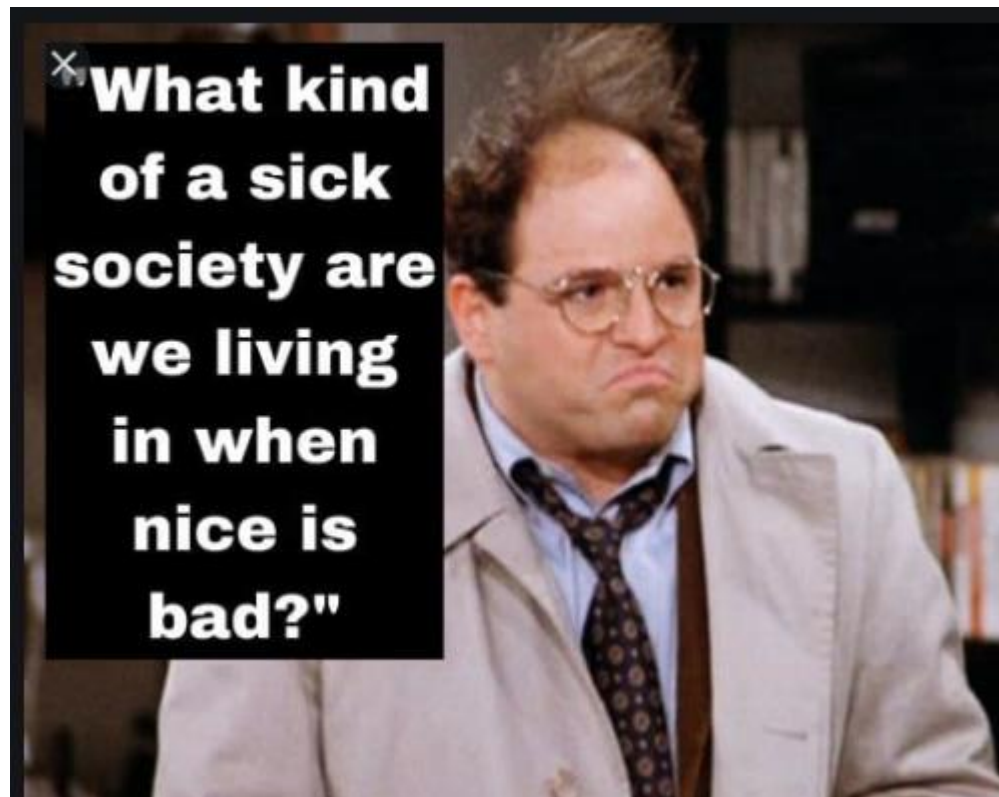
**P/E High-yield**

**22.2X**

Source: FSInsight, Bloomberg, Factset

## 2021 RISK: A lot can go wrong...

- The future is uncertain
- COVID-19 could mutate
  - Mink strain
- Election turmoil redux?
- Vaccine doesn't work
- USD crashes
- Interest rates surge
- IPO bubble?
- Retail stock trading bubble?
- People are too bullish
- Congress goes after US Big Tech
- Biden has health issues
- Hackers





## 2022 RISK: A lot can go wrong...

- The future is uncertain
- COVID-19 could mutate - Omicron
- Supply chain glitches
- Inflation
- Labor shortages
- Fed policy error – too late
- Fed policy error – too early
- Military conflict – Taiwan
- Military conflict – Ukraine
- Oil prices surge
- Consumers panic
- Congress goes after US Big Tech
- Biden has health issues



## 2021: 2020 about 'symmetry'. 2021 about 'cycle reversion'



### 2020 Symmetry

Speed of decline = speed of recovery  
Strong cos get stronger = weak cos get weaker

### 2021 Profit cycle reversion

Profit margins recover faster for 'epicenter' stocks

### 2021 Investment cycle reversion

Global trade recovery = inventory cycle  
Consumer de-urbanization = housing cycle  
Corporate fears ease = capex cycle

### 2021 Volatility reversion

VIX avg in 2020 well above LT-avg  
Volatility falling = institutional exposure rises

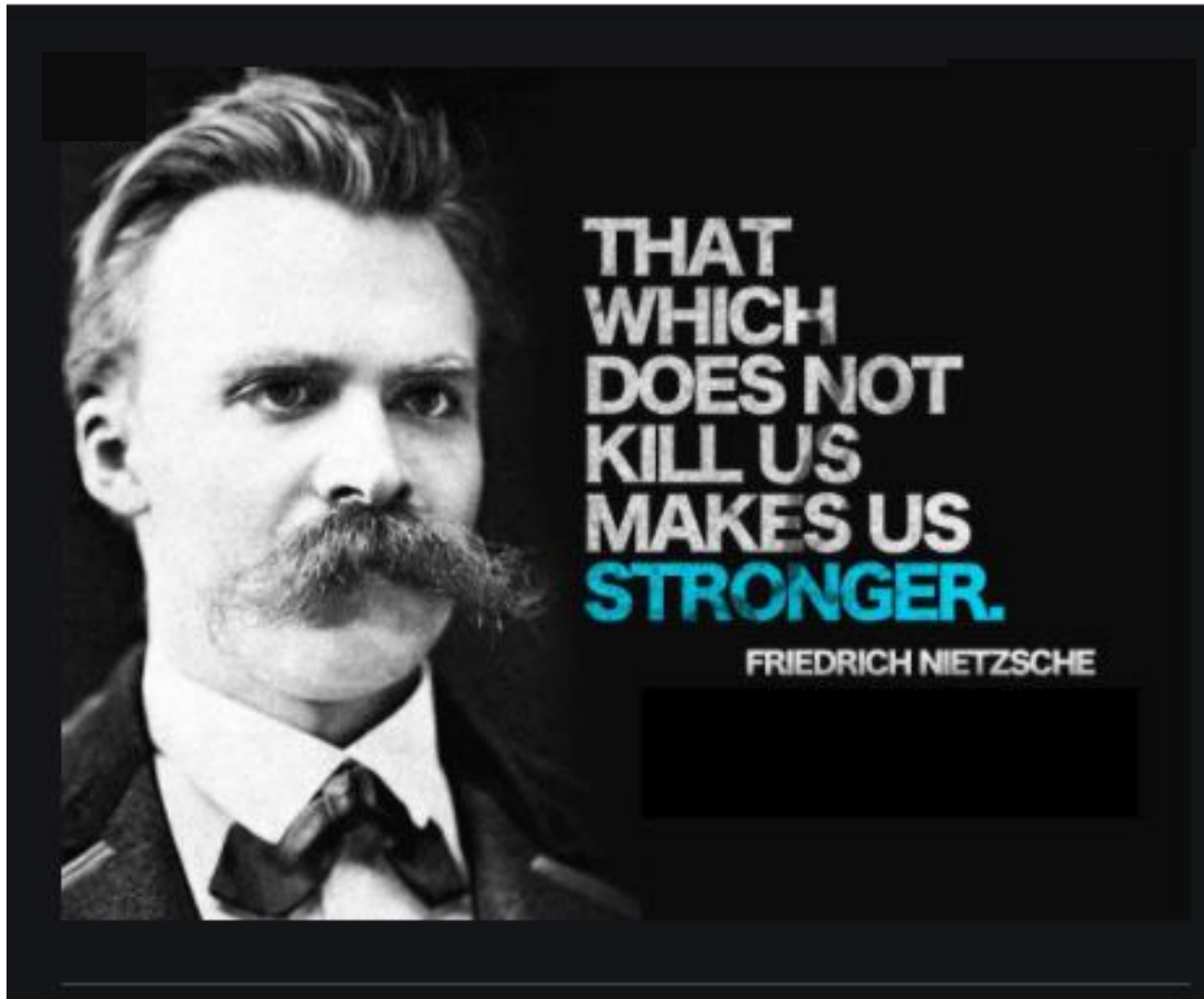
### 2021 Value/Growth reversion

Value starting multi-decade outperformance?

### 2021 Bonds vs Stocks

Valuation of stocks seem very low compared to bonds

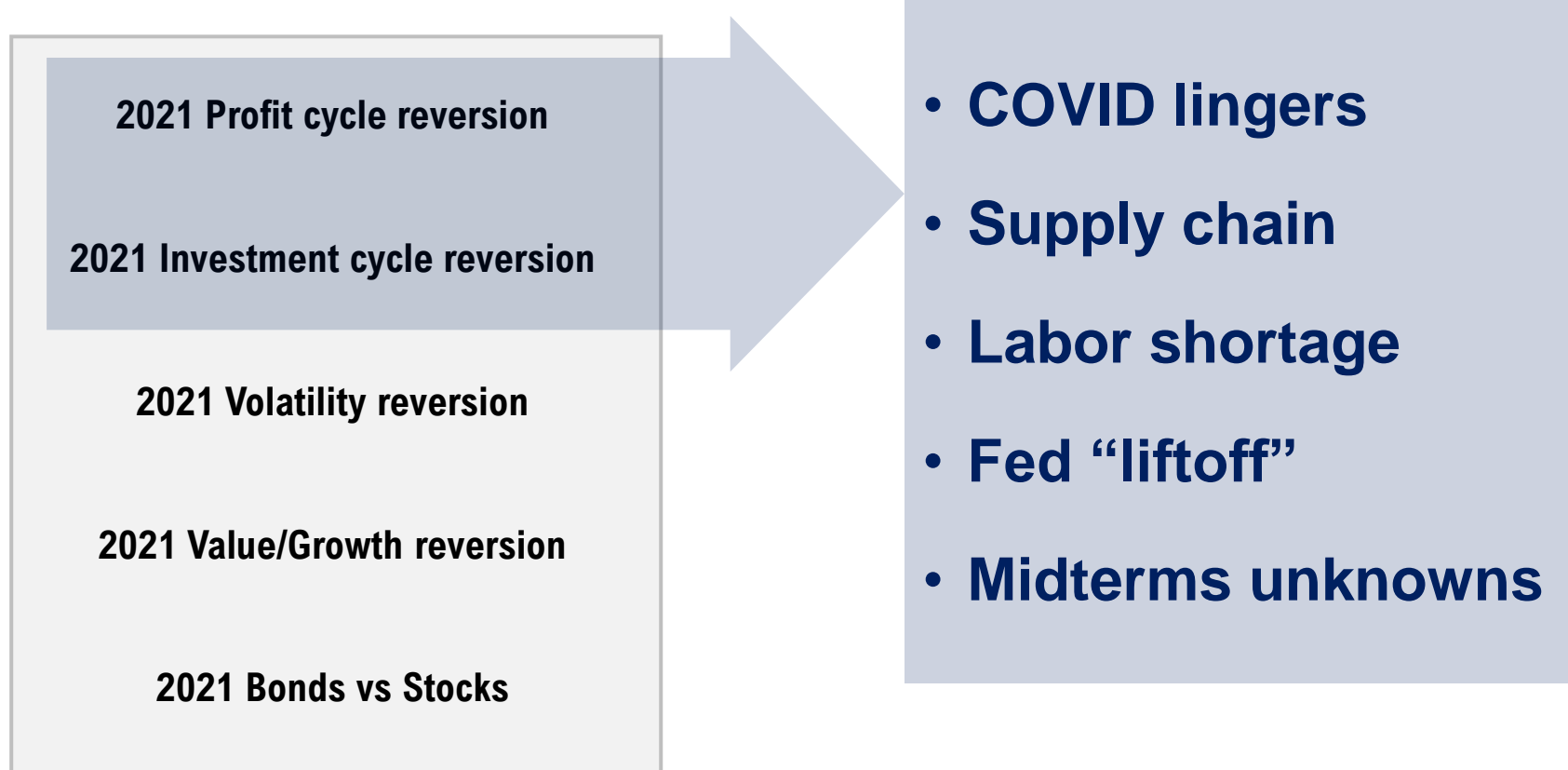
## 2020 KEY TAKEAWAY → UNKILLABLE



Source: FSInsight, Bloomberg, Factset

## 2022: Transitory versus Structural

### ***Biggest drivers of 2021***



## 2022 TARGET: 5,100 based on 20.5x P/E and 2023 EPS at \$250

- We upgrade Technology and Healthcare from Neutral to Overweight, while downgrade Industrials and Basic Materials from Overweight to Neutral.

**Figure: Sensitivity Analysis for EPS in 2022**

Per FSInsight

		Consensus EPS % growth		Fundstrat 2022 EPS % growth		
	Rating	2021	2022	Low	Base	High
<b>Cyclicals aka Epicenter</b>		<b>96.3%</b>	<b>10.8%</b>	<b>9.8%</b>	<b>14.7%</b>	<b>16.7%</b>
Consumer Discretionary	Overweight	103.9%	32.8%	31.8%	38.0%	40.0%
Industrials	Overweight --> Neutral	97.4%	35.4%	34.4%	35.4%	37.4%
Energy	Overweight	1466.8%	26.5%	25.5%	32.0%	34.0%
Financials	Overweight	53.8%	-9.0%	-10.0%	-4.0%	-2.0%
Materials	Overweight --> Neutral	82.6%	3.6%	2.6%	3.6%	5.6%
<b>Growth + Defensives</b>		<b>25.4%</b>	<b>7.8%</b>	<b>6.7%</b>	<b>9.7%</b>	<b>11.8%</b>
Information Technology	Neutral --> Overweight	30.2%	9.8%	8.8%	13.5%	15.5%
Communication Services	Overweight	39.8%	7.2%	6.2%	10.5%	12.5%
Real Estate	Underweight	21.4%	6.9%	4.0%	5.0%	8.9%
Consumer Staples	Neutral	6.9%	5.9%	4.9%	5.9%	7.9%
Healthcare	Neutral --> Overweight	23.5%	6.7%	5.7%	7.0%	9.0%
Utilities	Underweight	6.2%	5.4%	4.0%	5.0%	7.4%
<b>S&amp;P 500</b>		<b>46.2%</b>	<b>8.9%</b>	<b>7.9%</b>	<b>11.6%</b>	<b>13.7%</b>
<b>EPS Level 2022</b>			<b>\$221</b>	<b>\$224</b>	<b>\$232</b>	<b>\$236</b>
<b>EPS Level 2023</b>			<b>\$244</b>	<b>\$241</b>	<b>\$250</b>	<b>\$254</b>
<b>YE 2022 P/E ('23E EPS)</b>				<b>20.5x</b>	<b>20.5x</b>	<b>20.5x</b>
<b>YE 2022 Fair Value</b>				<b>4,943</b>	<b>5,100</b>	<b>5,209</b>

Source: FSInsight, Factset

## 2022 TARGET: 5,100 based on 20.5x P/E and 2023 EPS at \$250

- We forecast EPS of \$232 and \$250 for 2022 and 2023, respectively. Applying a 20.5x P/E multiple implies S&P 500 fair value of 5,100 by YE 2022.

**Figure: Estimating EPS and fair value for S&P 500**

Per FSInsight

			Street Consensus			Fundstrat EPS			EPS % chg (per FS)			P/E (per FS estimates)			
	Rating	Market Cap	2021E	2022E	2023E	2021E	2022E	2023E	'21E vs '20A	'22E vs '21E	'23E vs '22E	'21E	'22E	'23E	
Cyclicals aka Epicenter			\$14,798	\$80	\$89	\$99	\$82	\$94	\$101	100.9%	14.7%	7.7%	20.5x	17.8x	16.6x
Consumer Discretionary	Overweight	5,330	\$14	\$19	\$23	\$15	\$20	\$23	108.6%	38.0%	15.0%	40.8x	29.6x	25.7x	
Industrials	Overweight --> Neutral	3,139	\$13	\$18	\$21	\$13	\$18	\$20	101.9%	35.4%	11.0%	26.6x	19.6x	17.7x	
Energy	Overweight	1,057	\$9	\$11	\$10	\$9	\$12	\$12	1498.4%	32.0%	1.7%	13.2x	10.0x	9.9x	
Financials	Overweight	4,255	\$37	\$34	\$37	\$38	\$36	\$38	57.3%	-4.0%	6.1%	12.8x	13.3x	12.5x	
Materials	Overweight --> Neutral	1,017	\$7	\$7	\$7	\$7	\$7	\$7	86.8%	3.6%	-3.0%	16.5x	15.9x	16.4x	
Growth + Defensives			\$25,968	\$123	\$133	\$144	\$126	\$138	\$148	28.3%	9.7%	7.3%	23.3x	21.3x	19.8x
Information Technology	Neutral --> Overweight	11,674	\$44	\$49	\$54	\$45	\$52	\$56	33.3%	13.5%	9.0%	29.1x	25.6x	23.5x	
Communication Services	Overweight	4,275	\$22	\$24	\$27	\$23	\$25	\$28	43.0%	10.5%	12.0%	21.5x	19.4x	17.4x	
Real Estate	Underweight	1,093	\$5	\$5	\$6	\$5	\$5	\$5	24.2%	5.0%	2.0%	24.5x	23.4x	22.9x	
Consumer Staples	Neutral	2,587	\$13	\$14	\$15	\$13	\$14	\$15	9.4%	5.9%	8.0%	21.8x	20.6x	19.1x	
Healthcare	Neutral --> Overweight	5,361	\$33	\$36	\$37	\$34	\$37	\$38	26.3%	7.0%	3.0%	17.7x	16.6x	16.1x	
Utilities	Underweight	978	\$5	\$5	\$6	\$5	\$6	\$6	8.7%	5.0%	3.0%	20.8x	19.8x	19.2x	
S&P 500			\$40,766	\$203	\$221	\$244	\$208	\$232	\$250	49.6%	11.6%	7.5%	22.2x	19.9x	18.5x

S&P 500 as of 12/19/2021

4,618

YE 2022 P/E ('23E EPS)

20.5x

YE 2022 Fair Value

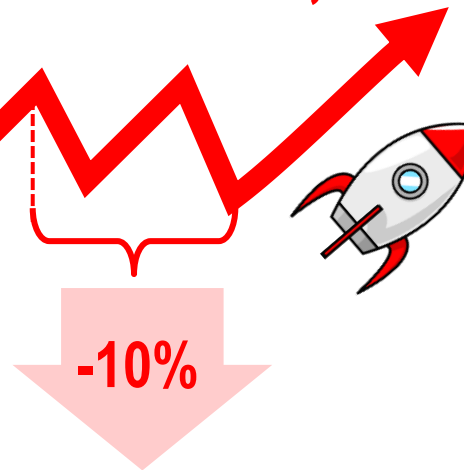
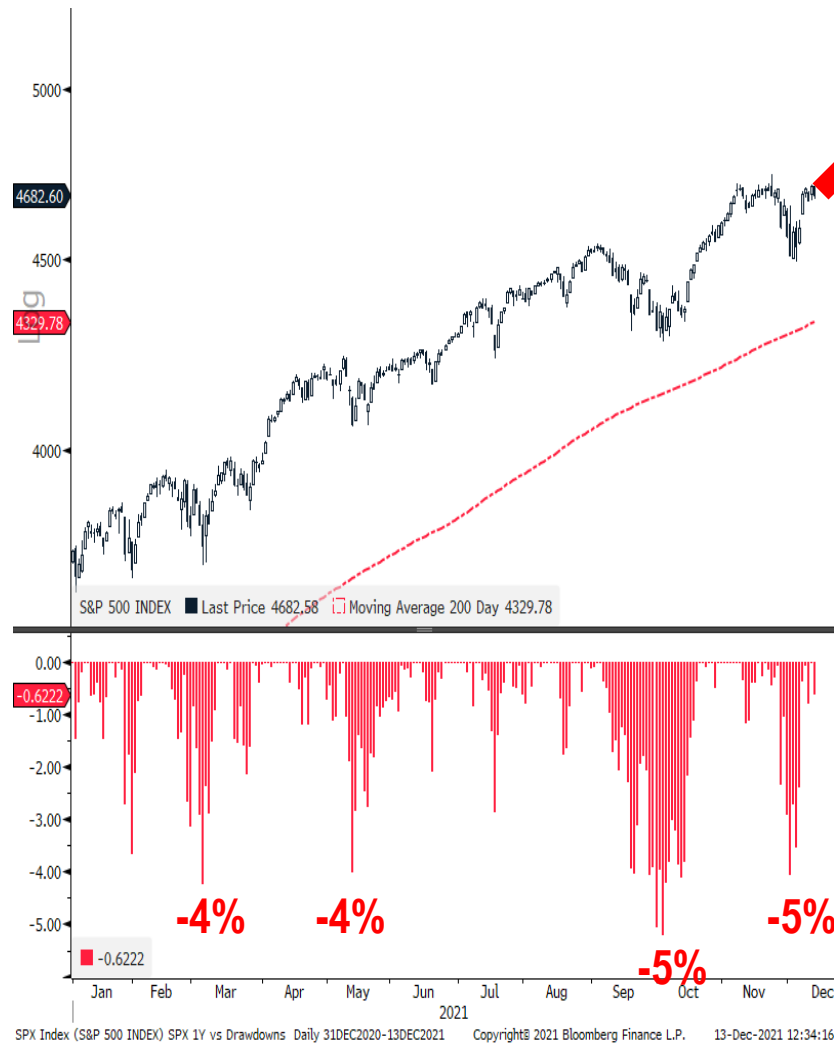
5,100

Source: FSInsight, Factset

## 2022: Better 2H... YE S&P 5,100

**S&P 500  
5,100**

- Inflation flattens out
- Labor tightness eases
- Fed “bandaid” pulled
- Midterms done
- COVID better



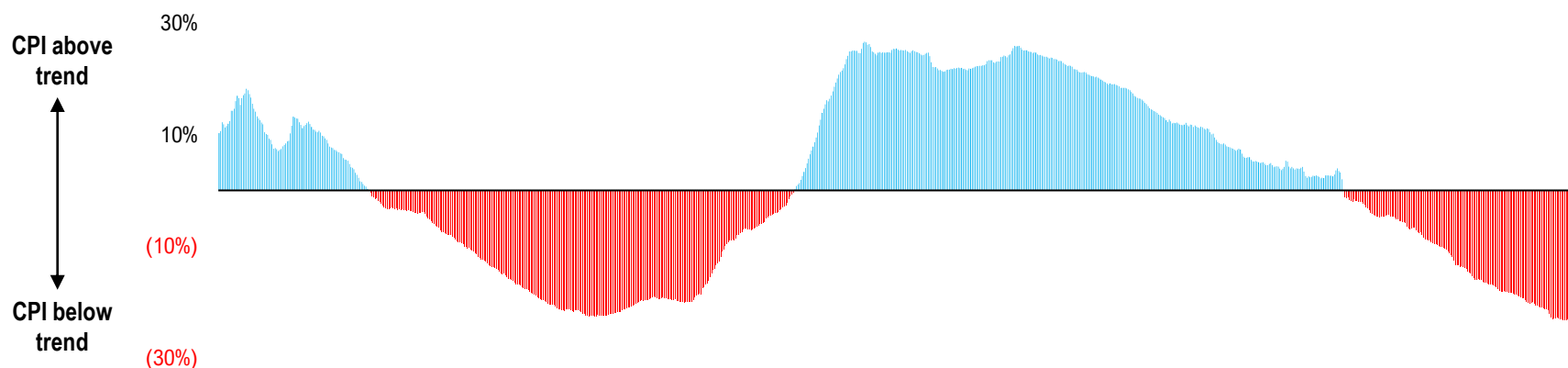
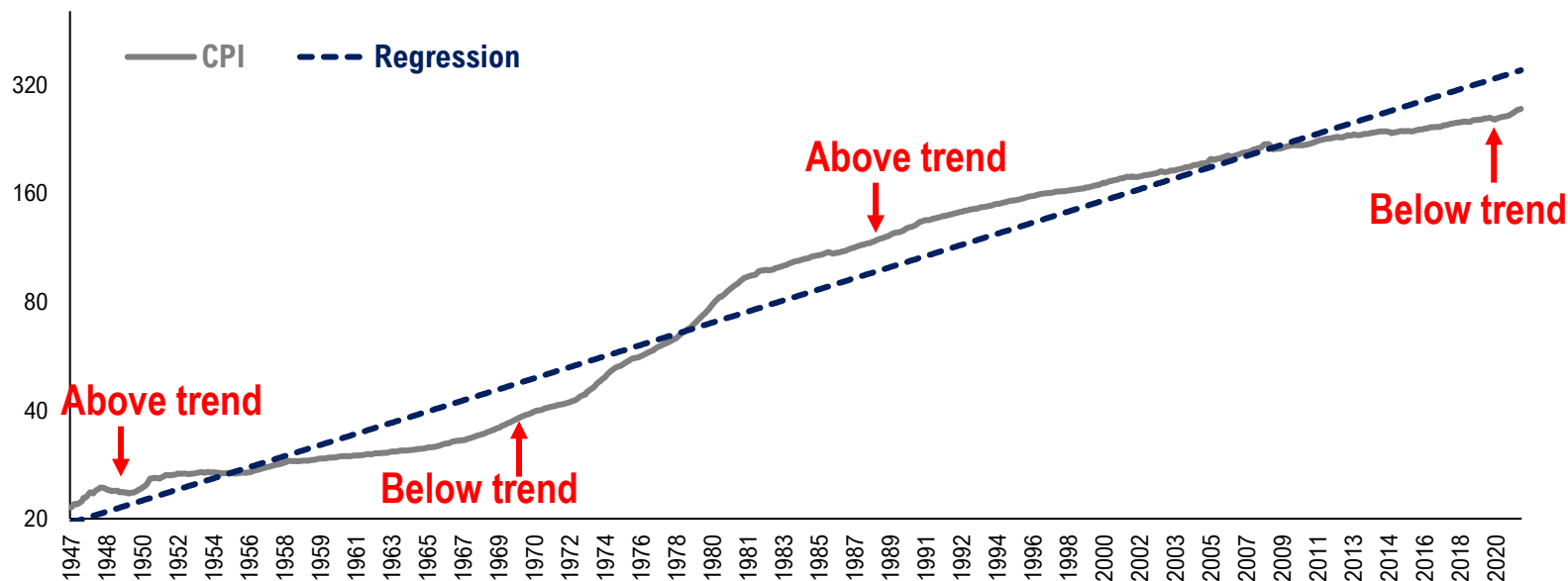
- COVID surges
- Supply chain glitches
- Labor shortages
- Fed “liftoff”
- Midterm elections

Source: FSInsight, Bloomberg

# INFLATION: After decades of “undershooting” inflation normalizing

## CPI vs Exponential Regression

Since 1947



Source: FSInsight, Bloomberg

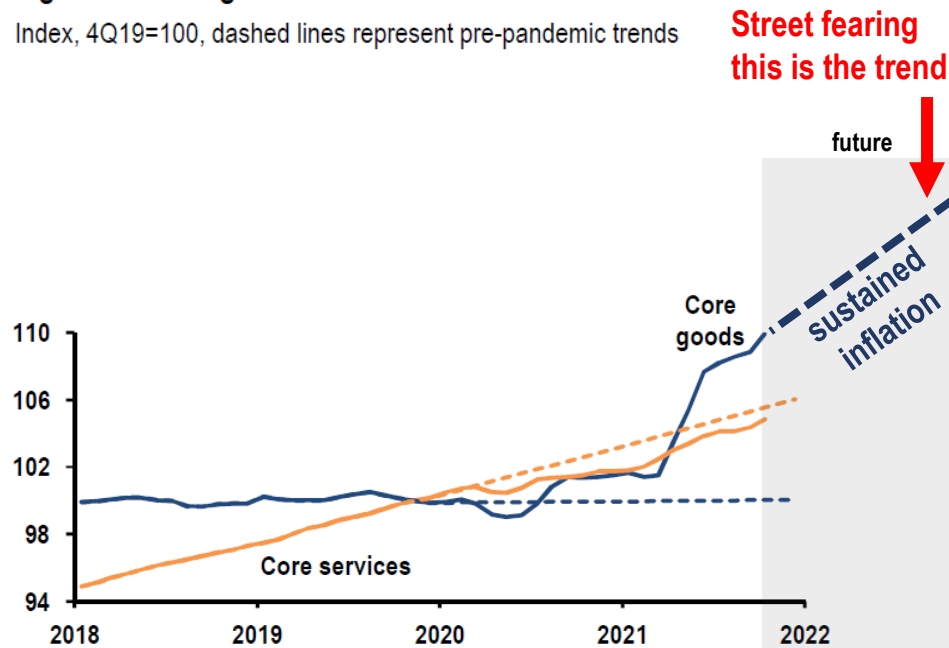


## INFLATION: Goods are driving higher inflation

### FEAR: Goods inflation inflects structurally higher Core vs Services CPI, by JPMorgan

Figure 24: Core goods and core services CPI

Index, 4Q19=100, dashed lines represent pre-pandemic trends

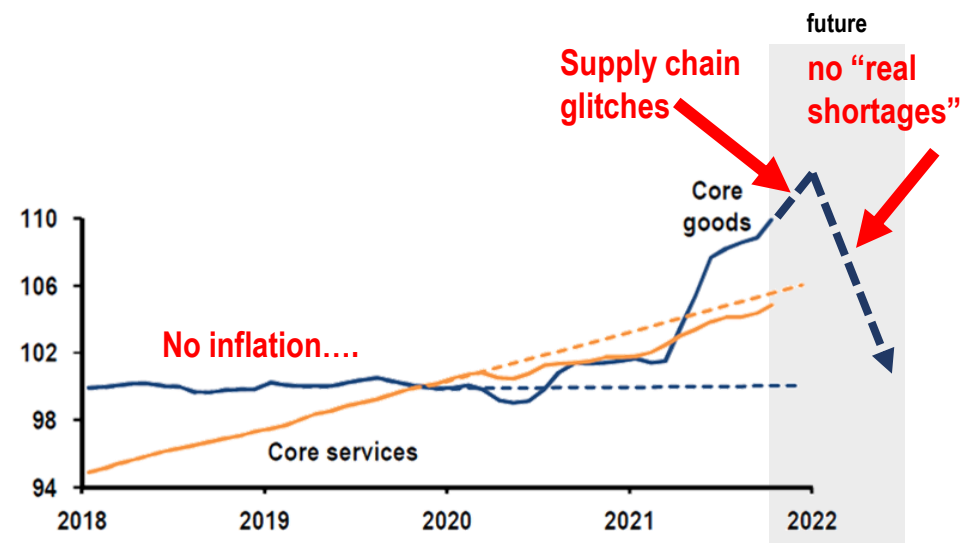


Note: Pre-pandemic trend extrapolates avg. growth from 2018/2019 beginning January 2020  
Source: BLS, J.P. Morgan

### FSINSIGHT REALITY: Transitory Core vs Services CPI, by JPMorgan

Figure 24: Core goods and core services CPI

Index, 4Q19=100, dashed lines represent pre-pandemic trends

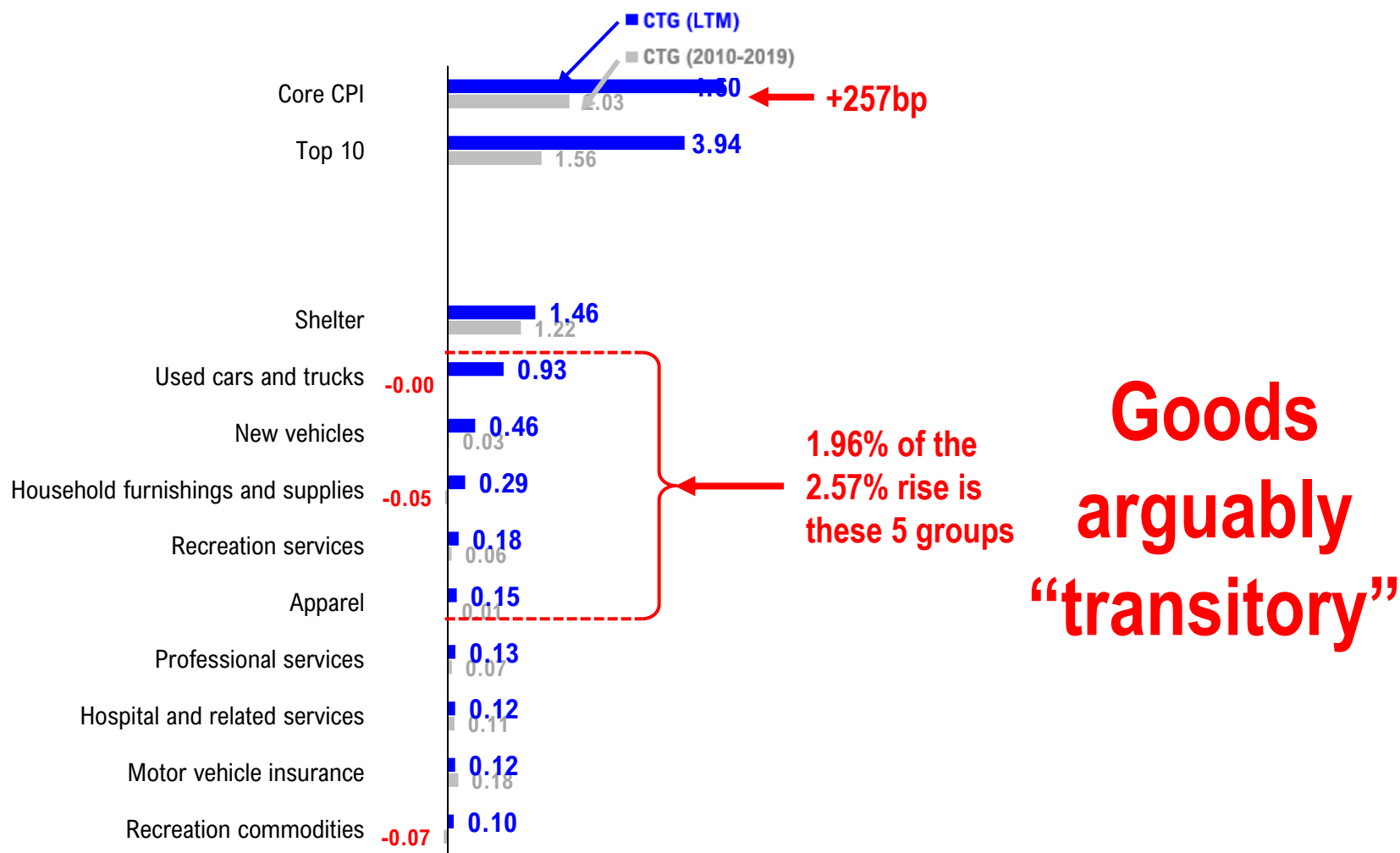


Note: Pre-pandemic trend extrapolates avg. growth from 2018/2019 beginning January 2020  
Source: BLS, J.P. Morgan

## INFLATION: Most of inflation rise in 2021 is “supply chain related”

### Top 10 Contributions to YoY Core CPI Growth (%)

% CTG during Oct. 2020 – Oct. 2021 vs. Dec. 2009 – Dec. 2019; Stats are annualized.



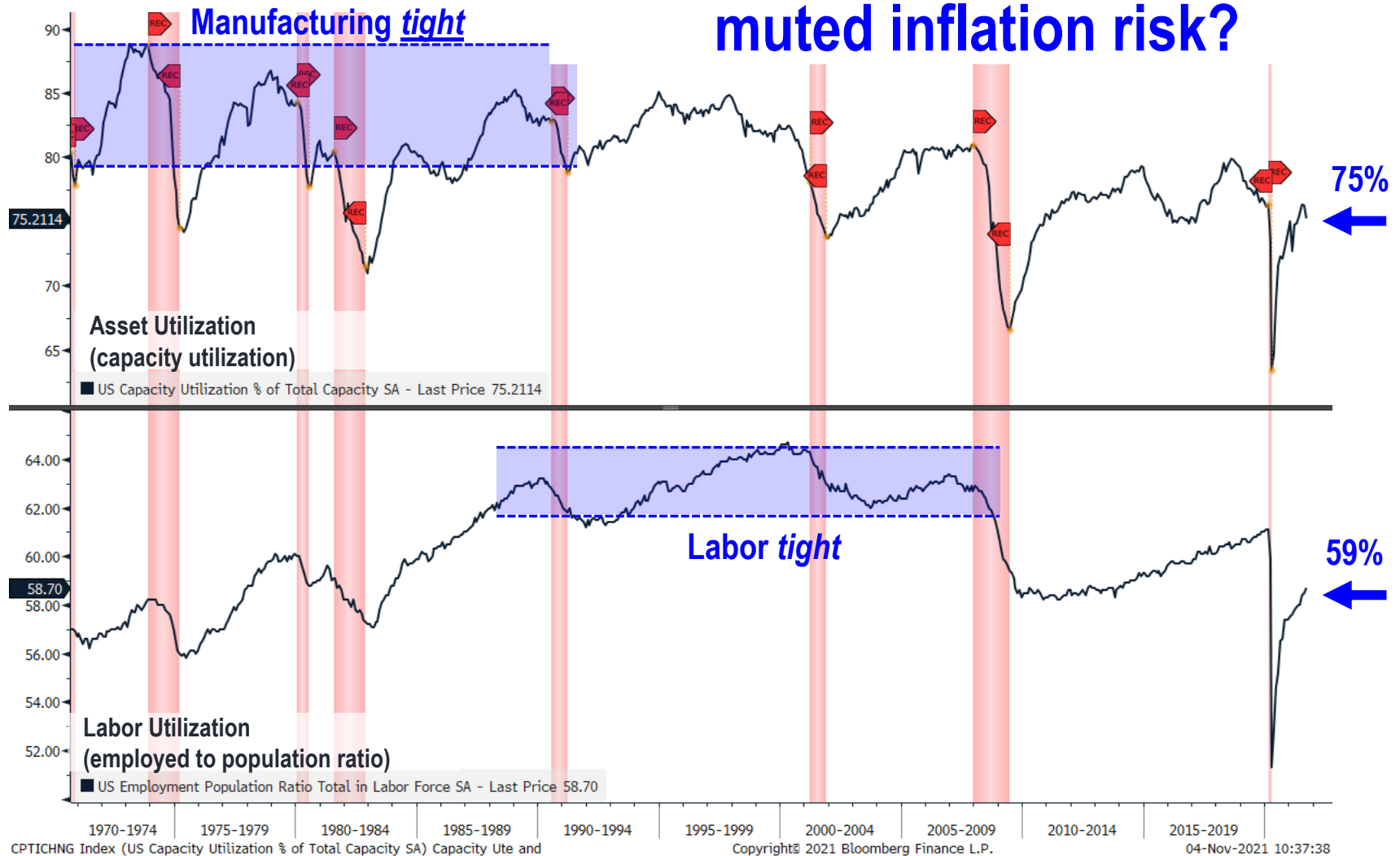
Source: FSInsight, BLS

## UTILIZATION: Asset + Labor utilization

Figure: Asset Utilization and Labor Utilization

Federal Reserve. Monthly, since 1970

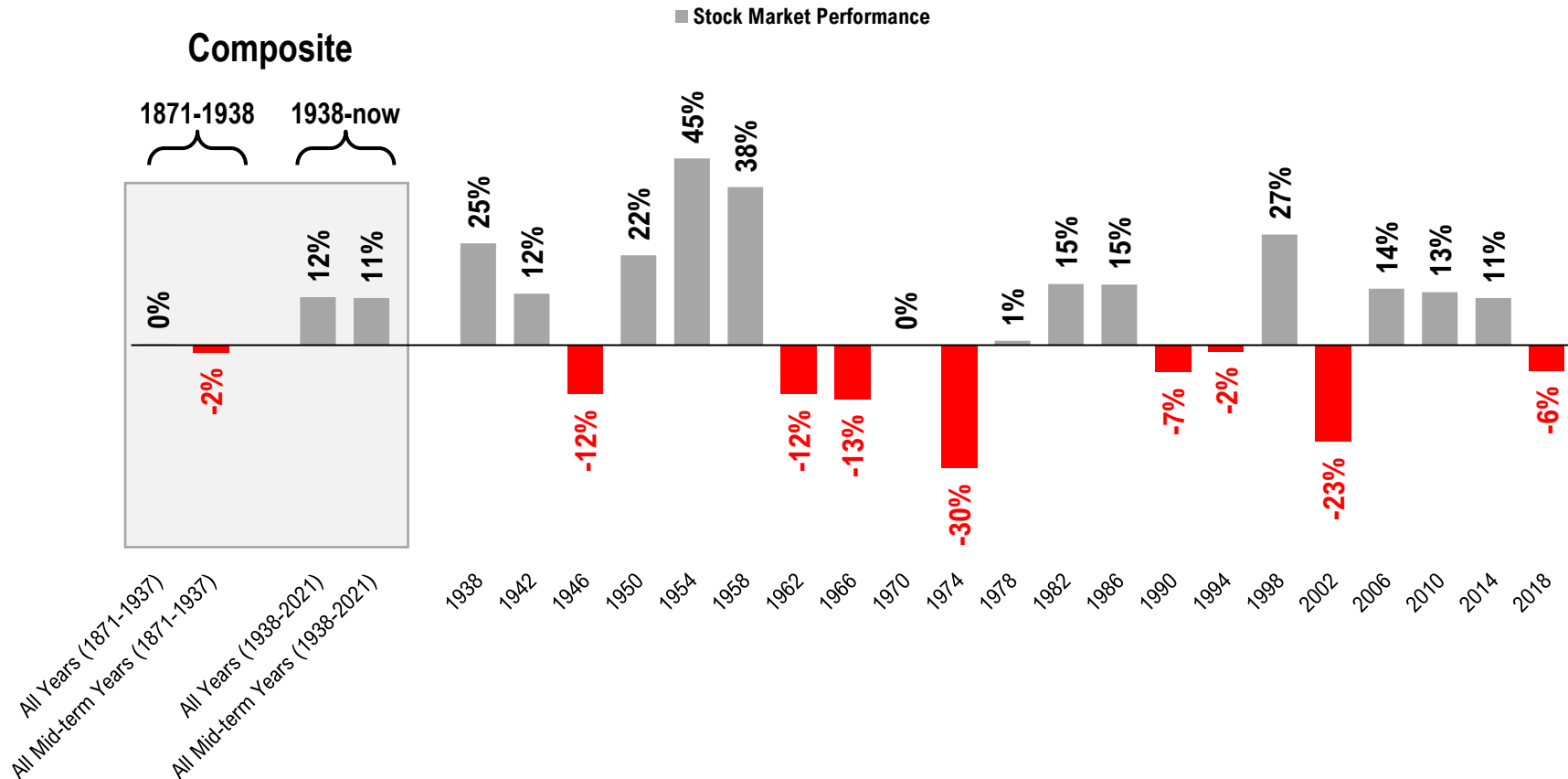
With manufacturing and labor slack,  
muted inflation risk?



## MIDTERM: Since 1938, equity market performance solid in mid-term years

- Equity returns generally solid in mid-term election years
- Base case would be double-digits

Figure: Stock Market Performance in Midterm Years  
Since 1938

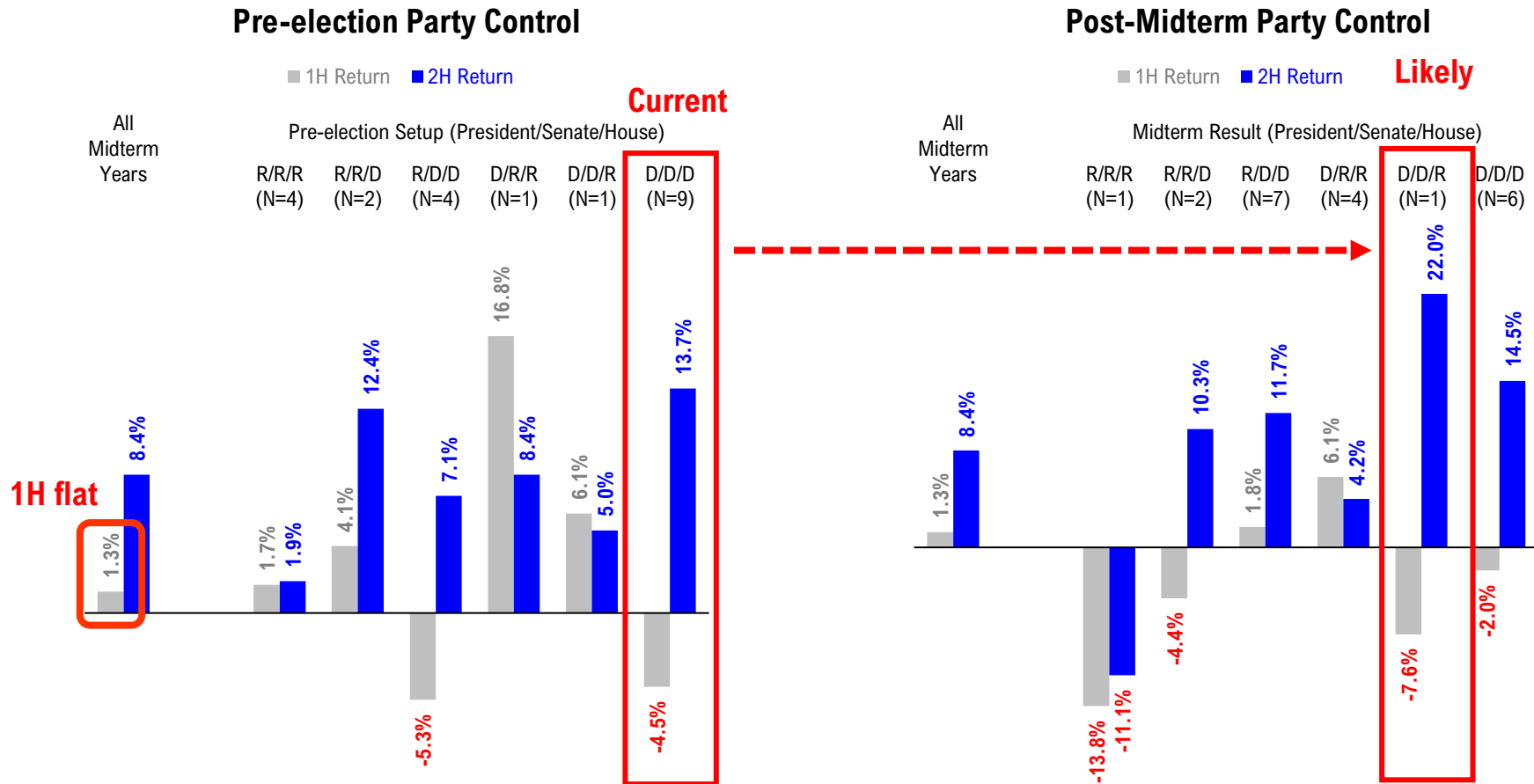


Source: FSInsight

## MIDTERM: History shows 1H2022 base case is “flat”

- Pre-election setup: historically, a D/D/D pre-election setup implied market to fall in 1H, but rally hard in 2H
- Midterm outcome: a D/R/R post-election setup implied market would be up in both 1H and 2H (and 1H>2H), while in other cases, D/D/R and D/D/D, markets tended to fall in 1H, but rebound and regain the loss in 2H.

Figure: Median 1H/2H Market Performances in Midterm Election Years by Pre/Post-midterm Political Power Combinations Since 1938

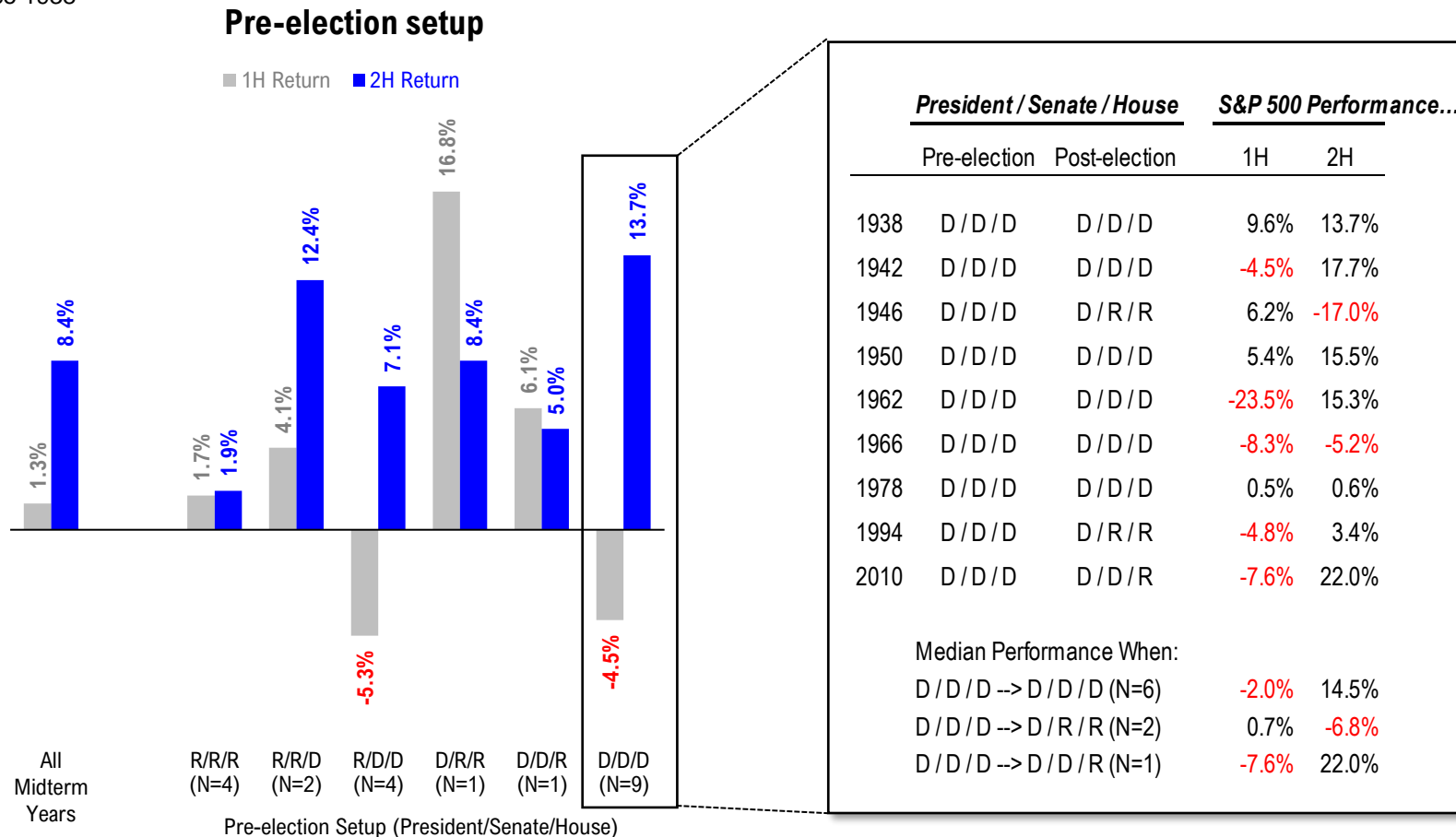


Source: FSInsight, Bloomberg

## MIDTERM: History suggests 2H 2022 > 1H 2022...

- In 6 of the 9 D/D/D pre-election instances, Democratic Party held onto a unified congress after midterm, and markets on average fell slightly in 1H while rallied in 2H.
- In fact, in all D/D/D pre-midterm years, markets performed better in 2H (2H return > 1H return) except 1946 postwar bear markets.

**Figure: Median 1H/2H Market Performances in Midterm Election Years by Pre/Post-midterm Political Power Combinations Since 1938**



Source: FSInsight, Bloomberg

# MIDTERM: History shows 1H2022 base case is “flat”

- Market historically down in 1H when Democrats control the White House, Senate and House...

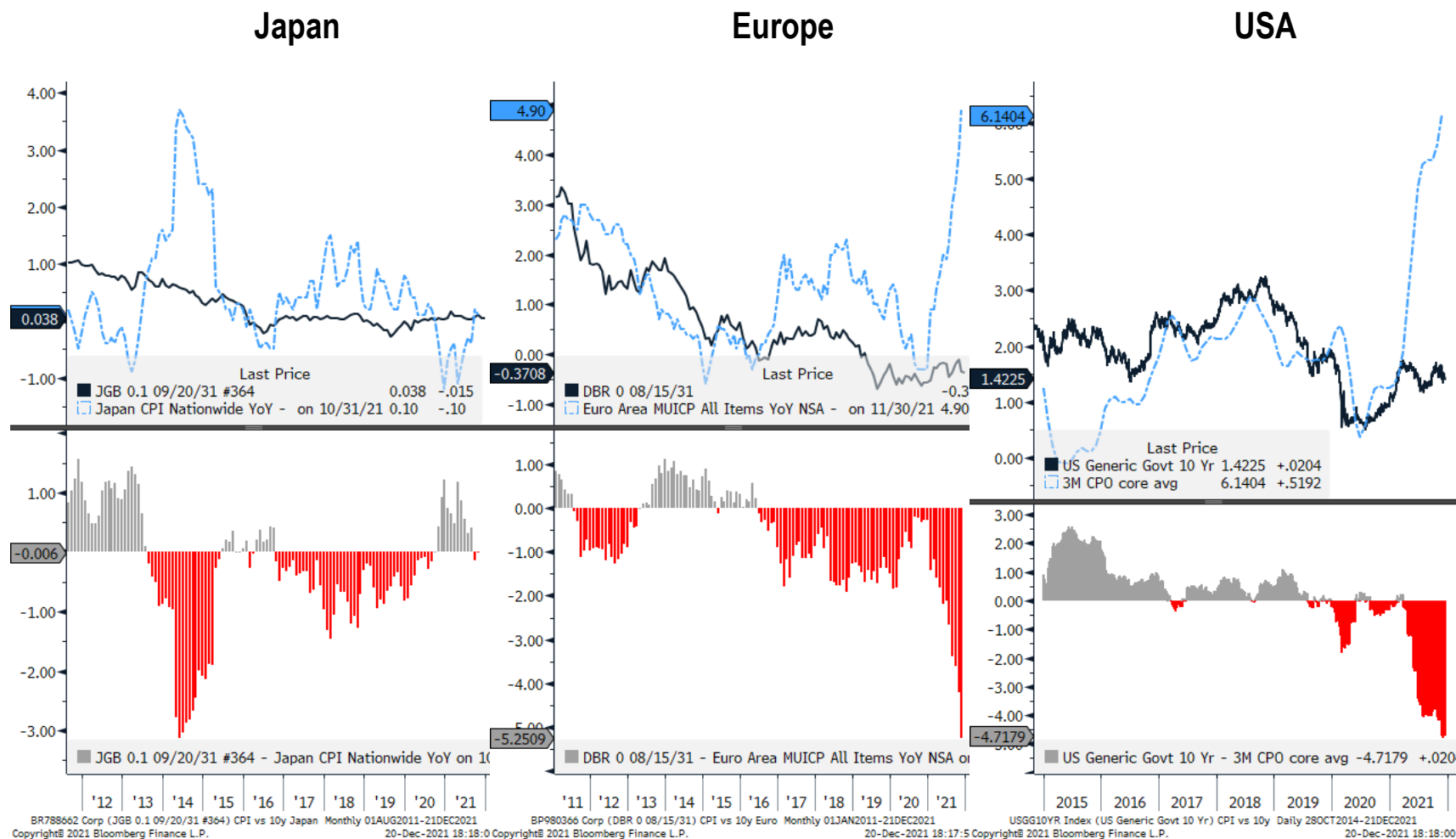
**Figure: Median Trailing 6M Stock Market Return by Month by Pre/Post-midterm Election Setups**  
Since 1938

Stock Market Performance					Trailing 6-month Median Return													
Since 1938	N=	% Avg	% Median	Win Ratio	1H	2H	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
All Years	84	8.8%	11.6%	70%	5.0%	5.5%	4.9%	5.2%	6.1%	5.6%	4.9%	5.0%	4.5%	4.8%	3.5%	3.4%	4.6%	5.5%
All Midterm Years	21	6.3%	11.4%	62%	1.3%	8.4%	3.1%	2.8%	4.2%	2.8%	1.6%	1.3%	(0.3%)	1.8%	3.2%	2.4%	4.4%	8.4%
Non-Midterm Years	63	9.7%	11.8%	73%	5.8%	4.9%	5.3%	7.1%	7.3%	6.6%	5.9%	5.8%	5.1%	5.1%	3.5%	3.6%	4.7%	4.9%
All Midterm Years	21	6.3%	11.4%	62%	1.3%	8.4%	3.1%	2.8%	4.2%	2.8%	1.6%	1.3%	(0.3%)	1.8%	3.2%	2.4%	4.4%	8.4%
Pre-election Political Power Combination: President / Senate / House																		
R / R / R	4	7.3%	3.7%	50%	1.7%	1.9%	4.5%	7.4%	7.8%	5.7%	1.9%	1.7%	(0.3%)	4.4%	6.8%	3.8%	6.2%	1.9%
R / R / D	2	14.7%	14.7%	100%	4.1%	12.4%	1.4%	6.2%	13.8%	9.8%	5.4%	4.1%	0.2%	8.6%	2.2%	9.2%	12.3%	12.4%
R / D / D	4	0.5%	(3.2%)	50%	(5.3%)	7.1%	(9.1%)	(7.0%)	(3.2%)	(9.5%)	(2.3%)	(5.3%)	0.0%	(5.9%)	(8.0%)	(3.0%)	1.6%	7.1%
D / R / R	1	26.7%	26.7%	100%	16.8%	8.4%	2.7%	16.7%	16.3%	21.6%	14.2%	16.8%	14.3%	(8.8%)	(7.7%)	(1.2%)	6.7%	8.4%
D / D / R	1	11.4%	11.4%	100%	6.1%	5.0%	5.7%	13.9%	11.3%	7.3%	6.5%	6.1%	8.3%	7.7%	5.3%	7.1%	7.5%	5.0%
D / D / D	9	3.8%	1.1%	56%	(4.5%)	13.7%	7.5%	2.8%	(0.8%)	(1.5%)	(1.1%)	(4.5%)	(3.3%)	0.3%	3.8%	(0.3%)	3.9%	13.7%
Post-election Political Power Combination: President / Senate / House																		
R / R / R	1	(23.4%)	(23.4%)	0%	(13.8%)	(11.1%)	(6.7%)	(2.4%)	10.2%	1.6%	(6.3%)	(13.8%)	(19.3%)	(17.2%)	(28.9%)	(17.8%)	(12.3%)	(11.1%)
R / R / D	2	4.3%	4.3%	50%	(4.4%)	10.3%	3.1%	1.0%	0.6%	(0.8%)	(4.6%)	(4.4%)	(5.7%)	6.3%	8.9%	8.6%	12.9%	10.3%
R / D / D	7	10.7%	13.6%	71%	1.8%	11.7%	(4.9%)	(5.6%)	(0.8%)	5.8%	4.4%	1.8%	8.2%	1.8%	(3.2%)	3.6%	10.3%	11.7%
D / R / R	4	6.2%	4.9%	50%	6.1%	4.2%	6.6%	12.6%	11.9%	10.0%	9.0%	6.1%	2.5%	(0.9%)	(1.9%)	1.8%	3.0%	4.2%
D / D / R	1	12.8%	12.8%	100%	(7.6%)	22.0%	8.7%	8.2%	10.6%	14.5%	(0.6%)	(7.6%)	2.6%	(5.0%)	(2.4%)	(0.3%)	8.4%	22.0%
D / D / D	6	5.8%	6.7%	67%	(2.0%)	14.5%	(3.3%)	(3.6%)	(4.2%)	(3.2%)	(8.3%)	(2.0%)	0.7%	3.3%	11.5%	2.5%	4.1%	14.5%

Source: FSInsight

# INTEREST RATES: Negative “real rates” might be here longer than expected

## 10-yr vs CPI – Europe + Japan + USA 10Y and CPI

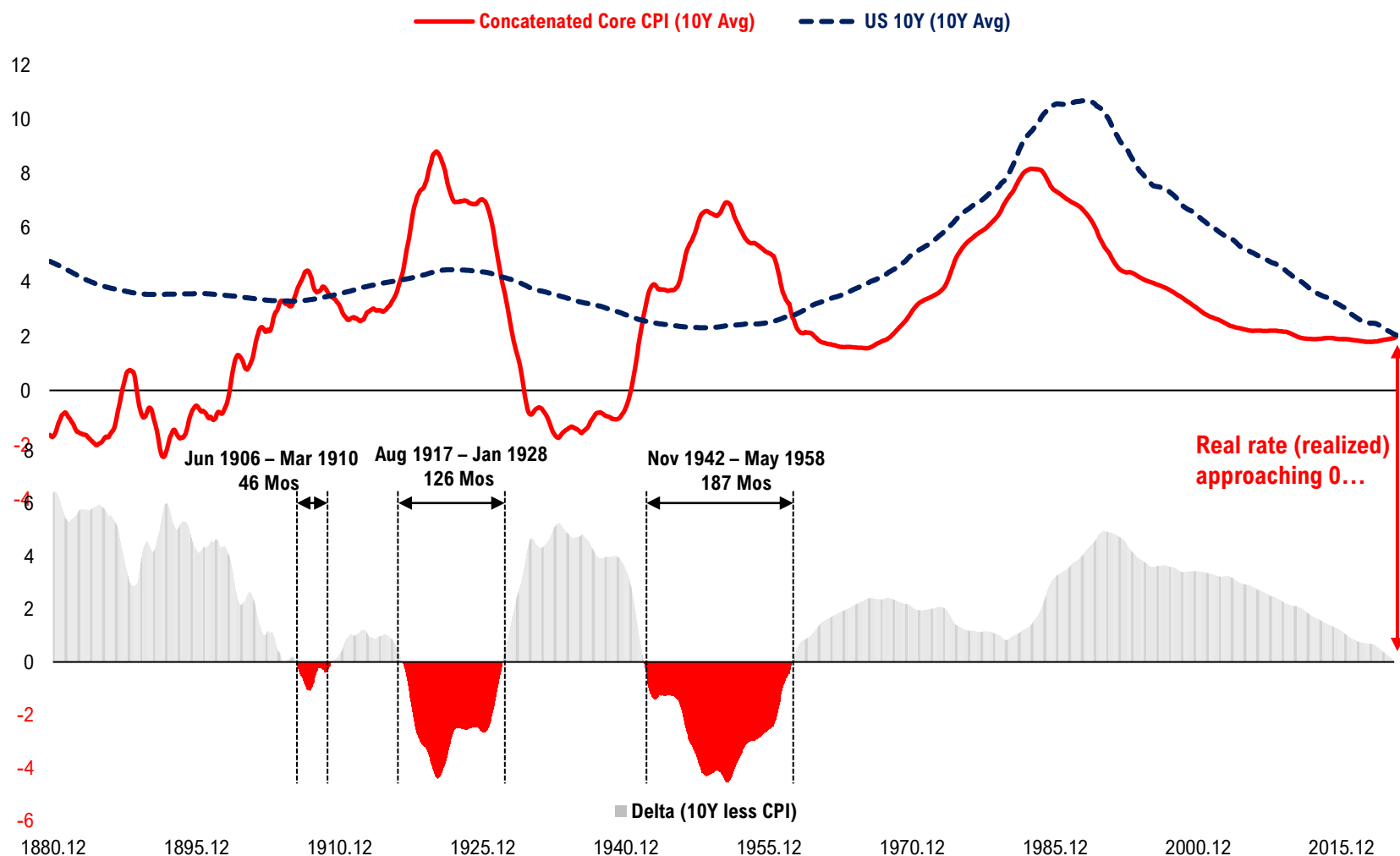




## NEGATIVE RATES: 26% of all periods. Eras last decades-long

### Realized Real Rate, US Treasury 10Y and CPI...

Since 1880. 10Y mavg. Core CPI since 1958, CPI before 1958

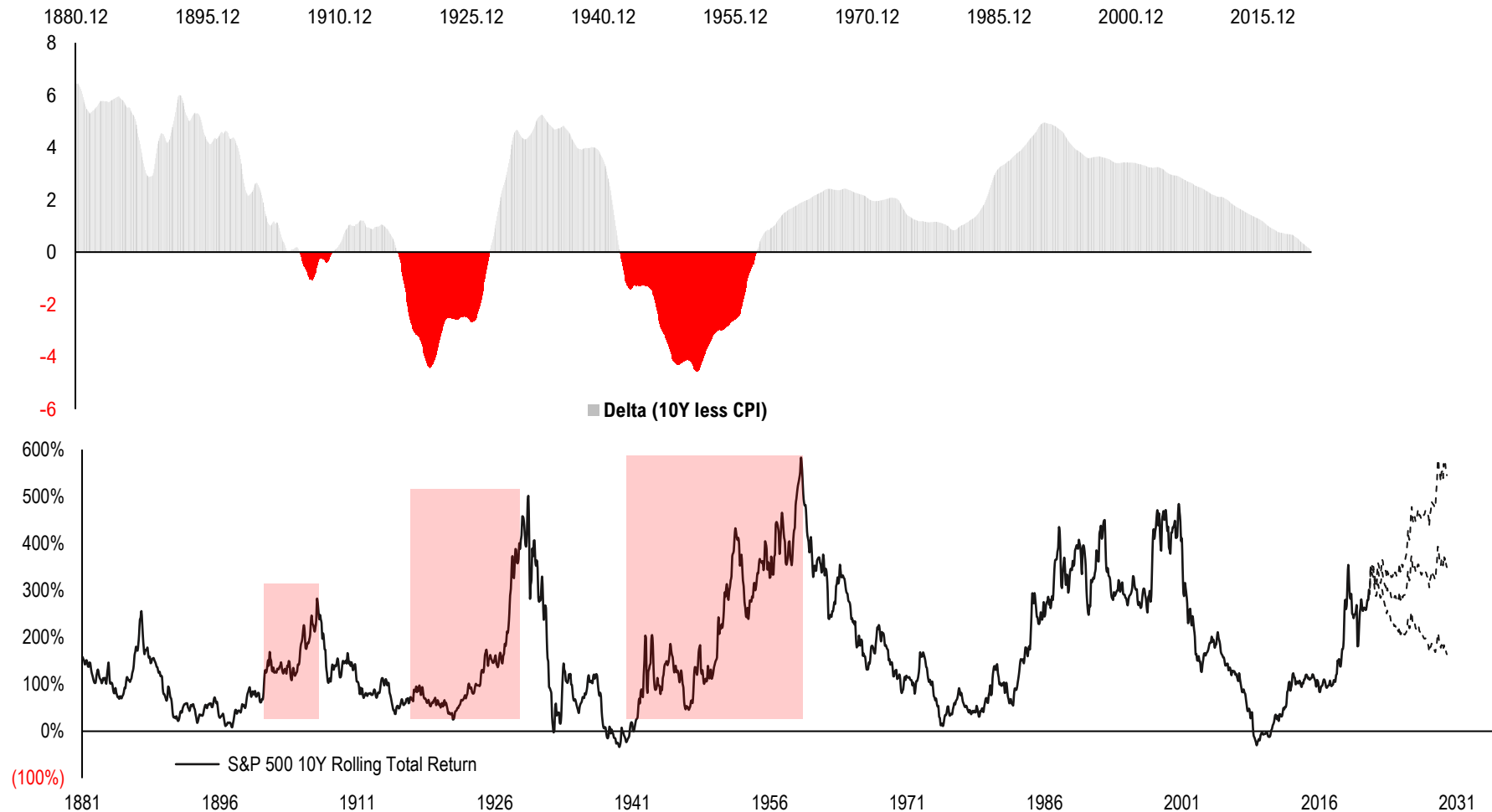


Source: FSInsight, Bloomberg, BLS, FRED, Robert Shiller Online Data

## NEGATIVE RATES: Stock returns good when negative real rates

### Realized Real Rate and Stock Market Performance\*

Since 1880. 10Y mavg.



Source: FSInsight, Bloomberg, BLS, FRED, Robert Shiller Online Data

\* Stock Market Performance is calculated by using: i) 1880 – 1896: Shiller S&P Composite; ii) 1896-1927: Dow Jones Industrial Average; iii) 1927-Now: S&P 500

## Themes in 2022

### **Crypto**

The pace of the convergence of Finance and Technology accelerating as growing adoption and better technologies/applications speed adoption

### **Energy**

Structural shortage of oil  
Energy companies managing capital carefully  
Not widely owned

### **FAANG**

P/E expanding  
EPS growth >40%  
Outperformance in 2022

### **Fade winners “supply chain glitch”**

Supply chain glitches ease  
Stocks benefitting from “higher prices” hurt

Source: FSInsight, Bloomberg, Factset

## SECTOR: Sector ratings by FSInsight research heads...

- There is the most agreement with Technology, Healthcare, and Energy.

Figure: Sector views for 2022

Per FSInsight. OW = Overweight. UW = Underweight. N = Neutral

	Market Cap	Macro Strategy Thomas Lee	Technical Strategy Newton	Quantitative Strategy Gould
<b>Growth + Defensives</b>	<b>\$26,285</b>			
Information Technology	12,126	OW 2	OW 3	OW 1
Communication Services	4,325	OW	UW	OW 3
Real Estate	1,076	UW	N	UW
Consumer Staples	2,562	N	N	UW
Healthcare	5,230	OW 3	OW 1	OW
Utilities	966	UW	N	UW
<b>Epicenter</b>	<b>\$15,278</b>			
Consumer Discretionary	5,569	OW	UW	OW 2
Industrials	3,255	N	UW	N
Energy	1,115	OW 1	OW 2	N
Financials	4,313	OW	UW	N
Materials	1,026	N	OW	N

Source: FSInsight

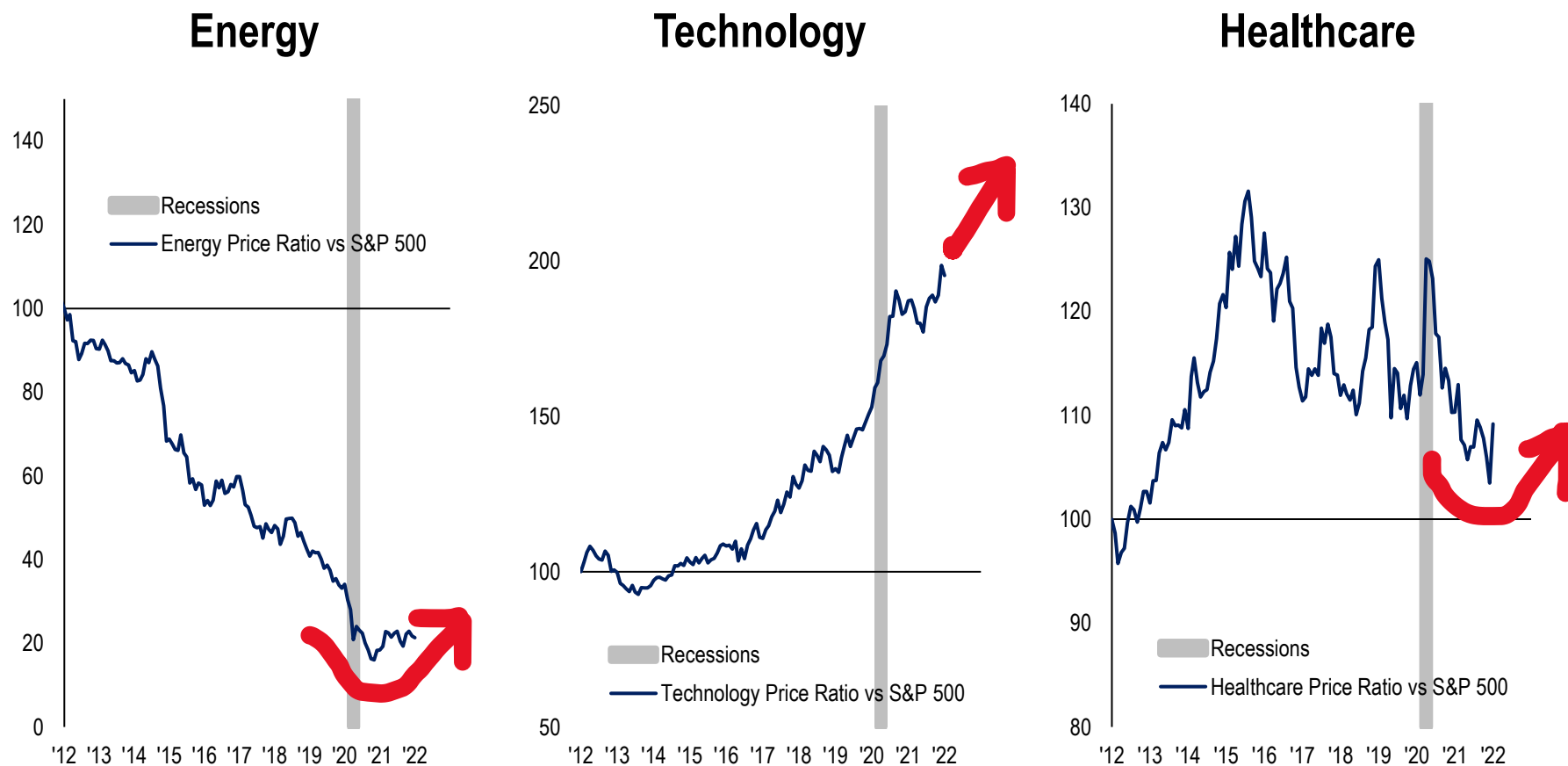
## SECTORS: Top 3 sectors to start 2022... turn arounds plus leadership

Below are what we see as the top 3 sectors in 2022. There are varying reasons for this

- **Energy** is a continuing turnaround. Healthcare in 2022 might be Energy of 2021.
- **Technology**, particularly FANG, should see P/E expansion and continued price leadership

**Figure: Relative price ratio to S&P 500**

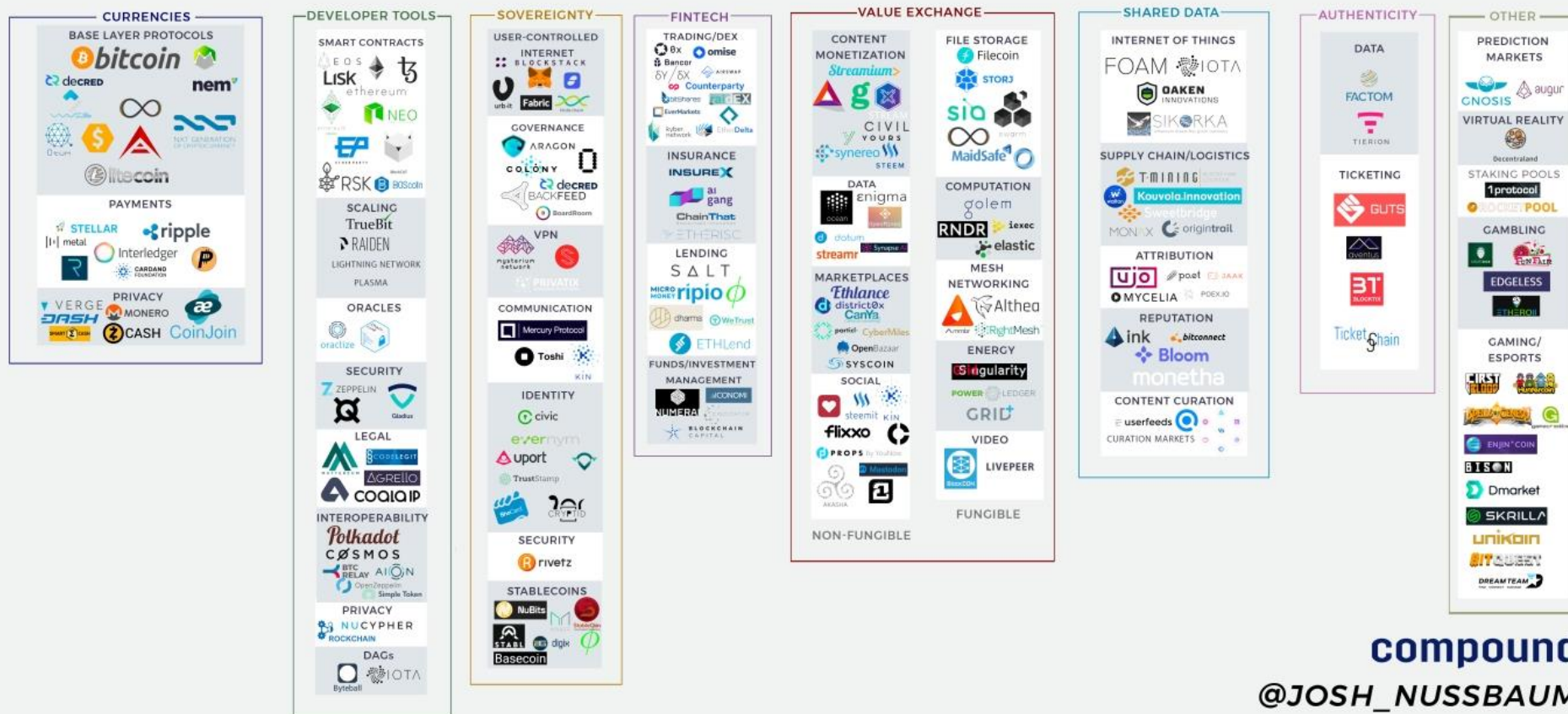
Since 12/31/2011; 12/31/2011 rebased to 100



Source: FSInsight, Bloomberg. FAMA until 1975

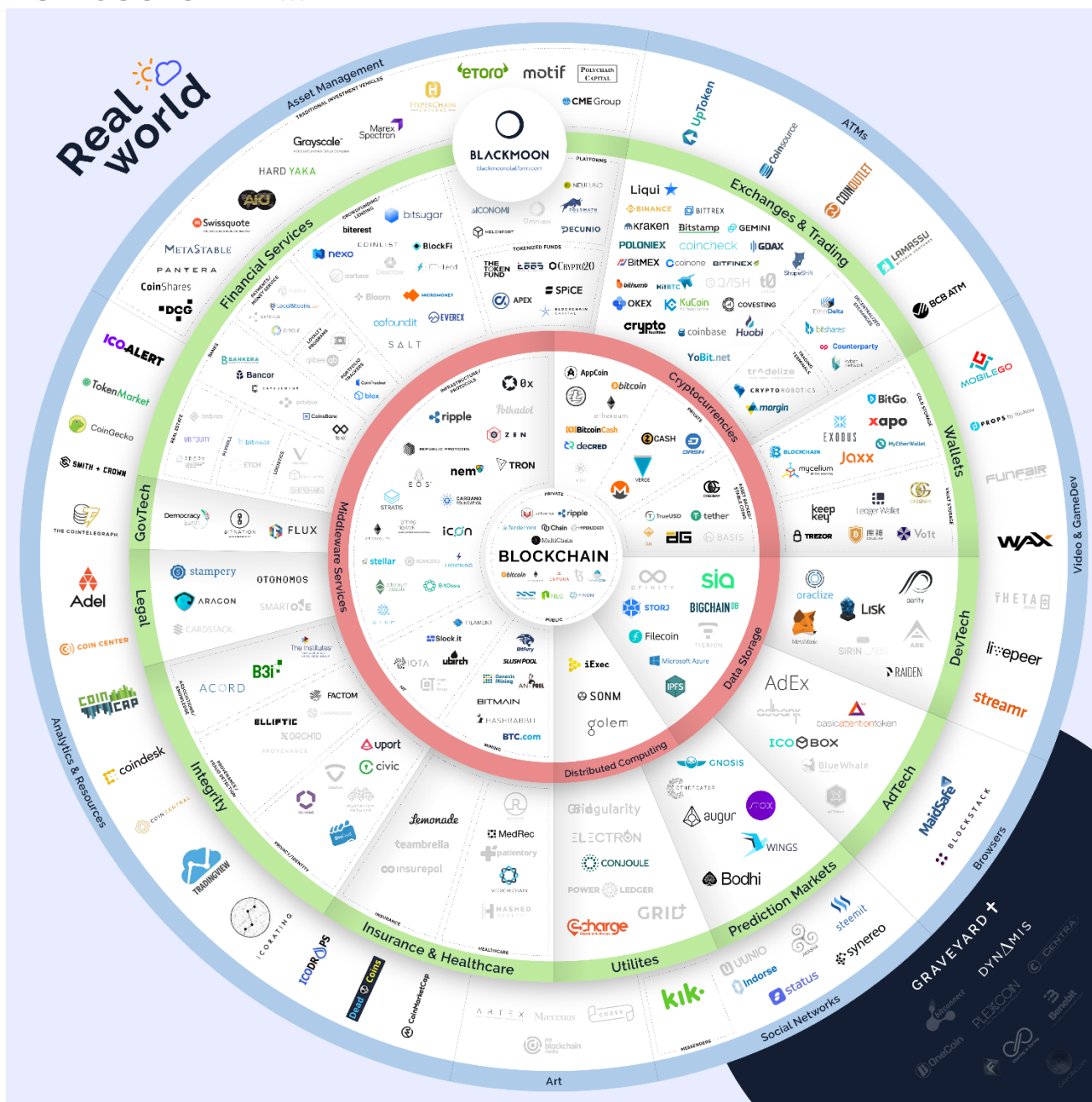
# CRYPTO ECOSYSTEM...

## BLOCKCHAIN PROJECT ECOSYSTEM



Source: Josh Nussbaum of <https://compound.vc/>

























# CRYPTO ECOSYSTEM...



Source:  
<https://medium.com/@SVasin/the-blockchain-ecosystem-v3-six-months-after-the-hype-ca14e9879001>



## CRYPTO: Number of equities with direct crypto exposure increasing

<u>Type</u>	<u>Company</u>	<u>Ticker</u>	<u>Market Cap</u> <u>(\$ Million)</u>
Miners	 Marathon Digital Holdings	MARA	3,644
	 Riot Blockchain	RIOT	2,784
	 Hut 8 Mining	HUT	1,325
	 Bitfarms Ltd.	BITF	935
	 Bit Digital Inc	BTBT	482
	 CleanSpark Inc	CLSK	480
Exchanges	 Coinbase	COIN	53,192
	 Voyager Digital	VYGVF	1,961
	 Mogo	MOGO	230
Banks/ Other	 Signature Bank	SBNY	18,398
	 Galaxy Digital	GLXY CN	5,610
	 Silvergate Bank	SI	4,368
	 Metropolitan Bank	MCB	1,049
	 Bitwise Crypto Industry ETF	BITQ	110
Crypto SPACs	 XPDI Power & Digital Infra. SPAC I	XPDI	455
	 Blockchain Coinvestors SPAC	BCSAU	418
	 XPDI Power & Digital Infra. SPAC II	XPDBU	366
	 Adit EdTech Acquisition Corp	ADEX	340
	 Crypto 1 Acquisition Corp	DAOOU	290
Bitcoin/Crypto Balance Sheet Plays	 Grayscale Bitcoin Trust	GBTC	25,140
	 MicroStrategy	MSTR	6,196
	 ProShares Bitcoin Strategy ETF	BITO	1,245
	 Bitwise 10 Crypto Index Fund	BITW	839
	 VanEck Bitcoin Strategy ETF	XBTF	17

Source: FSInsight, Bloomberg, Factset

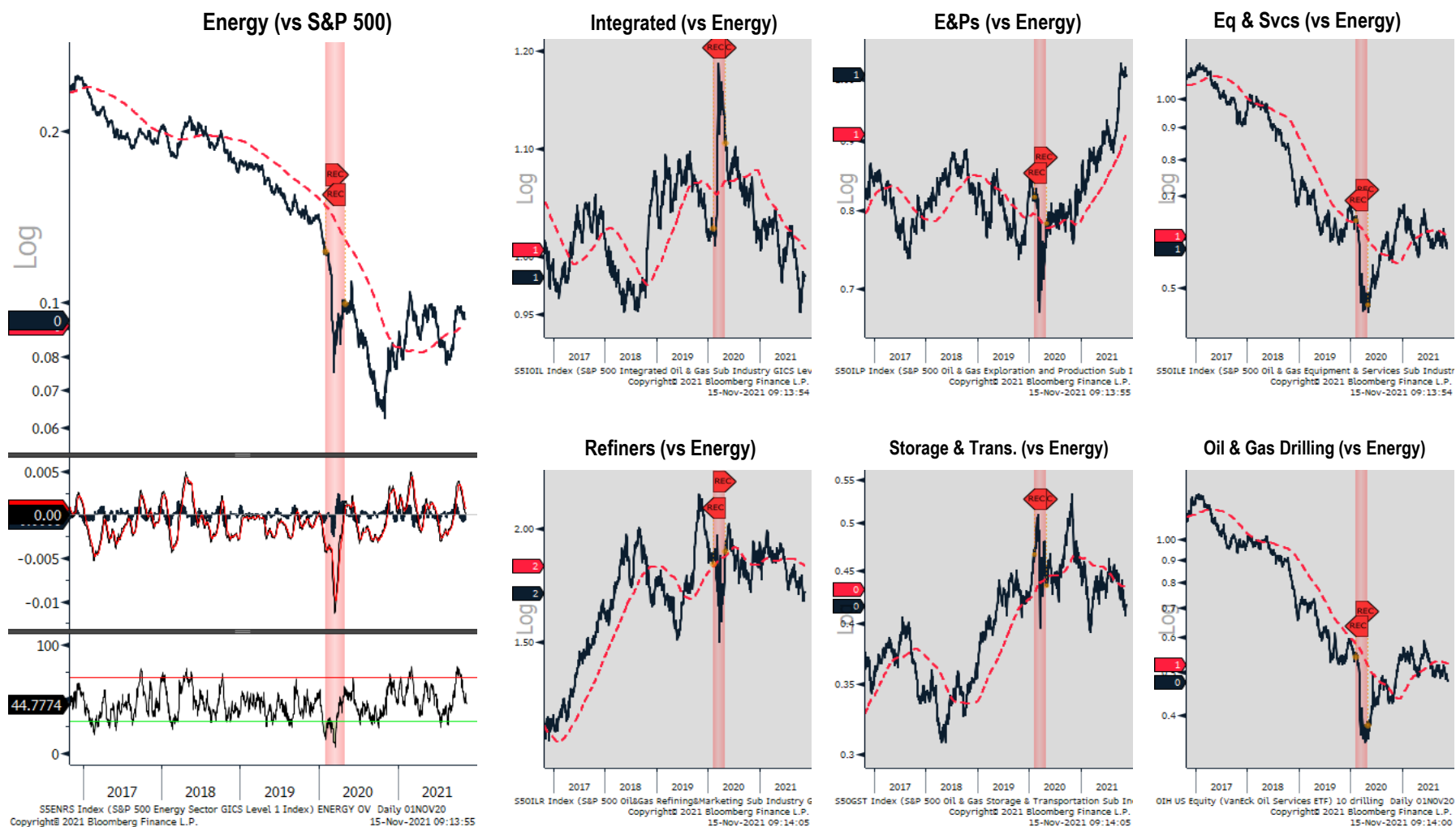


# Energy—Overweight

The Sector relative performance is shown on the left (vs S&P 500) as well as the industry group's performance versus the sector broadly. The period shown is the last 2 years.

**Figure: Sector Price (vs S&P 500) & Industry relative performance (vs Sector GICS 1)**

Past 2 years



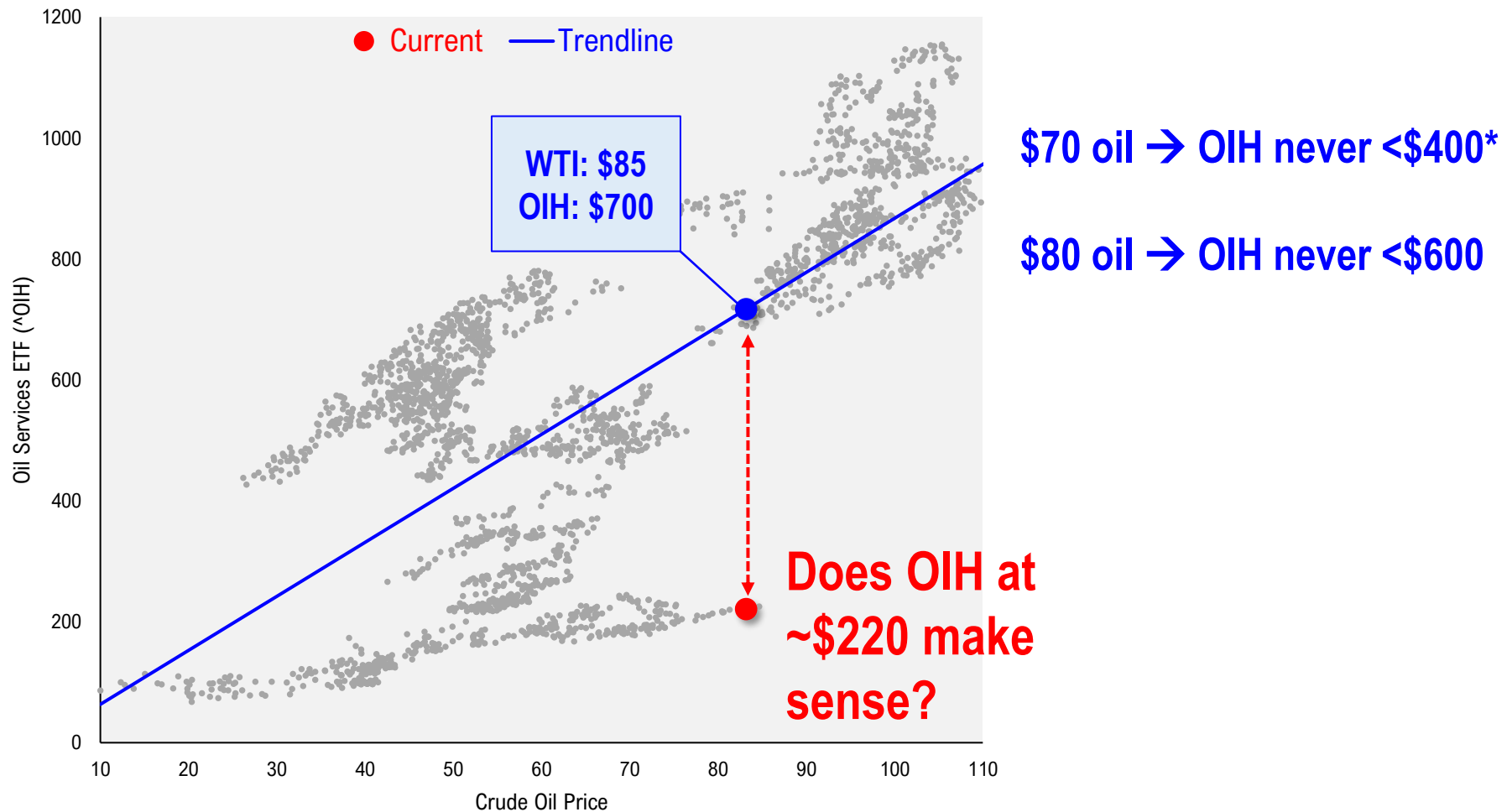
Source: FSInsight, Bloomberg

## ENERGY: Surge in oil argues for big upside in Energy stocks

- Below is a comparative scatter of WTI vs OIH. There could be “eye popping” upside if OIH converges to the trendline.

Figure: Comparative price of WTI vs OIH

Since 2011. Per FSInsight



Source: FSInsight, Bloomberg  
\* Excluding the instances in 2021

## ENERGY: Energy so bad, one has to be back to 'moby dick' era

— Energy Price Ratio vs S&P 500 (left scale)

Never this bad in 90 years...

So bad, back to Moby Dick era

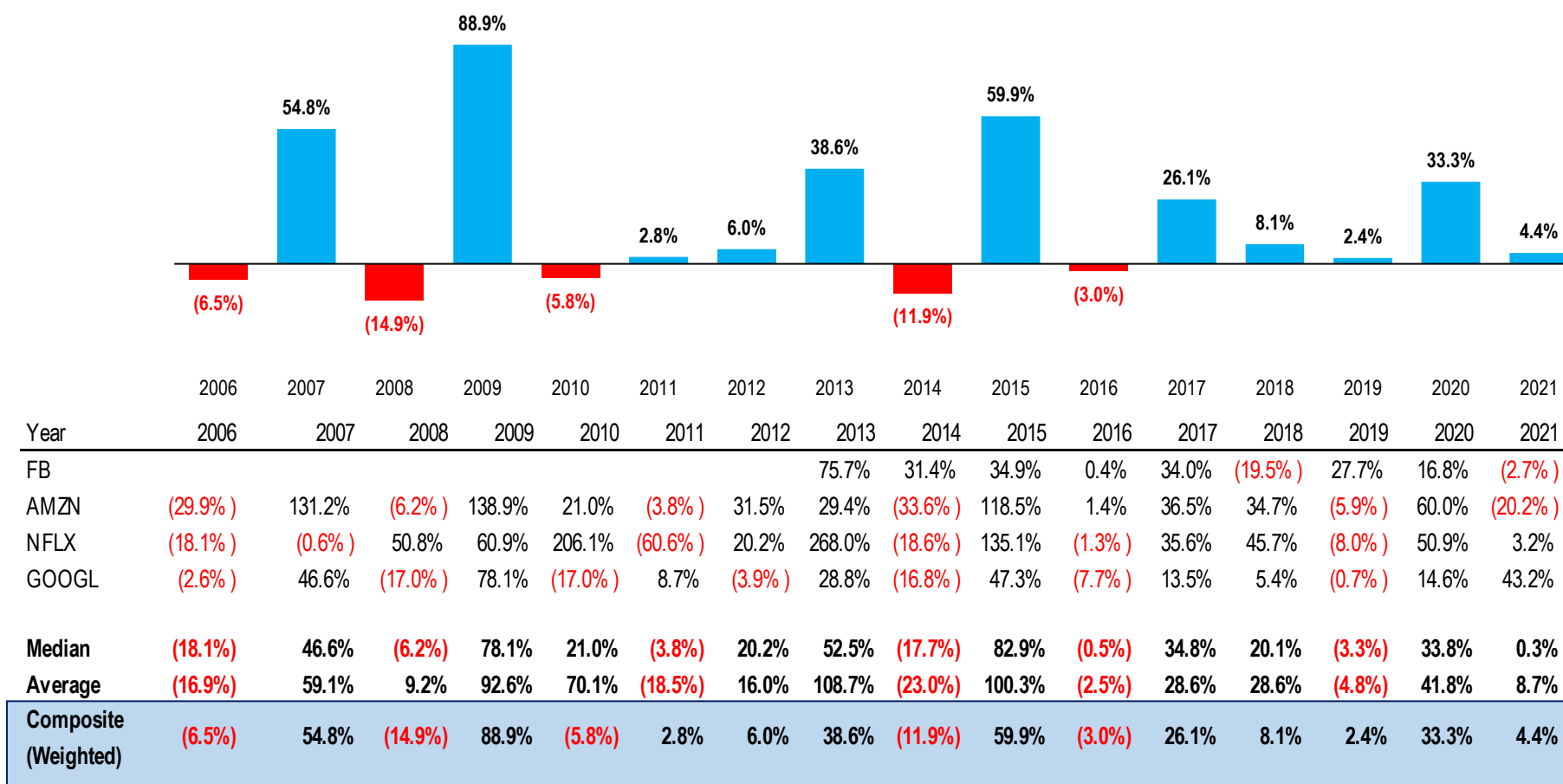


## FANG: Relative price performance should strengthen in 2022.

**Figure: FANG relative price performance versus S&P 500**

FANG: Facebook, Amazon.com, Netflix, Google (Alphabet)

### FANG – Relative Price Change vs. S&P 500

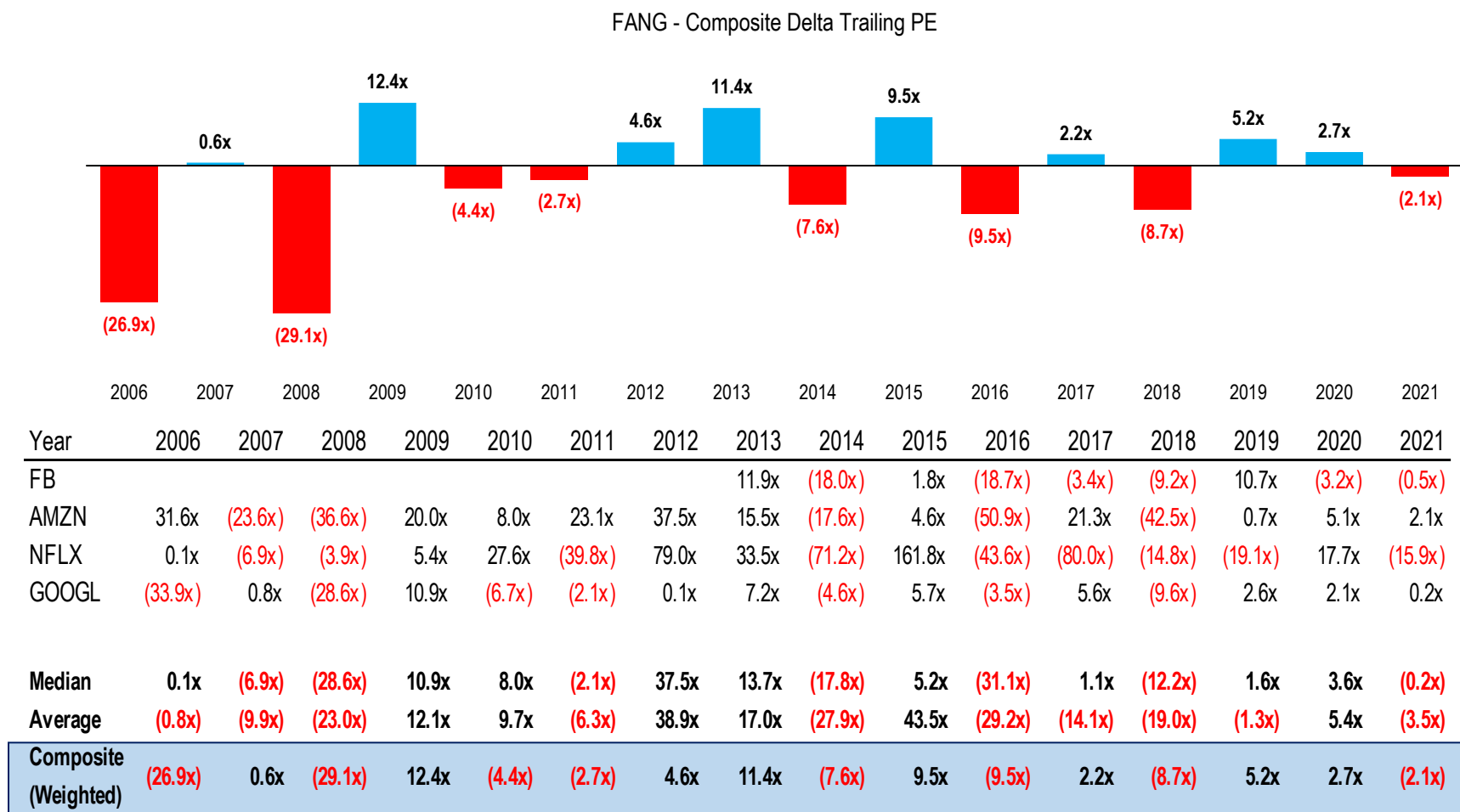


Source: FSInsight, Bloomberg, Factset

## FANG: 2022 Expect P/E expands after de-rating in 2021

**Figure: Change in PE YoY**

Delta. Based on composite (weighted)

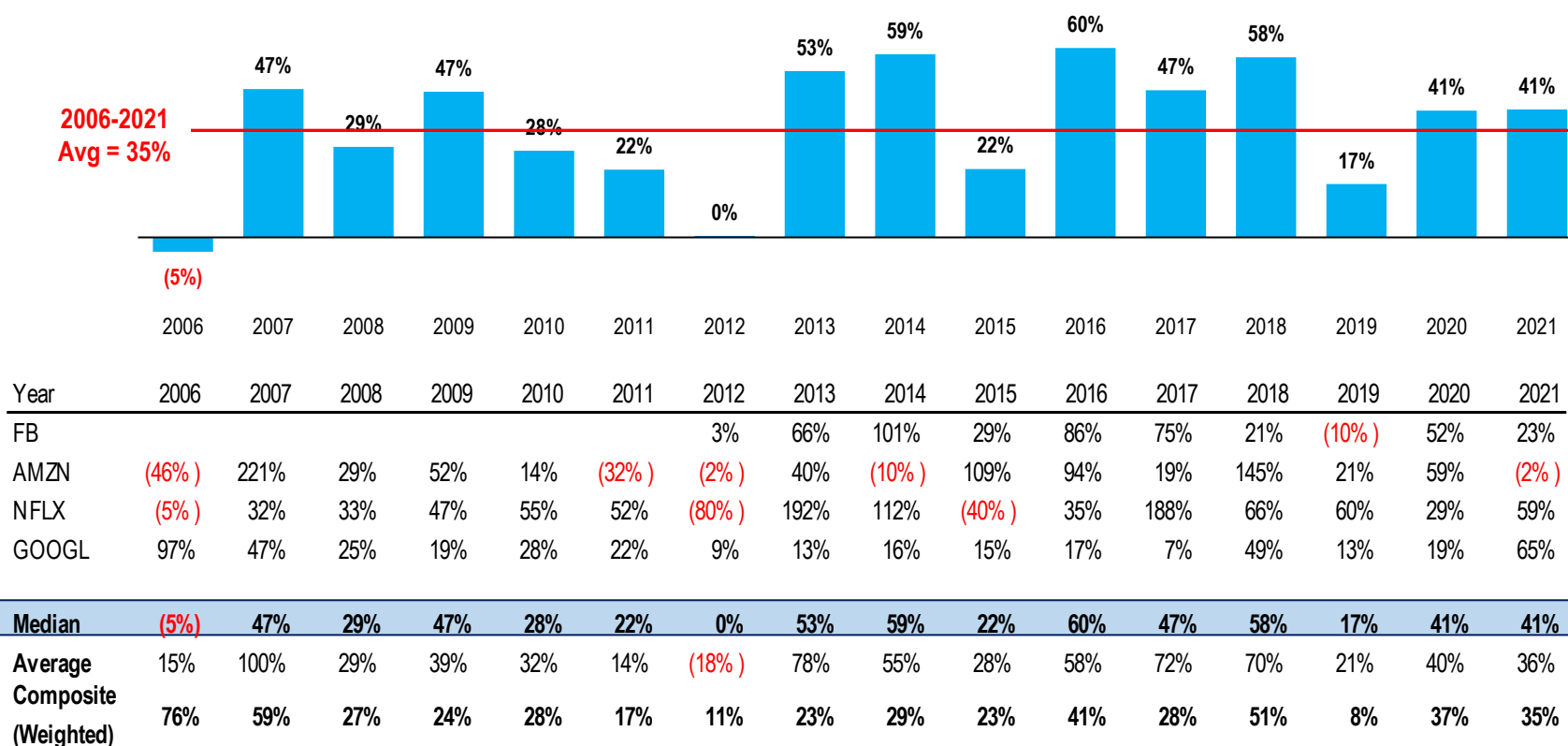


Source: FSInsight, Bloomberg, Factset

# FANG: EPS growth remains “incredibly strong”

Figure: Median EPS growth FANG  
2006-2021

FANG - Median EPS Growth



Source: FSInsight, Bloomberg, Factset

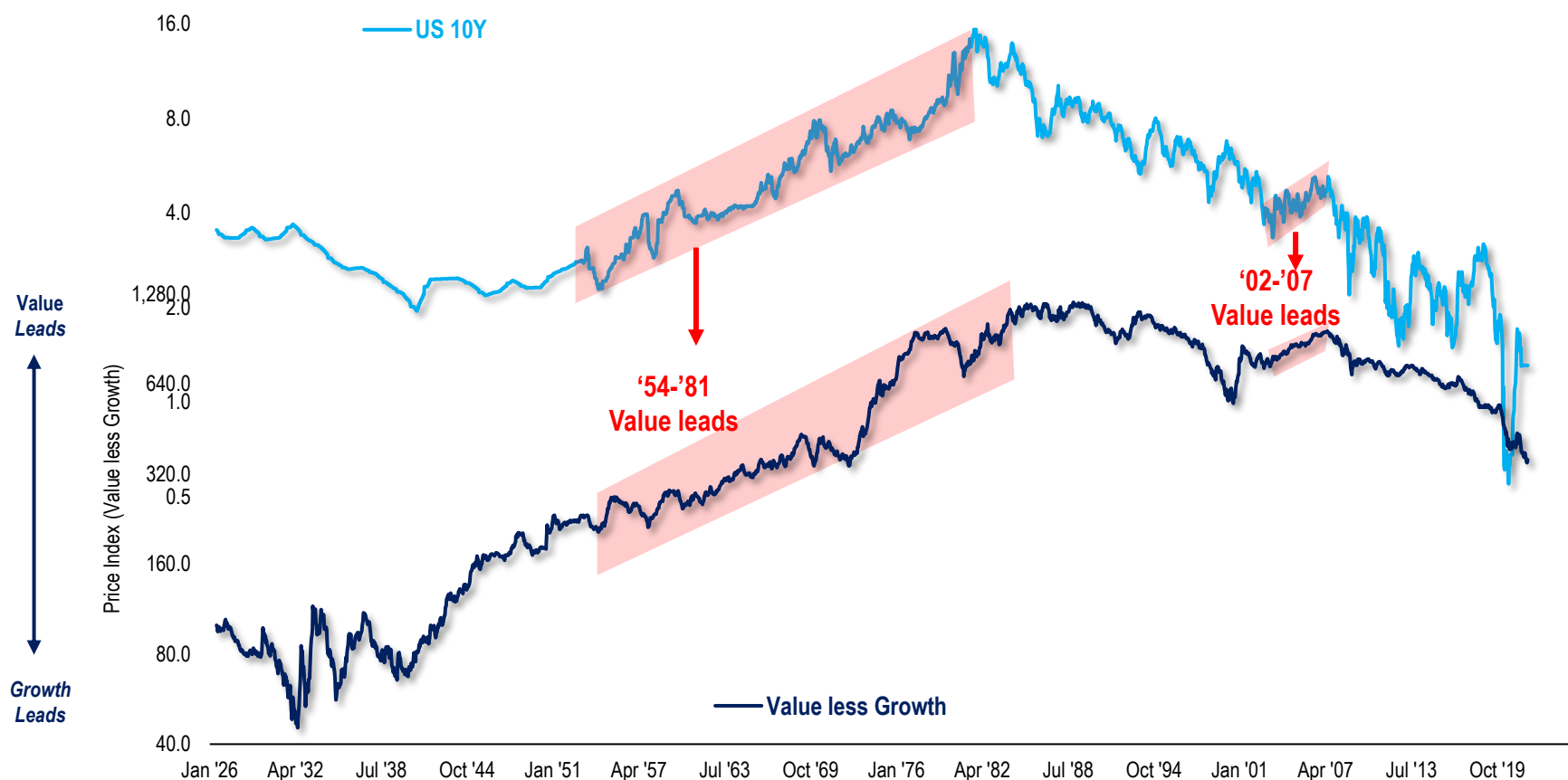
## CYCLE REVERSION: Interest rates 'go up'? If so, bullish for Value

We have written two reports previously discussing what we see as factors behind the lagging returns in Value, of which, we see 3 of 4 factors as temporary (see report published Sept 8, 2017 “4 factors explain underperformance of Value”). And last week, we noted that the underperformance of US Value vs US Growth AND Global Value is historic.

- **But as highlighted below, perhaps the biggest headwind to Value's performance has been QE and falling interest rates. As shown below, during periods of rising rates, Value generally has outperformed.**

**Figure: Comparison of US 10-year yields and Value vs Growth relative returns**

Price index for Value vs Growth is based on daily return (Value less Growth). Since 1926



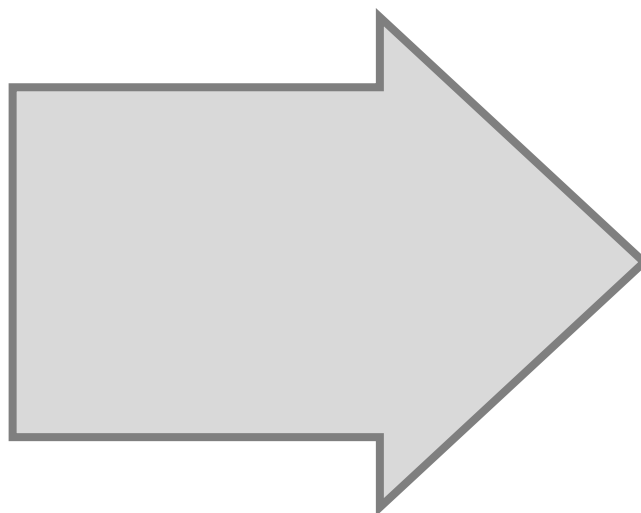
Source: FSInsight, Bloomberg. FAMA until 1975

INDEX vs STOCKS: Some validity to why institutions “write-off” 90% down...

**Since 1975...**

# stocks listed  
on NYSE,  
NASDAQ, AMEX

**41,592**



Down 90% from  
ATH

**18,676**  
**(45%)**

**Average stock goes to zero**



STRATEGY: Increase “win-rate” of stock picks...

**Shaquille:**

(career success)

**52%**



**Rick Barry:**

(career success)

**90%**



## STRATEGY: Granny Shots represents the “best of the best” from Thematics

The granny shots represent the best of the best from the thematic portfolios.

- This is derived from looking at stocks which appear in multiple themes.

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

Stocks which appear in multiple themes.

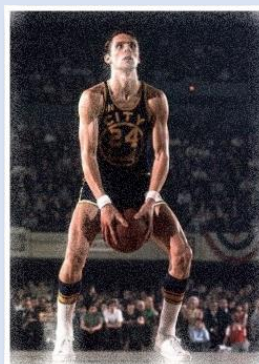
### Tactical (6M-12M)

	# stocks
Style tilt	18
Seasonality	16
PMI Recovery	21

### Thematic (3Y-5Y)

	# stocks
Millennials	28
Automation/ AI	49
Asset intensity	26

## Granny Shots



Rick Barry career free throw percentage was eye-popping 90%, incredible considering Shaquille O’Neal’s only 52%.

His secret? The unorthodox style of underhanded throws, which is considered “not macho” enough for most players.

# overlaps  
“layups”

Tickers

4	<b>MSFT</b>
3	<b>AAPL, GOOG, NVDA</b>
2	<b>AAP, AMZN, ATVI</b> <b>AVGO, AXP, AZO</b> <b>BF/B, CSCO, EOG</b> <b>GRMN, KLAC, MPC</b> <b>PHM, PM, PSX</b> <b>PYPL, QCOM, QRVO</b> <b>ROST, TGT, TSLA</b> <b>TXN, ULTA, USB</b> <b>WRB, XLNX</b>

# GRANNY SHOTS: Beat S&P 500 23 out of the 36 months since inception...

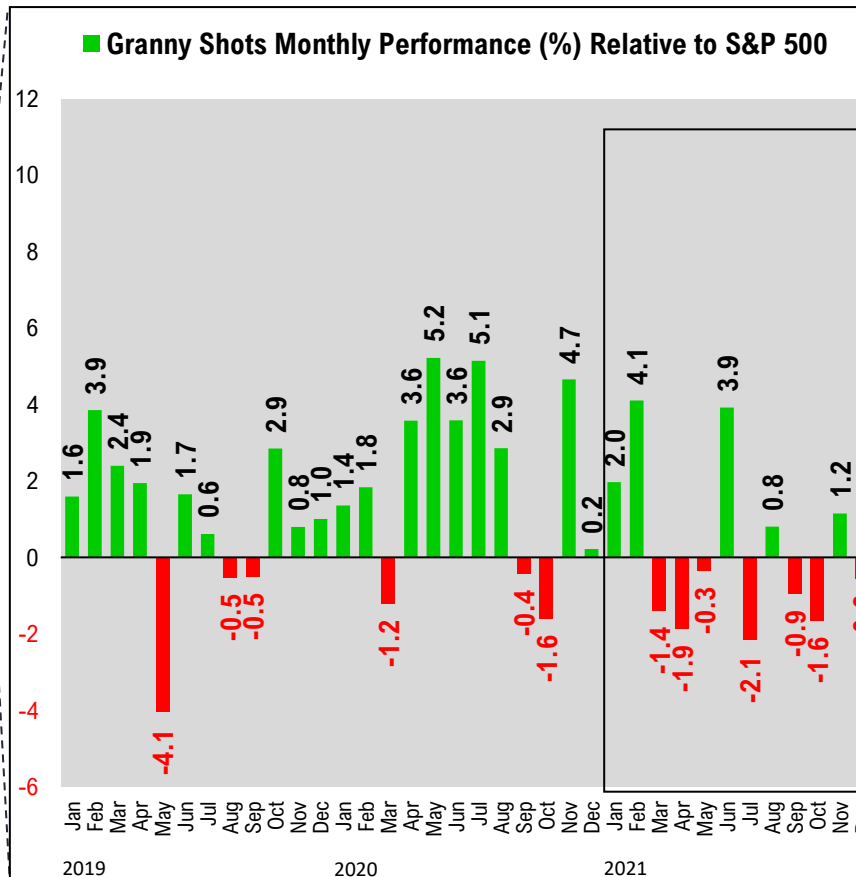
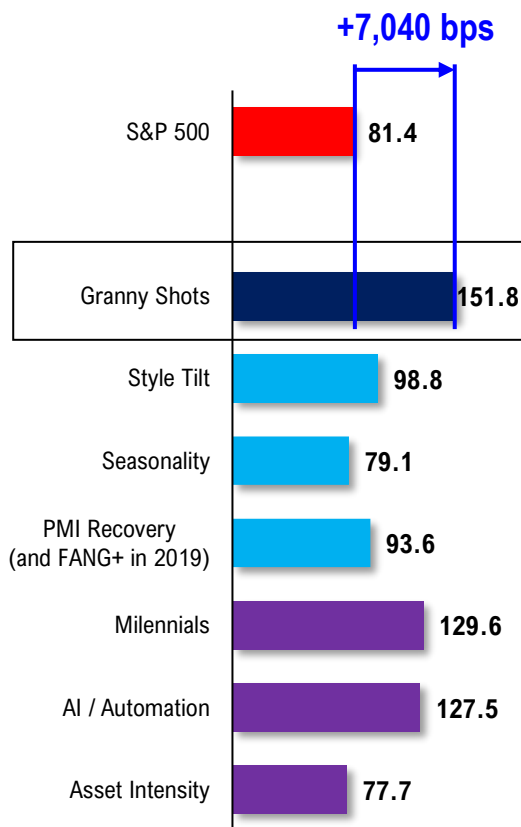
The relative performance of Granny Shots is below and as highlighted, has beaten the S&P 500 by 7,040bp since inception.

- Granny Shots, which are the “best of the best” for our thematic portfolios (and rebalanced every quarter) has consistently outperformed on a monthly basis. It has beaten the S&P 500 by 7,040bp since inception and 370bp YTD.

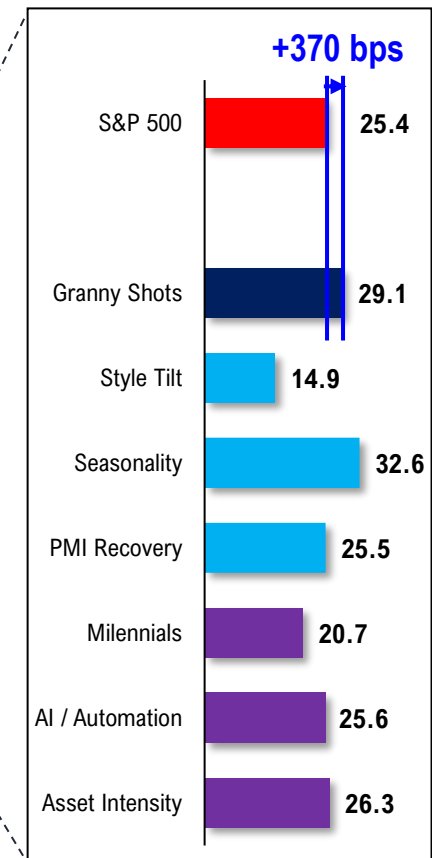
Figure: Granny Shots Portfolio Performance

Monthly; As of 12/15/21

## Since Inception (return since 1/10/19)



## YTD Performance



Source: FSInsight, Bloomberg, Factset

Rick Barry career free throw percentage was eye-popping 90%, incredible considering Shaquille O'Neal's only 52%.



His secret? The unorthodox style of underhanded throws, which is considered "not cool" enough for most players.

## GRANNY SHOTS: Our best bets

We recommend investors our granny shots, comprised of 30 stocks.

- These stocks are recommended across at least two of our investment strategies, which makes them likely to benefit from multiple themes and secular tailwinds.

**Figure: Granny shots – recommended across at least two investment strategies**  
Per FSInsight

Company information						Analyst Ratings						Fundamentals & Valuation				Theme Membership						
	Ticker	Company name	Current Price	Mkt cap (\$ mm)	YTD perf (relative to S&P 500)	FC Mean (5=Buy 1=Sell) <sup>(1)</sup>	Mean implied upside <sup>(2)</sup>	Dividend Yield	Issuer Rating	Short interest % of float	2022E sales growth <sup>(3)</sup>	2022E EPS growth <sup>(3)</sup>	P/E ('22E)	ROE	Value / Growth T	Seasonality	PMI Recovery	Millennials	AI / Automation	Inflation	Strategy Count	
	1	MSFT	Microsoft Corp	\$334.65	\$2,512,546	25.1%	4.80	9%	0.7%	AAA	0.5%	17%	15%	36.5x	49%	•			•	•	•	4
	2	AAPL	Apple Inc	\$179.30	\$2,941,667	9.7%	4.51	-3%	0.5%	AA+	0.7%	4%	2%	31.3x	147%				•	•	•	3
	3	GOOG	Alphabet Inc-CI C	\$2,947.37	\$1,950,359	42.8%	5.00	14%	--	AA+	0.6%	17%	5%	25.8x	31%				•	•	•	3
	4	NVDA	Nvidia Corp	\$304.59	\$761,475	107.9%	4.54	14%	0.2%	A-	0.9%	19%	19%	59.2x	42%		•	•		•		3
New	5	AAP	Advance Auto Parts Inc	\$239.14	\$14,912	26.4%	3.96	6%	1.5%	BBB-	4.9%	2%	11%	18.2x	19%			•		•		2
	6	AMZN	Amazon.Com Inc	\$3,466.30	\$1,757,926	-19.0%	4.93	19%	--	AA	1.1%	18%	25%	67.5x	26%		•			•		2
New	7	ATVI	Activision Blizzard Inc	\$60.26	\$46,936	-60.5%	4.51	55%	--	A-	1.0%	4%	0%	15.8x	17%		•		•			2
New	8	AVGO	Broadcom Inc	\$639.86	\$263,377	20.7%	4.53	5%	2.6%	BBB-	1.2%	11%	18%	19.4x	29%			•			•	2
	9	AXP	American Express Co	\$162.24	\$125,664	8.8%	3.90	18%	1.1%	BBB+	1.8%	15%	1%	16.7x	33%					•		2
New	10	AZO	Autozone Inc	\$2,048.59	\$42,955	47.4%	3.87	4%	--	BBB	2.1%	6%	12%	19.3x	--		•	•				2
	11	BF/B	Brown-Forman Corp-Class B	\$71.99	\$33,671	-33.5%	2.53	2%	1.1%	A-	1.0%	6%	14%	38.0x	29%				•		•	2
	12	CSCO	Cisco Systems Inc	\$59.93	\$252,761	8.5%	4.00	4%	2.5%	AA-	1.2%	6%	6%	17.6x	28%					•	•	2
New	13	EOG	Eog Resources Inc	\$84.81	\$49,621	50.8%	4.44	33%	5.5%	A-	1.0%	9%	15%	8.5x	14%		•		•			2
	14	GRMN	Garmin Ltd	\$135.43	\$26,046	-12.2%	3.67	21%	2.0%	--	1.3%	7%	9%	21.6x	21%				•	•		2
New	15	KLAC	Kia Corp	\$409.91	\$62,151	32.9%	4.17	5%	1.1%	BBB+	1.9%	32%	44%	19.6x	83%			•			•	2
New	16	MPC	Marathon Petroleum Corp	\$62.48	\$38,462	25.7%	4.78	20%	3.7%	BBB	3.2%	-7%	123%	16.6x	36%		•		•			2
New	17	PHM	Pultegroup Inc	\$55.32	\$14,006	2.9%	4.00	17%	1.0%	BBB-	2.4%	19%	28%	6.0x	26%		•	•				2
	18	PM	Philip Morris International	\$92.73	\$144,365	-13.4%	4.53	19%	5.5%	A	0.5%	3%	6%	14.4x	--				•		•	2
	19	PSX	Phillips 66	\$70.52	\$30,900	-24.6%	4.68	32%	6.7%	BBB+	2.1%	7%	69%	10.2x	-3%				•			2
	20	PYPL	Paypal Holdings Inc	\$190.66	\$224,012	-44.0%	4.50	43%	--	A-	1.3%	18%	14%	36.4x	24%				•		•	2
	21	QCOM	Qualcomm Inc	\$189.28	\$211,994	-1.1%	4.44	6%	1.5%	A	1.3%	18%	26%	17.5x	113%			•		•		2
	22	QRVO	Qorvo Inc	\$152.88	\$16,851	-33.4%	4.21	33%	--	BBB-	1.9%	9%	11%	11.6x	24%		•	•				2
New	23	ROST	Ross Stores Inc	\$108.82	\$38,449	-36.8%	4.43	25%	1.1%	BBB+	1.0%	7%	12%	20.2x	46%		•	•				2
	24	TGT	Target Corp	\$236.65	\$113,385	8.7%	4.44	19%	1.5%	A	2.0%	2%	1%	17.7x	50%		•				•	2
	25	TSLA	Tesla Inc	\$975.99	\$980,152	12.9%	3.39	-13%	--	BB+	3.3%	42%	44%	nm	16%				•	•		2
New	26	TXN	Texas Instruments Inc	\$193.44	\$178,647	-7.5%	3.52	5%	2.4%	A+	1.8%	4%	2%	23.8x	71%			•	•			2
New	27	ULTA	Ulta Beauty Inc	\$394.61	\$21,356	12.0%	4.10	13%	--	--	2.1%	7%	4%	22.2x	45%		•			•		2
New	28	USB	Us Bancorp	\$56.74	\$84,134	-3.6%	3.88	17%	3.3%	A+	0.8%	9%	-14%	12.9x	16%		•		•			2
New	29	WRB	Wm Berkley Corp	\$81.67	\$14,426	0.0%	3.92	10%	1.8%	BBB+	0.7%	15%	8%	15.7x	15%		•		•			2
	30	XLNX	Xilinx Inc	\$217.73	\$53,971	28.2%	3.00	-11%	0.7%	NR	4.6%	9%	12%	51.5x	27%					•	•	2
Average				\$433,573	6.1%	4.17	15%	2.2%		1.7%	11%	18%	23.8x	38%								
Median				\$73,143	8.6%	4.32	14%	1.5%		1.3%	9%	12%	19.3x	28%								
% of stocks positive					60%		90%				97%	97%		96%								

Source: FSInsight, Bloomberg, Factset

APPENDIX:

# Perhaps this is all about Millennials



Source: FSInsight



# LABOR SUPPLY: Prime skilled US adults age 30-48 inflecting up and surging

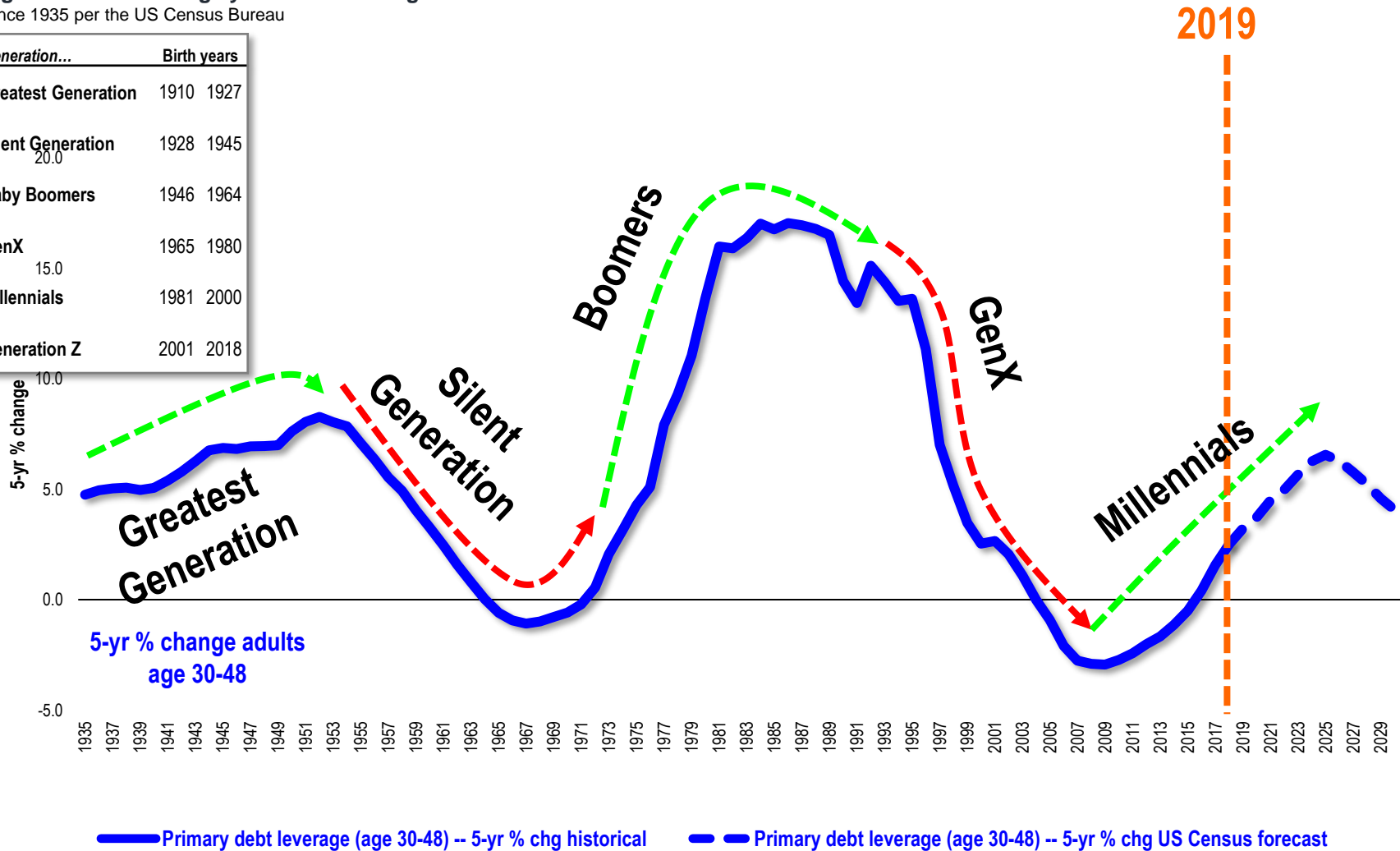
The number of adults in “prime leverage age” (age 30-48) is below, based on data from the US Census Bureau.

- This figure fell from 2001-2008 (is GFC not a surprise?) and as shown below, set to accelerate 2018 to 2026.

**Figure: Prime Leverage years: # adults age 30-48**

Since 1935 per the US Census Bureau

Generation...	Birth years
Greatest Generation	1910 1927
Silent Generation	1928 1945
Baby Boomers	1946 1964
GenX	1965 1980
Millennials	1981 2000
Generation Z	2001 2018



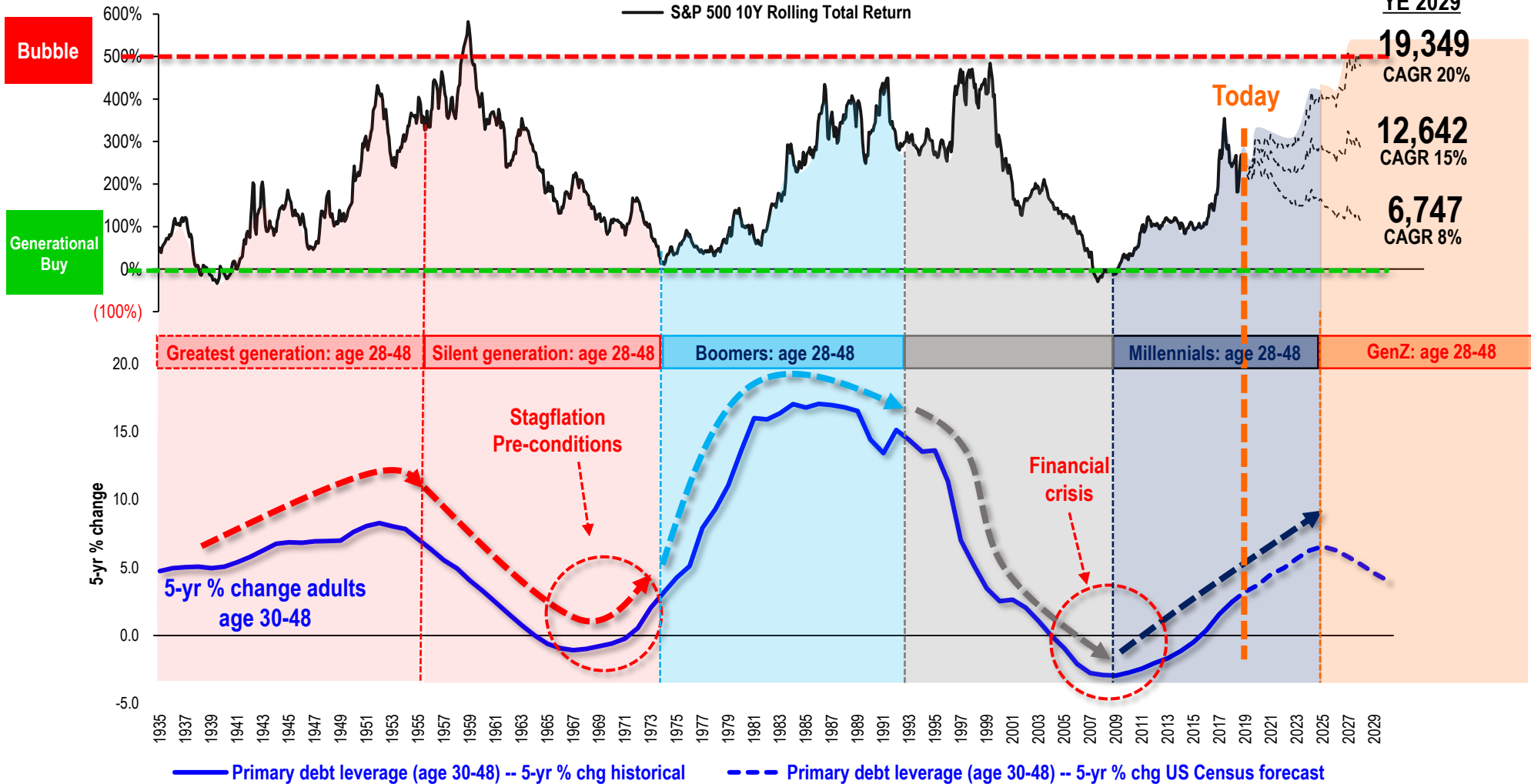
Source: FSInsight, Bloomberg, BEA, National Association of Realtors, US Census Bureau

# STOCK: Like housing, equity markets also follow moves in adults age 28-48

We overlay the # of adults in “prime leverage age” (age 30-48) against the 10-year rolling total return of S&P 500 below.

**Figure: Prime Leverage years: # adults age 30-48**

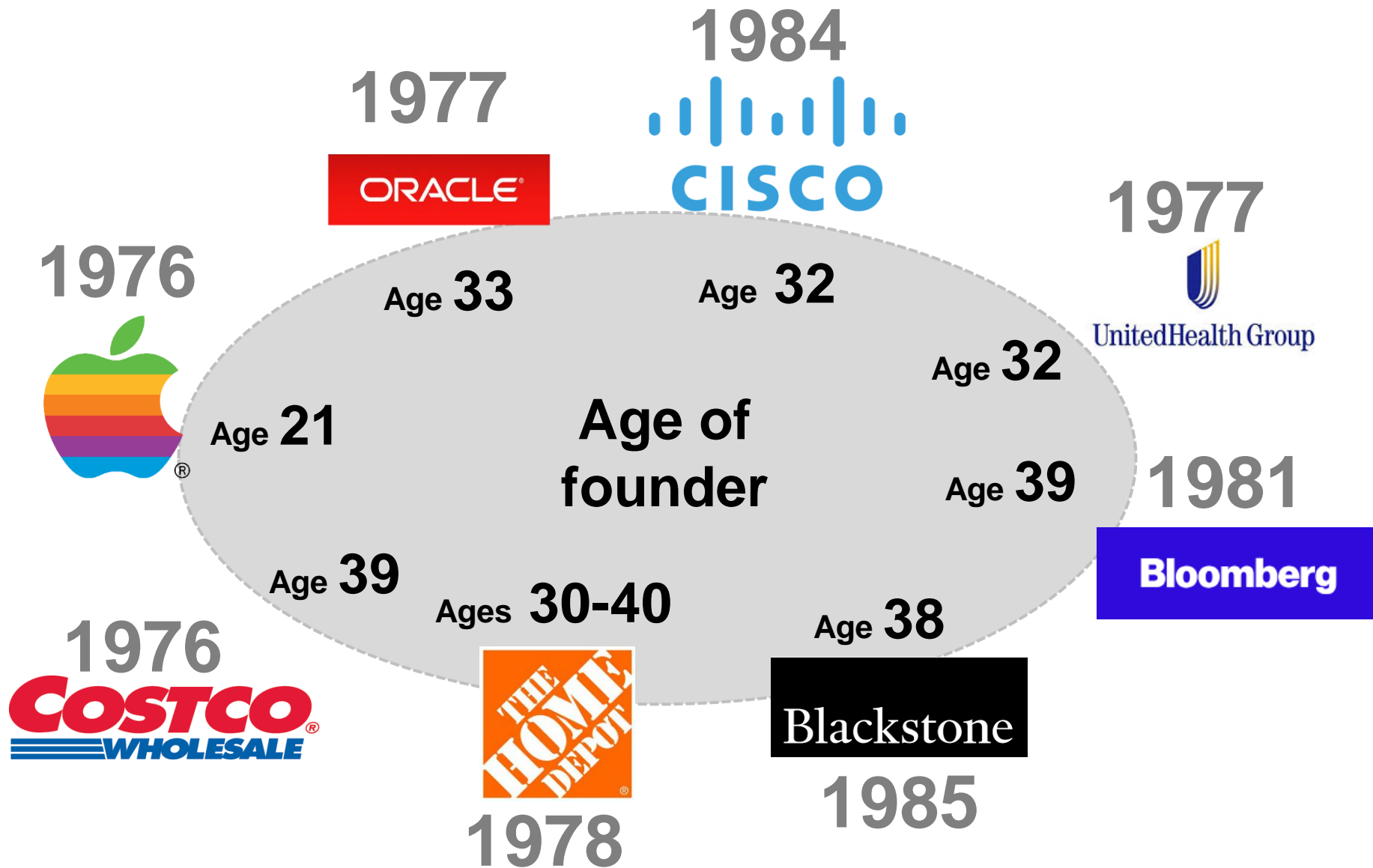
Since 1935 per the US Census Bureau



Source: FSInsight, Bloomberg, BEA, National Association of Realtors, US Census Bureau

Disclaimer: Past performance does not guarantee future results

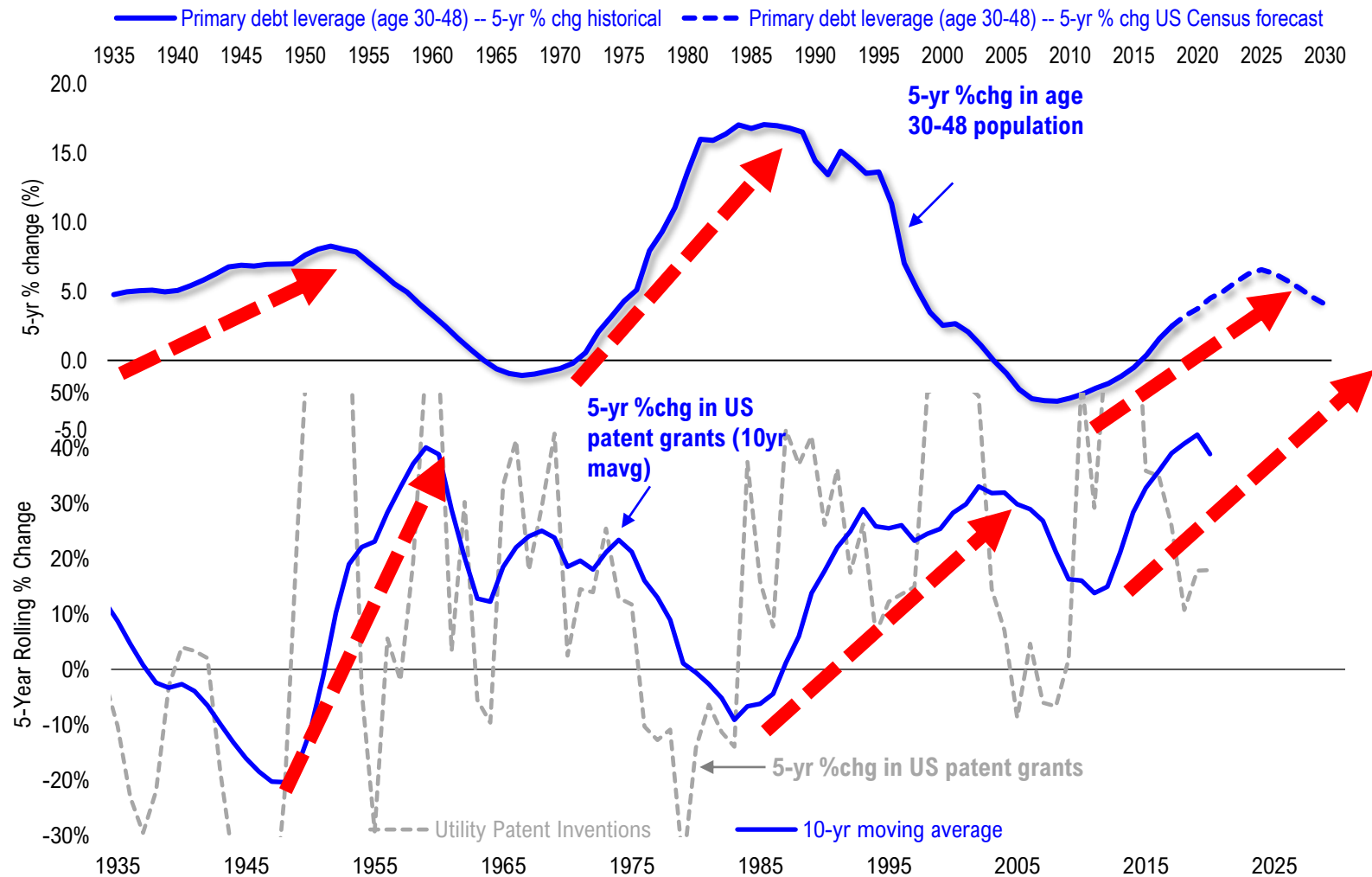
## YOUTH: Founders were young when they started these Mega-caps





# INNOVATION: Primary Debt Leverage Age Population vs. US Patent Grants

**Figure: 5-Yr Rolling % Change in Primary Debt Leverage Age Population and US Patent Grants**  
Since 1935



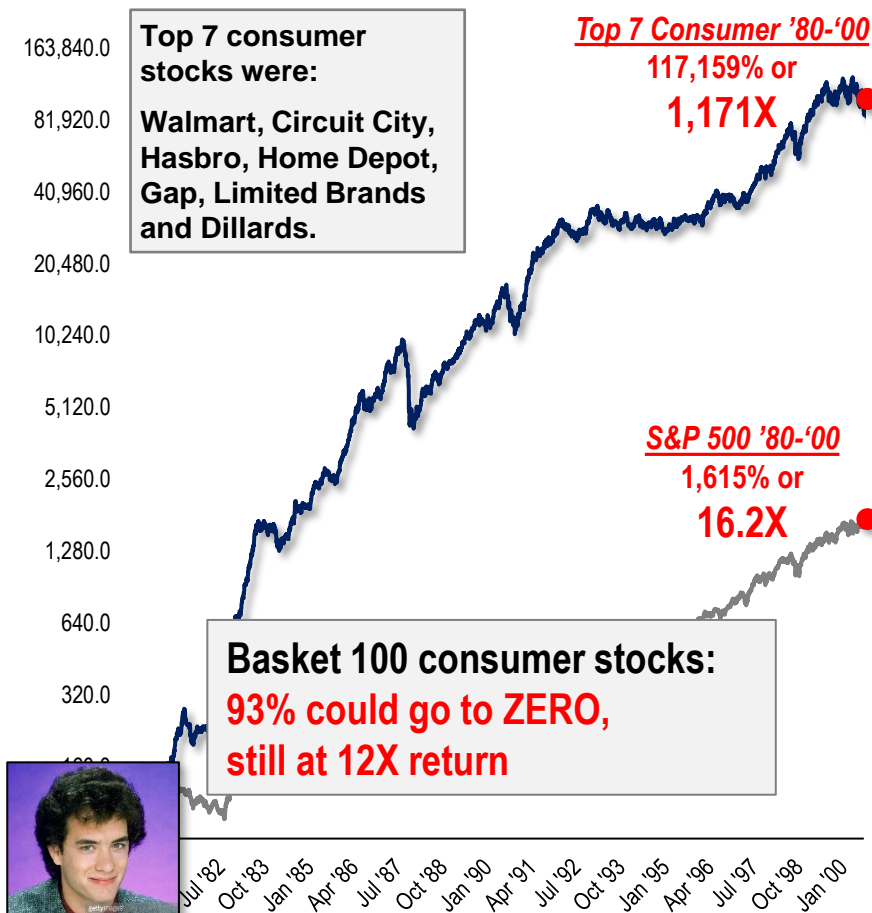
Source: FSInsight, United States Patent and Trademark Office, Census Bureau

# "Generational" Bets paid off for Boomers and for GenX



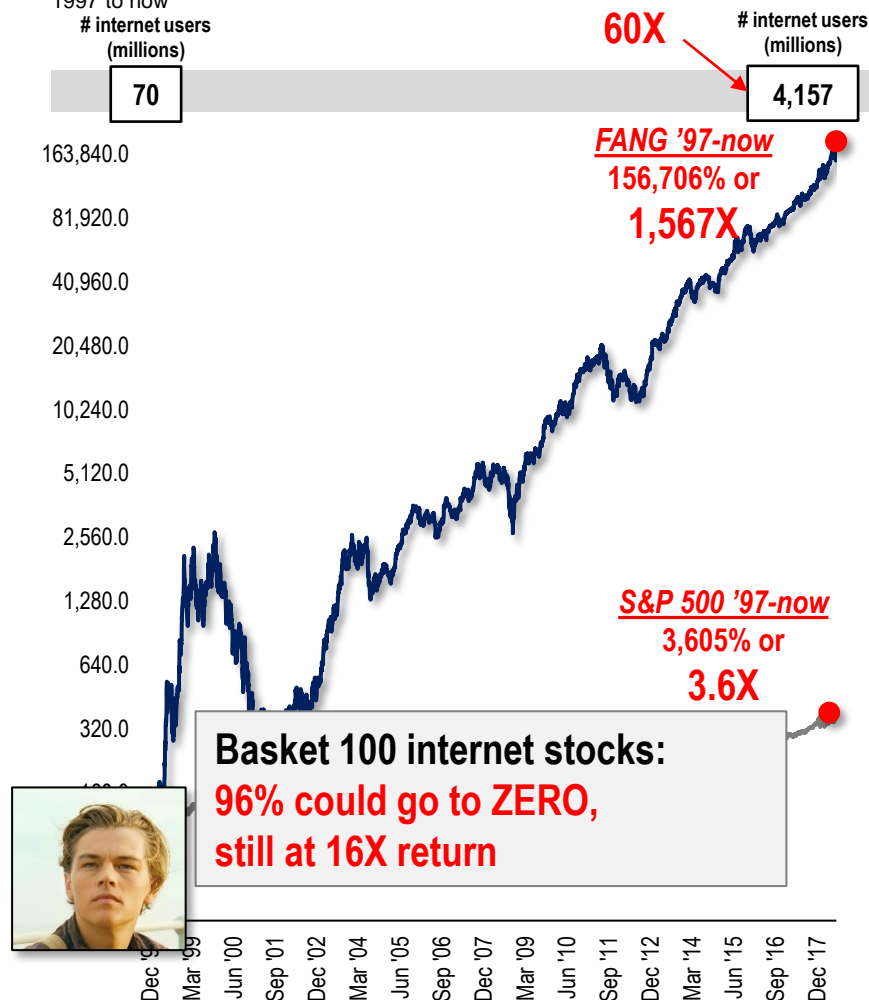
## BOOMER SPEND VS PARENTS: Consumer Stocks was right vector

Figure: Comparative performance of Top 7 Consumer stocks  
1980 to 2000



## GenX FANG: Internet

Figure: Comparative performance of FANG  
1997 to now

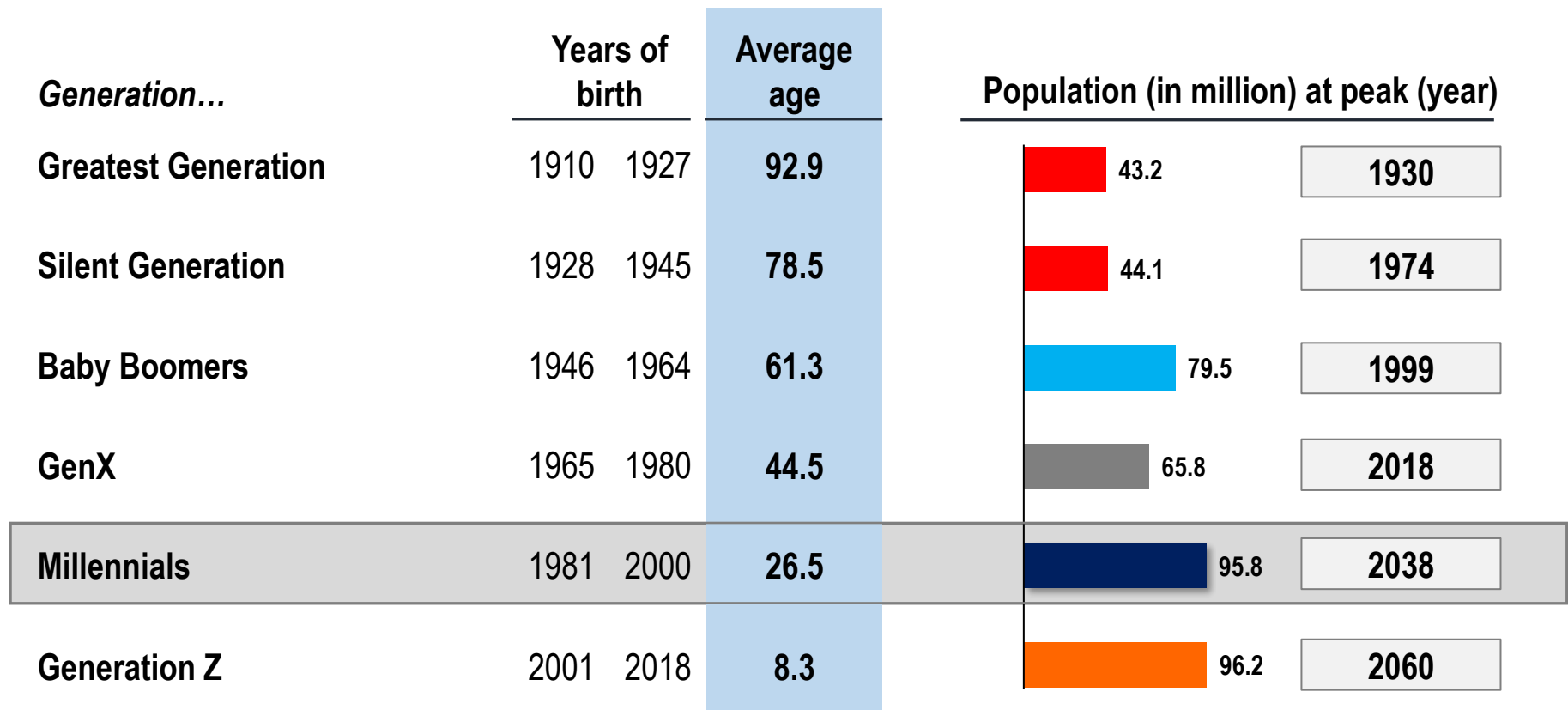


## DEMOGRAPHICS: Explains business cycles better than people realize...

Millennials are significant for two reasons: sheer size, both in the US and the rest of the world, and relatively young age.

- **First, they are the largest single generation ever (larger than Boomers) at a population of 2.5 billion globally.**
- **Second, at an average age of 26.5, they are just entering their prime income years.**

**Figure: Total US Population divided by age groups**  
2017. Data provided by the DESA UN Data sets.



Source: FSInsight. Peak population figures above include immigration. \*\*Reduced immigration will lead to a smaller overall size of GenZ.

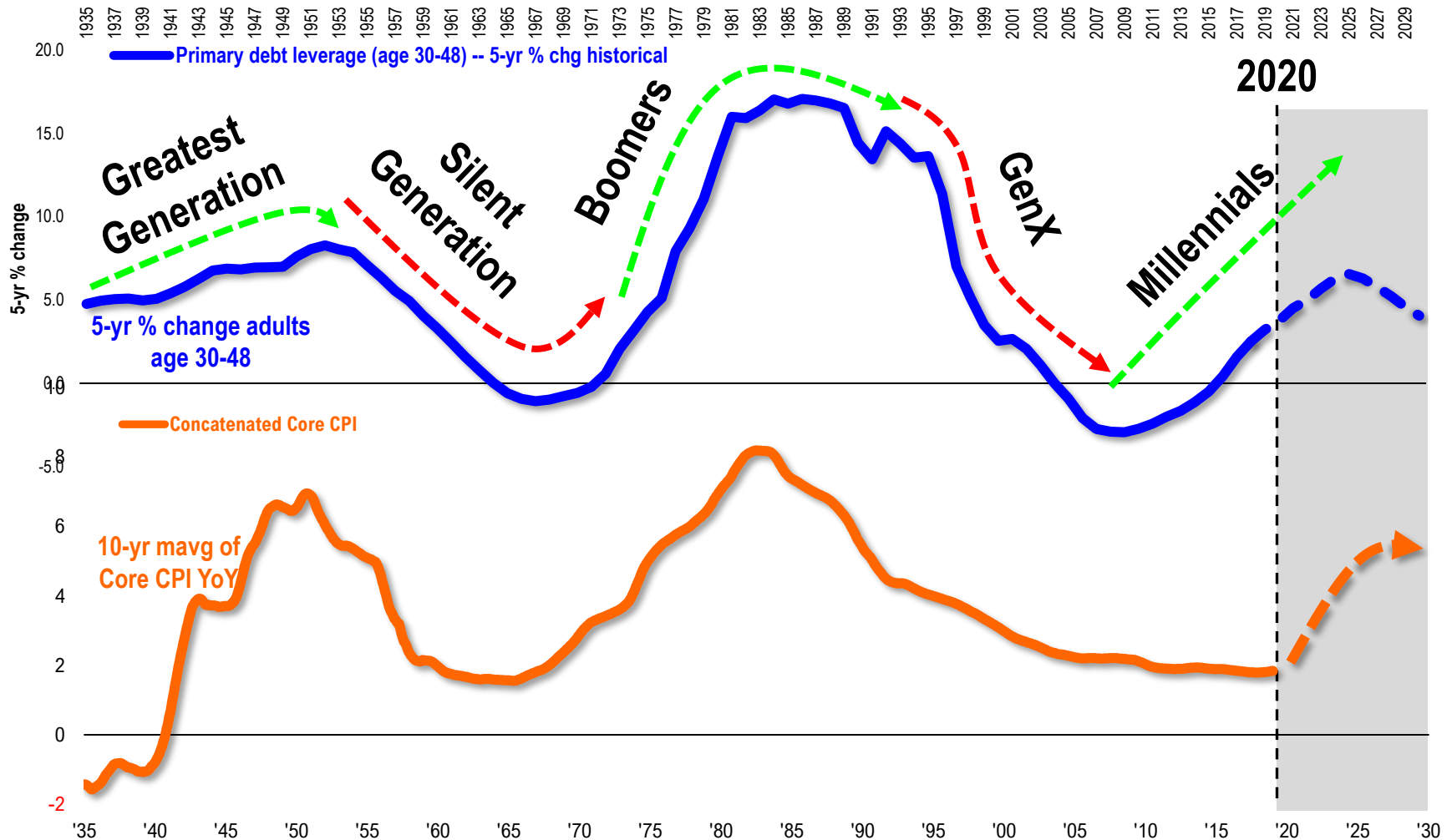
# INFLATION: pricing levels follow the population in prime leverage age...

We overlay the # of adults in “prime leverage age” (age 30-48) against the 10-year moving average of US Core CPI growth.

- As millennials enter their prime income/leverage age, the increasing demand could cause inflation to climb up.

**Figure: Prime Leverage years: # adults age 30-48**

Since 1935 per the US Census Bureau



Source: FSInsight, Bloomberg, BEA, National Association of Realtors, US Census Bureau

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## **Analyst Industry/Sector Views**

Positive (+): The analyst expects the performance of his industry/sector coverage universe over the next 6-18 months to be attractive vs. the relevant broad market benchmark, being the S&P 500 for North America.

Neutral (N): The analyst expects the performance of his or her industry/sector coverage universe over the next 6-18 months to be in line with the relevant broad market benchmark, being the S&P 500 for North America.

Negative (-): The analyst expects his or her industry coverage universe over the next 6-18 months to underperform vs. the relevant broad market benchmark, being the S&P 500 for North America.

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