Summer Sizzle: This has been a year that continues to defy skeptics and, literally becomes weirder by the day. July was no exception. Fortunately for us, it was also the month that both gold and Bitcoin started to behave like we thought they would months ago. The exact catalyst isn't quite clear but it's apparent that the massive amount of global money printing is beginning to show some inflationary concerns – despite what Jerome Powell thinks.

Apart from a nice month for equities, and decent economic news for the most part (relatively speaking these days), the bond market continues to grind higher almost daily and place rates at incredible levels, highlighted by the 0.55% on the benchmark 10-year note. We have given up one getting any guidance from the bond market, as we have noted for a few years now. But the chasm between stocks and bonds and economic reports continues to be truly astounding. Thankfully, we have resisted the temptation to short bonds for a while now - as juicy a proposition as that seems at times.

The thirst for large cap tech, valuations be damned, cooled off a bit in July, as investors rotated more toward economically sensitive areas such as banks and transports. If one were to flip through hundreds of equity charts, he or she would have a hard time assessing that we are in the midst of a pandemic and partial economic lockdown. The only real evidence being the airliners, cruise ships, and Vegas hotel stocks.

But as we enter August, and begin to think about the fall, we all recognize that the coming months will bring a variety of catalysts that are sure to move markets. These include: the debate on how much more stimulus Congress should provide and who should be targeted. The general election slated for November 4th-which is sure to be as divisive as we have ever seen. How do we as a country and as a major part of the world handle the ongoing Covid crisis – do we flatten the curve?, do we re-open more of the country or shut down further? Does the fall bring another wave of Covid along with a traditional flu season? Will a vaccine come before the year's end? How will the prolonged lockdown effect business now that unemployment benefits and PPP money has started to dry up?

We will attempt to answer some of these questions in the pages below. However, most of the answers are unquantifiable due to the era we find ourselves in. This "interesting" year is about to get downright crazy…

The Fed concluded it's 2-day meeting on July 29th and as expected, offered nothing new in way of rates or policy changes. Chairman Powell reiterated that they were not going to raise rates "anytime soon" and said he would continue to be accommodative to the markets as long as the economy was dealing with the effects of the virus.

One thing that was interesting was his take on inflation. In the press conference following the rate announcement he did say:

"We see a big shock to demand, we see core inflation dropping to 1 percent, and I do think that for quite some time we're going to be struggling against disinflationary pressures rather than inflationary pressures." – Chairman Powell 7/29

That sure does not jive well with the action in the dollar, gold, copper, oil, silver, platinum, palladium, or breakeven swaps. Nor does it seem to be in touch with those going to the grocery store lately or paying their health insurance premiums. It is a bit of a worrisome statement in our opinion – ignoring some obvious inputs and sounding completely unprepared for dealing with any type of inflationary environment.

Chairman Powell has an incredibly hard job right now and will have his detractors no matter what he does. We just wish he was a little more cautious about inflation concerns rather than worrying about deflation right now.

As we enter August, there are a few interesting items to note with regard to equities. First, the stocks of Google, Apple, Facebook, and Microsoft now account for a staggering 22% of the SP-500. This intense level of concentration has led Goldman Sachs to declare that the market is *"vulnerable to an idiosyncratic shock."*

Also, this month Citadel Securities, a major market maker, now believes that 20-25% of all market volume is retail traders, a large increase from the 10% estimated just months ago. Some are pointing to the increasing number of Robinhood accounts, more time at home, and the lack of sports to bet on as factors that caused the increase. Certainly, we have seen a large increase in speculative stocks that lends credence to this.

Bitcoin Update: We were wondering when Bitcoin and other alternative coins would follow the lead of the precious metals and soar alongside. We no longer need to wonder; we were likely overthinking the relationship between the two. Especially after seeing one study that actually showed Bitcoin prices tend to rise when the Fed's balance sheet *contracts.*

Despite that, the big news this month came out of the Office of the Comptroller of the Currency (OCC) who said that effective immediately they are letting all nationally chartered banks in the U.S. provide custody services for cryptocurrencies.

Previously, custody was the province of specialist firms, such as Coinbase (as we noted last month), which typically needed a state license, such as a trust charter, to offer the service to large investors. Now, large, regulated financial companies that already provide similar safekeeping services for stock certificates and the like could enter the fray.

This is obviously big news, and a headline that seemed inconceivable just a year ago. It is yet another step for legitimizing Bitcoin and other cryptocurrencies and is the most powerful news yet in our opinion.

There are some who were quick to point out that this type of news goes against the sole motivation behind the creation of Bitcoin. Meaning, that it was intended to be a decentralized store of value. And now that the banks can act as custodians, you have essentially nullified that premise. It's a fair point, however, in our minds that mass acceptance of a new paradigm of products, all which have the ability to be actively traded now on transparent platforms with legitimate custodians far outweighs the secretive nature many hardcore "coiners" are so quick to defend.

In corporate news, Visa came out this month in support of cryptocurrencies and released this statement on July 27th:

Visa has been working closely with licensed and regulated digital currency platforms like Coinbase and Fold to provide a bridge between digital currencies and our existing global network of 61 million merchants. Around the world, more than 25 digital currency wallets have linked their services to Visa, giving users an easy way to spend from their digital currency balance using a Visa debit or prepaid credential — anywhere Visa is accepted.

This was especially apparent last month when a Twitter hacking scam was successfully executed by a few who were asking for Bitcoin as a payment to complete their scam. That in our minds does not lend itself to mainstream acceptance and harkens back to the seedy days of Silk Road and other black markets that used Bitcoin as the sole form of payment.

We view this news as really good news and frankly are once again underwhelmed with the response from the crypto space, despite the nice jump in July. We feel Bitcoin should be north of $15,000 on the way to all-time highs, especially when looking at gold and silver. But as we keep trying to emphasize – this is a long-term theme that requires patience and will deal out bouts of frustration. Hopefully, the frustration phase is ending and the jubilation phase is underway.

Our patience with gold also paid off this month handsomely as the gold ETF (GLD) soared 11% to an all-time high. We lightened up some into that ramp to lock-in a profit and admit we were getting wary of just how far this rally would last, especially when looking how overbought the technicals remain. But the trend and fundamentals favor higher and higher prices for both, but it will be a bumpy ride for sure.

Twitter reported their earnings on July 23rd. They reported their second straight quarter of record user growth, coming in with 186 million users – which was a 34% jump over the quarter a year earlier. However, they did report a loss of ($0.16) which was $0.15 worse than expected and revenues came in at $683.4 million versus the $708.05 million consensus. Both disappointing metrics. Also, despite the increase in users advertising revenue fell 23%. Advertising makes up 84% of Twitter's revenue.

Twitter did not give a forecast for the third quarter or any advertising updates for July.

Despite the spotty numbers, Twitter's share price rose 4.1% on the day and is now up 51% since the March lows. Much of that ascent is due to the rumor that Twitter will finally succumb to a subscription model. Something that has been rumored for years, but always denied by management.

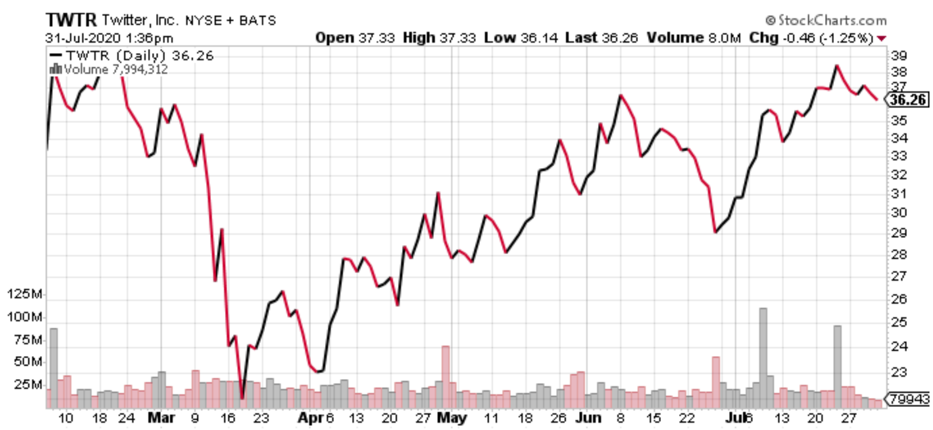
If this is indeed true (there was a job posting in July which helped fuel the speculation) then it could be a real game changer for the company and their sources of revenue. The growth in users last quarter proves that people are apt to use the platform in times of intense news cycles – which we obviously have now. Looking forward, it's an understatement to say that the news in the next five months will be at a fever pitch.

Aside from the daily Covid news, we also have a contentious election coming soon as well as the re-launch of a number of professional sports leagues.

Twitter has admitted that they won't be changing their business model in 2020. So, the subscription model won't benefit from the increased news cycle. But what they are looking to achieve is higher user growth so that they can launch a pay model to keep the users engaged. It's almost like a drug dealer who gives out free samples to get his customers hooked – knowing they will pay to keep the high going.

Twitter currently has a market cap of $28.5 billion – which is woefully lower than Facebook's $720 billion and still less than Snap's $33.2 billion dollar market cap.

Longtime partners know we have fans of their service and that they have been bullish on their stock for some time now, although we readily admit it has been a bumpy ride lined with frustrations and disappointments. But they are now in the position, especially with the criticism Facebook continues to face, to become the dominant player in social media. That may seem like a bit of hyperbole -but with a well-received subscription model and continued top destination for news and commentary – it's not that far-fetched to envision a $100 billion dollar m cap within a year from now. We intend to be on board for that ride and consider it one of the top picks for the rest of 2020 and beyond.



It's been a nice run for Twitter off the March lows. But they will really need to prove themselves to get back to the $50 level.

We think they are poised to do it.

Sticking with the social media theme, another name we have been long at various times is Snap. They reported their quarter on July 21st, and the results were not received well by the Street - as the stock dropped nearly 7% after the release. Snap did report a loss of ($0.09) per share – which was $0.01 better than estimates. Revenues however came in approximately $10 million higher than expected. Daily Active Users (DAU) hit 238 million, which is an increase of 35 million and a 17% increase year-over-year.

The main catalyst for the drop in share price was the fact that management only estimated 3Q growth to come in at 20% - versus the 21% estimate. Investors took that as a slowing of growth and apparently decided to bail. Seems a bit extreme to us, but these are the rules when you wade in the high growth/momentum pool.

Snap is now almost 16% off the 2020 high it set just three weeks ago. Like Twitter, some see Snap as a potential beneficiary to the ongoing turmoil at Facebook and its advertising woes. We sold our Snap position prior to their earnings release mainly due to the fact we were worried about a "sell the news" reaction no matter what the company said, especially seeing that it has had such a large run-up into the release. We have not re-established a position yet, and are more prone toward beefing up the Twitter position over Snap. But it is a name on our radar for sure.

Lastly on tech, On July 30th we had the "big four" tech behemoths report their quarterly numbers. Facebook, Google, Apple, and Amazon all reported fantastic quarters that blew away even the most optimistic bulls. Amazon in particular beat their revenue estimates by an almost comical $7 billion dollars. They obviously have been the top beneficiary of the pandemic and are firing on all cylinders, although their AWS revenue came in slightly below expectations. Big tech has received a lot of criticism lately, both from a host of advertisers and also Washington DC. But through it all they continue to deliver spectacular results and add to their already trillion dollar plus market caps. The only real headwind they face going forward is increased complaints of their monopolistic dominance. Which is a good problem to have.

Looking Forward and other Market Commentary: August always has the reputation of being a sleepy, slow, month that is full of vacation days and minimal market action. When in fact, the opposite is almost always true. August, at least in recent years, has been highlighted by elevated levels of volatility and extreme market moves. This August, as we all know, is one like no other. Vacations are hard to come by and the back-to-school focus is as murky as ever. So aside from the uncertainty, there are a few items to focus on. For starters, we still have a couple of weeks left of earnings season to grapple with. Some of the names we are anxious to hear from include: Ligand, AIG, Take-Two, Virgin Galactic, Beyond Meat, Glu Mobile, Humana, Carvana, Live Nation, Q2 Holdings, Royal Gold, Datadog, GW Pharma, Trip Advisor, and Yelp.

Probably the most important date of the month will be the 7th, that is when the monthly employment number is released. Obviously, in today's environment this number will be the most critical data point of the month. With unemployment near 11% - which is higher than it was during the Great Financial Crisis of 2008, it will be interesting to see if there has been any improvement. However, the September number will be more telling as it will reflect the period after the generous $600/week extra payments are terminated (depending on what congress does in the coming days)

Speaking of Congress (sorry, but we must), August news headlines will be dominated by the wrangling's of the terms on the latest stimulus package to come out of Washington, and what else they propose for the future. Currently, the Republicans have proposed a $1 trillion dollar package that includes aid for states and municipalities, along with a continuation, but a reduction, in the $600/week extra unemployment benefits that are set to expire on July 31st. The Democrats are thinking much bigger and want a $3.5 trillion dollar package that includes better/longer unemployment relief as well as more lenient debt forgiveness. There are rumblings that anything less than $1.5 trillion in aid will be a disappointment to the markets.

The answer, as always, will be somewhere in the middle. But make no mistake about it, there will be more stimulus coming, and then likely more after that. It is becoming the new normal, and frankly the spend now-worry later mentality has been prevalent since 2008, it only started taking steroids since the Covid crisis began. It is also why we finally saw the vertical moves in the metals and Bitcoin this month. For better or worse, we don't see this trend ending anytime soon.

Moderna and Pfizer both announced they began Phase 3 trial for its coronavirus vaccine. The trial involves 30,000 volunteers at 87 sites across the U.S. for Moderna. Pfizer's trial, will begin in the U.S. but expand overseas to include about 120 sites. The speed of the development of this vaccine is absolutely incredible. U.S. officials said it was the fastest vaccine from design to Phase 3 ever in US history, and we could see results by Thanksgiving. Don't forget, Oxford University and multinational drug maker AstraZeneca also have thousands of individuals in Phase 3 trials. Chinese firm Sinovac began trials last week in Sao Paulo. Let's pray for positive data. – WSJ 7/26

The great hope out there is that there will be a vaccine soon that help us all get back to our normal lives. We aren't going to waste any time on these pages on whether or not people will take the vaccine. But what is clear is that a proven vaccine will allow businesses, travel, and tourism to resume their normal operations. Whether or not people chose to partake is something we will discover very quickly. But you can't force a business/school to remain shut down if there is a vaccine available for public consumption. So obviously that would be good news and a lot of the news coming out of the biotech world has thus far been encouraging. There has never been a vaccine for a virus that didn't take years to find, but there also has never been such a concentrated global effort with massive funding, and warp-speed technology to create one.

Equity markets, at least in our opinion, have been pricing in a vaccine for some time now. It is hard to explain the market action any other way aside from the Fed's massive liquidity spigot that has been turned on in full force. So, if one does believe that the market is a forward-looking indicator then it is conceivable we could have a vaccine for use by the end of this year.

The question then becomes is that good or bad for stock and commodity prices? That may seem like a silly question, on the onset, but let's think about this for a moment. If you subscribe to the theory that stock prices have ignored the massive economic contraction from Covid and instead surged ahead on the Fed's accommodation and a speedy vaccine, then what would you identify as a catalyst for further price appreciation?

A vaccine, in theory, will erase, or certainly greatly diminish the need for continued fiscal stimulus. And monetary hawks will be quick to call for a sense of responsibility to finally come to the Fed. The markets will have to revert to trading on the merits of a strong/weak economy, growth projections, and valuations. Metrics that have been ignored for months if not years now. That is not necessarily a bad thing, but it is a different one. And usually when markets need to adjust to different parameters, there is a painful learning curve involved.

We all want a vaccine and a return to normalcy. But equating it with good news for asset prices may be naive thinking.

We spent the first half of July short shares of DraftKings. Our thesis, as laid out in the June Update was our skepticism of sports being able to re-start. That didn't pan out as poorly as we anticipated, but we were still able to capture a small profit on the trade as shares hit a 2-month low on July 13th. We covered our short a day later and our currently flat the name. Sports, as we all know have been able to come back in different capacities – and that is a good thing for all. The long-term success and coming football seasons remain highly volatile, but, so far, they are off to a decent start.

We are going to stay away from DraftKings, Penn Gaming, and the newly formed sports betting ETF cleverly named BETZ. Trying to game the future of sports success seems a bit too hard to handicap, and there are better areas for us to employ mental capital on.

The most significant macro move this summer has been the steady decline in the US dollar against just about every developed currency - especially the euro. In a world where there seems to be an arms race by every country to debase their own currencies, it seems the US is currently in the lead to hit zero first. That admittedly is a bit of hyperbole, but it has been a rather steady decline since the Covid crisis hit our shores in March. When we try and analyze why the dollar has been especially weak, we can point to the obvious, and that is the massive money printing campaign by our Fed. But that is happening in Europe and Japan as well-with just as much veracity.

The US is a net importer; therefore a weaker dollar is inflationary. The Fed has been trying to increase inflation for years now, using the magical/random 2% level as their bogey. But rest assured they do not want runaway inflation (who does?) and are not equipped to handle it under the current environment we find ourselves in.

U.S. exceptionalism has eroded, with perhaps only one pillar still standing -- demand for big cap U.S. stocks. The U.S. no longer has a yield advantage, there's no growth advantage with the recovery from the coronavirus likely to prove more challenging than other developed markets. In addition, the political environment is toxic and increasingly unstable." – Stan Smith, CEO The Australian Fund

Ouch. That is a direct shot at Americans, but sadly, hard to argue against right now. For decades, the dollar has been the reserve currency in the world, and it still is. But 2020 and Covid has exposed a few of our weak areas and the price action is actively reflecting it. Whether or not this is a blip on a long-term bullish chart or a sea change that marks the end of US currency dominance, remains to be seen, and will be a major test for not only our politicians and treasury officials, but also citizens to keep our dominance intact. For the record, the dollar index dropped 4.6% in July – its worst month since 2010. Also, it should be noted that bearish bets against the dollar have reached their highest levels since November of 2017.

The world's reserve currency has not had a fun summer. The world is seemingly betting against us right now and it has been a positive catalyst for the metals and other commodities.

The next 5 months will be a very pivotal time for the dollar and its future.

Finally, everyone knows we in the middle of the greatest economics experiment ever instigated. We as a nation are printing trillions and bailing out/supporting practically every facet of the economy and subsequently society. But what if this is the new normal? NBA owner Mark Cuban proposed that exact question on Twitter this month.

Currently, the global debt to GDP ratio is over 350%. Past societies have seen their monetary system breakdown before they got to these levels. The Fed's balance sheet is approaching $7 trillion, keep in mind the entire bill for the 2008 crisis was $800 billion.

But is 350% and $7 trillion the max pain point? Why not 500% and $11 trillion? Or $25 trillion? Inflation, for the most part has remained tame during this money printing orgy, which has only bolstered the confidence of the central bankers.

What if the new world we live in can handle massive amounts of printing and distribution without disruption/hyperinflation? Let's say the Fed begins to print $2 trillion a year and keeps rates under 1%? What if Modern Monetary Theory becomes the new normal? Aren't we almost there?

Maybe Covid has forced us to permanently change the way we work, school, and socialize. And maybe it has also changed the way we run an economy. This summer we have seen a pronounced call for social change and much of that has to do with the widening gap between the have and have nots, one which Covid has unfortunately shone a bright light on.

It is hard to see how we put this genie back into the bottle now. Not without enduring some serious fiscal pain and newfound discipline that our politicians have not shown any desire to undertake. This does not necessarily need to end up poorly and maybe it will revolutionize the way we think and live.

But make no mistake that it is happening right now and it's not a left versus right debate anymore. Both parties have abandoned their strict fiscal discipline mantra and succumbed to the Covid virus.

It's funny how quick that happens when a crisis hits.

Occasio Partners, LLC San Francisco, CA