2022 Strategy Outlook

Stocks + Treachery = Challenging but +11%

fundstrat

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Surge

Yikes

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For Reg AC certification and other important disclosures see Slide 52.

SAVE THE DATE: 2022 Outlook upcoming webinars

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

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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

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

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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
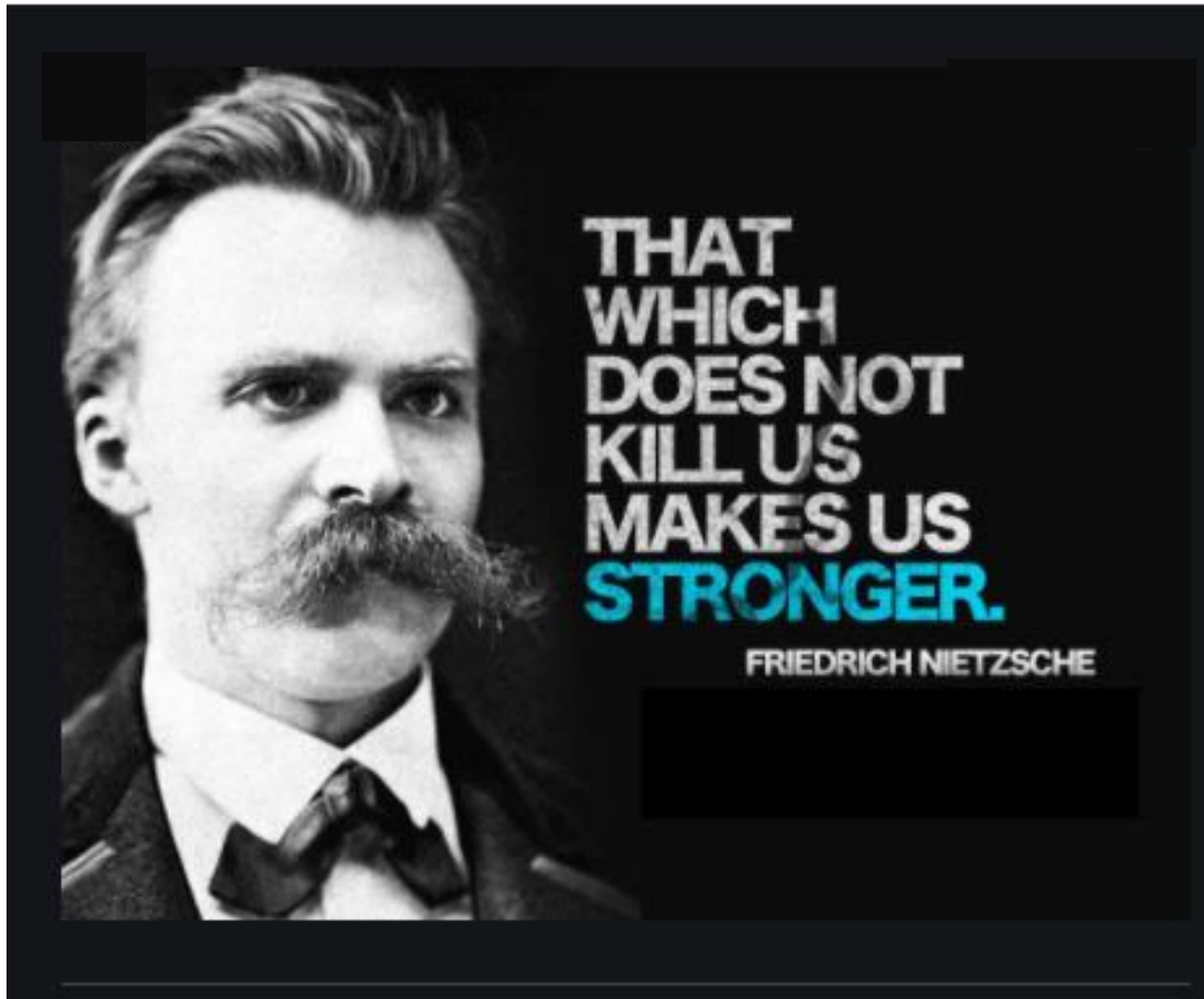Volatility falling = institutional exposure rises

2021 Value/Growth reversion

Value starting multi-decade outperformance?

2021 Bonds vs Stocks

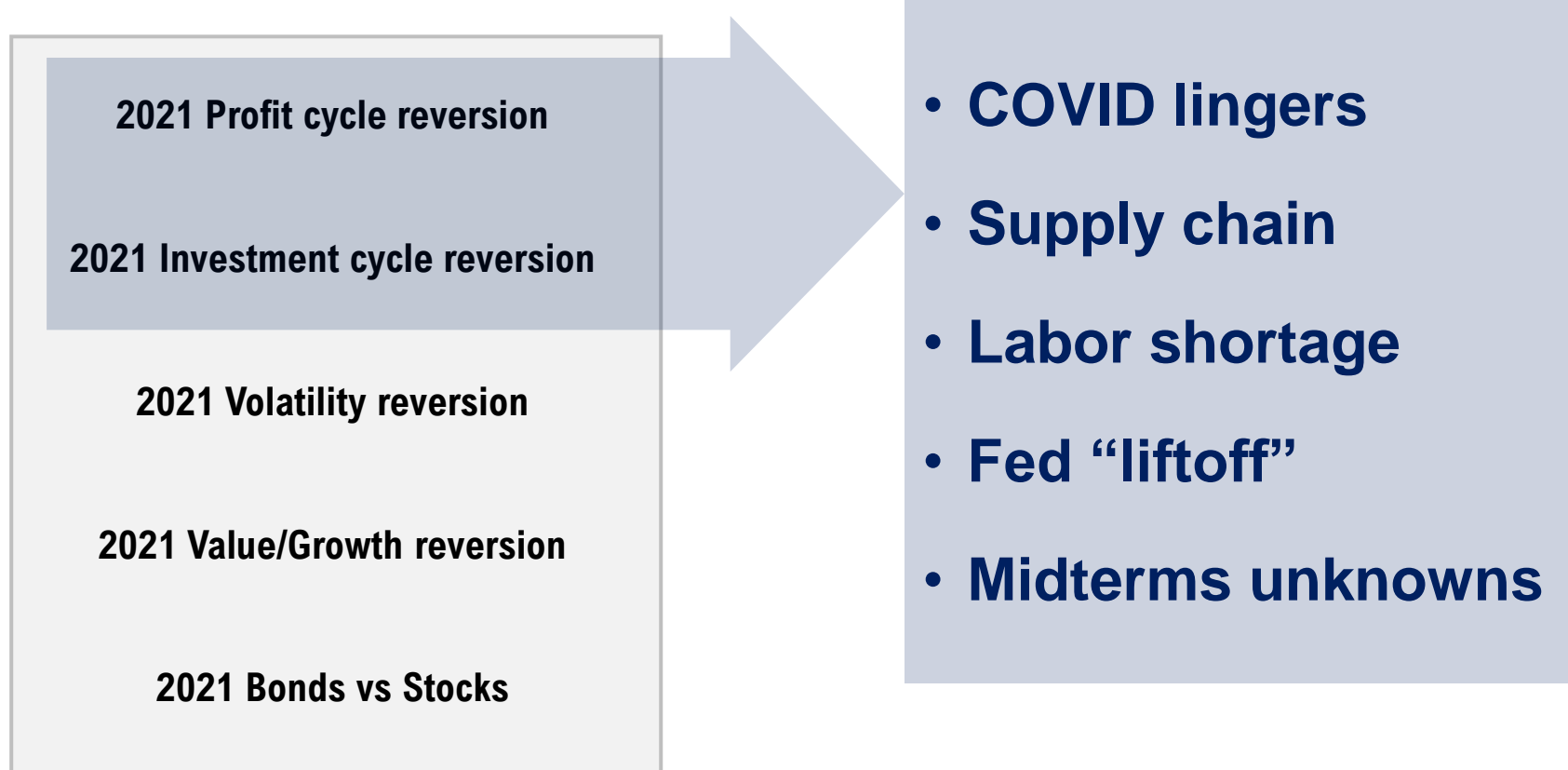Valuation of stocks seem very low compared to bonds

2020 KEY TAKEAWAY → UNKILLABLE

2022: Transitory versus Structural

Biggest drivers of 2021

2021 Profit cycle reversion

2021 Investment cycle reversion

2021 Volatility reversion

2021 Value/Growth reversion

2021 Bonds vs Stocks

- **COVID lingers**

- **Supply chain**

- **Labor shortage**

- **Fed "liftoff"**

- **Midterms unknowns**

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 Fundstrat

	Rating	Consensus EPS % growth		Fundstrat 2022 EPS % growth		
		2021	2022	Low	Base	High
Cyclicals aka Epicenter		**96.3%**	**10.8%**	**9.8%**	**14.7%**	**16.7%**
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%
Growth + Defensives		**25.4%**	**7.8%**	**6.7%**	**9.7%**	**11.8%**
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%
S&P 500		**46.2%**	**8.9%**	**7.9%**	**11.6%**	**13.7%**
EPS Level 2022			$221	$224	$232	$236
EPS Level 2023			$244	$241	$250	$254
YE 2022 P/E ('23E EPS)				20.5x	20.5x	20.5x
YE 2022 Fair Value				4,943	5,100	5,209

Source: Fundstrat, 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 Fundstrat

	Rating	Market Cap	Street Consensus			Fundstrat EPS			EPS % chg (per FS)			P/E (per FS estimates)		
			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**

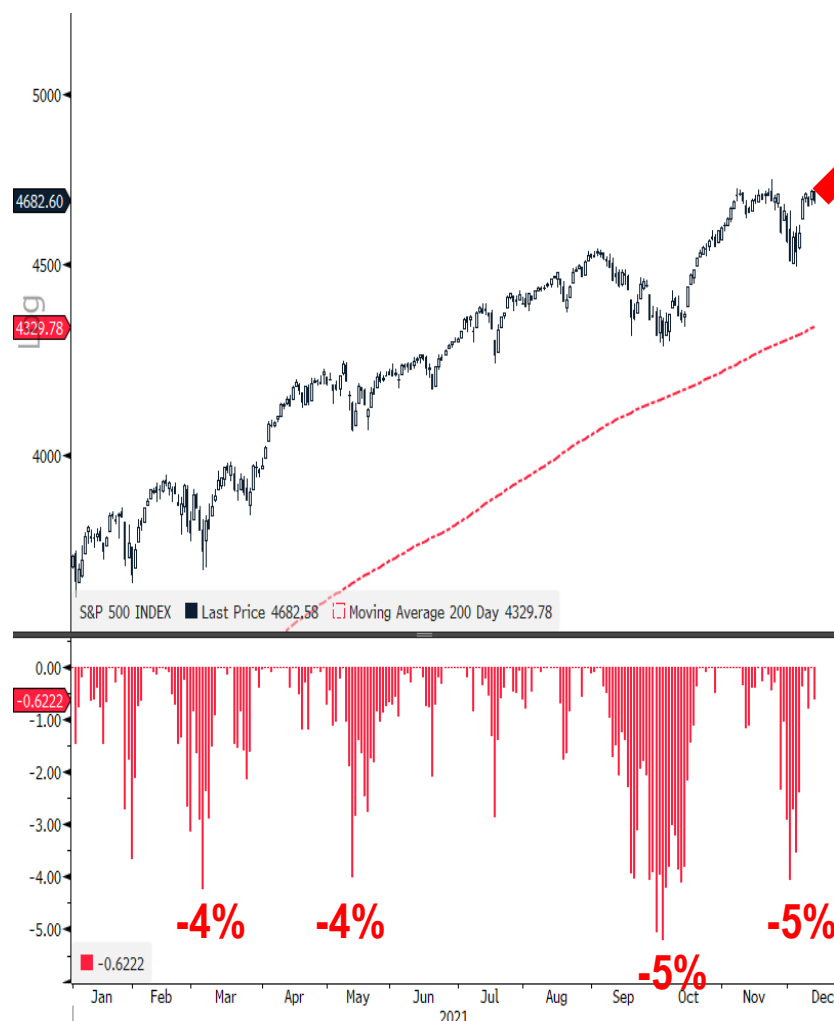|	
S&P 500 as of 12/19/2021	4,618
YE 2022 P/E ('23E EPS)	20.5x
YE 2022 Fair Value	5,100

Source: Fundstrat, Factset

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

S&P 500
5,100

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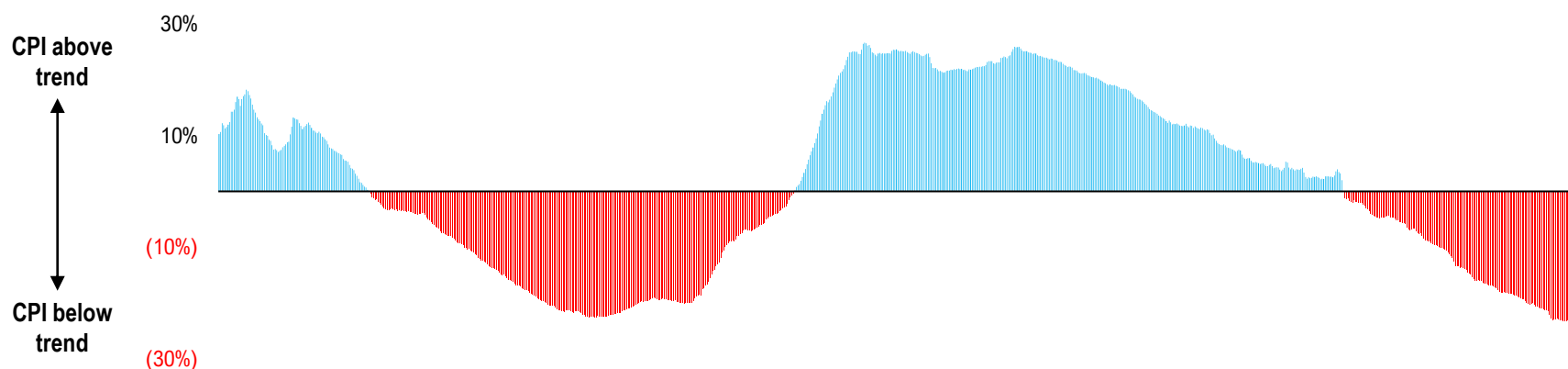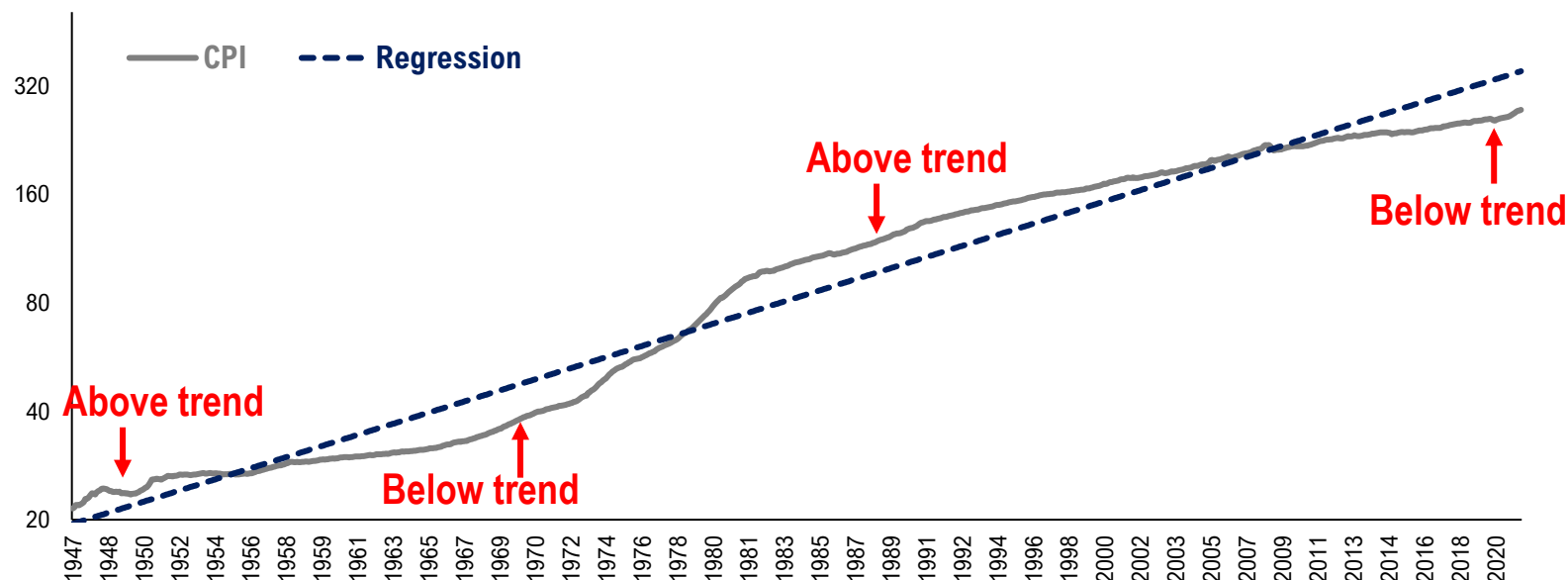- Midterms done
- COVID better

-10%

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

4682.60

4329.78

S&P 500 INDEX ■ Last Price 4682.58 □ Moving Average 200 Day 4329.78

-0.6222

-4%   **-4%**   **-5%**

-5%

■ -0.6222

SPX Index (S&P 500 INDEX) SPX 1Y vs Drawdowns Daily 31DEC2020-13DEC2021   Copyright© 2021 Bloomberg Finance L.P.   13-Dec-2021 12:34:16

Source: Fundstrat, Bloomberg

INFLATION: After decades of "undershooting" inflation normalizing

CPI vs Exponential Regression
Since 1947

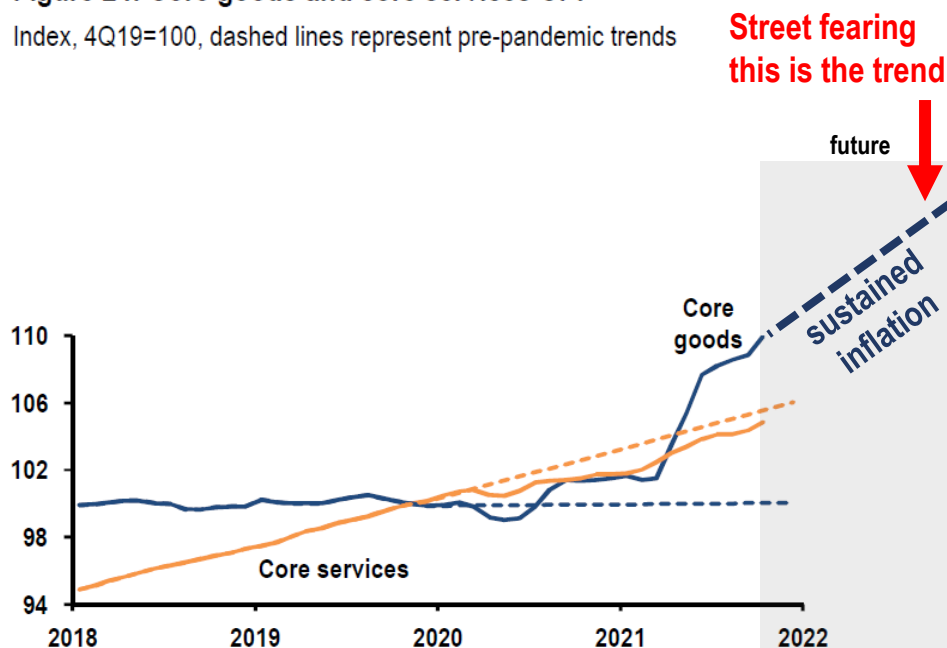# INFLATION: Goods are driving higher inflation

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

Street fearing this is the trend

future

sustained inflation

Core goods

Core services

110
106
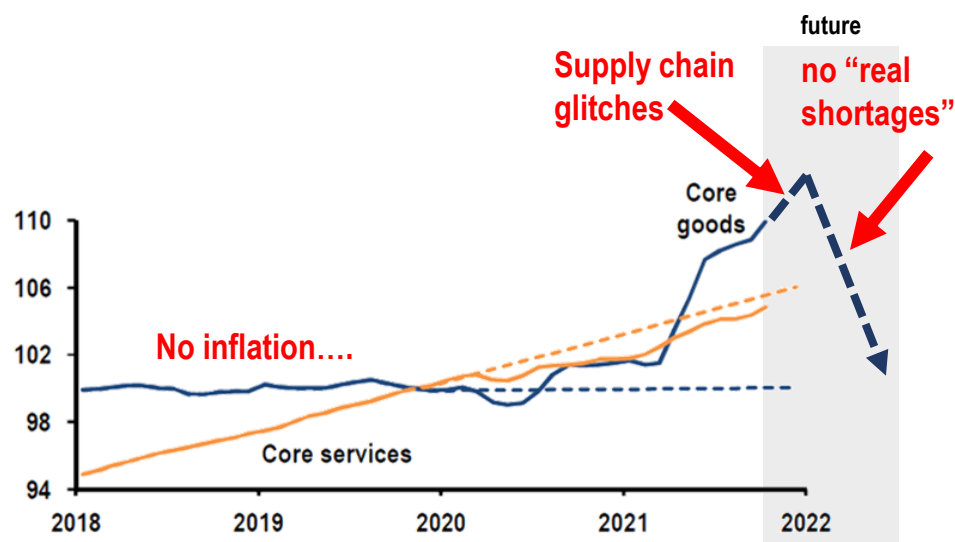102
98
94

2018   2019   2020   2021   2022

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

FUNDSTRAT 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

Supply chain glitches

no "real shortages"

future

No inflation....

Core goods

Core services

110
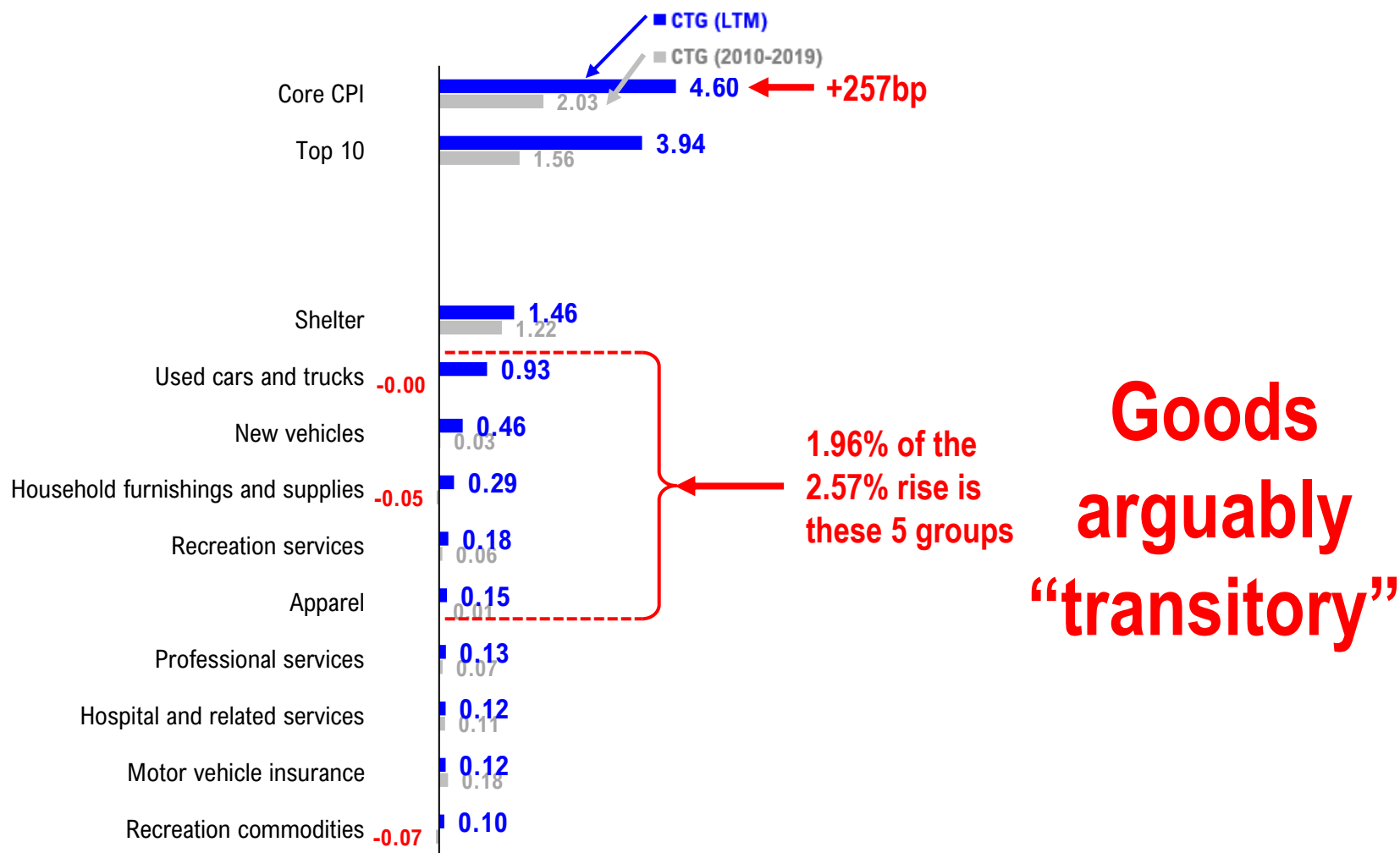106
102
98
94

2018   2019   2020   2021   2022

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.

	CTG (LTM)	CTG (2010-2019)
Core CPI	4.60	2.03
Top 10	3.94	1.56
Shelter	1.46	1.22
Used cars and trucks	0.93	-0.00
New vehicles	0.46	0.03
Household furnishings and supplies	0.29	-0.05
Recreation services	0.18	0.06
Apparel	0.15	0.01
Professional services	0.13	0.07
Hospital and related services	0.12	0.11
Motor vehicle insurance	0.12	0.18
Recreation commodities	0.10	-0.07

+257bp (Core CPI)

1.96% of the 2.57% rise is these 5 groups

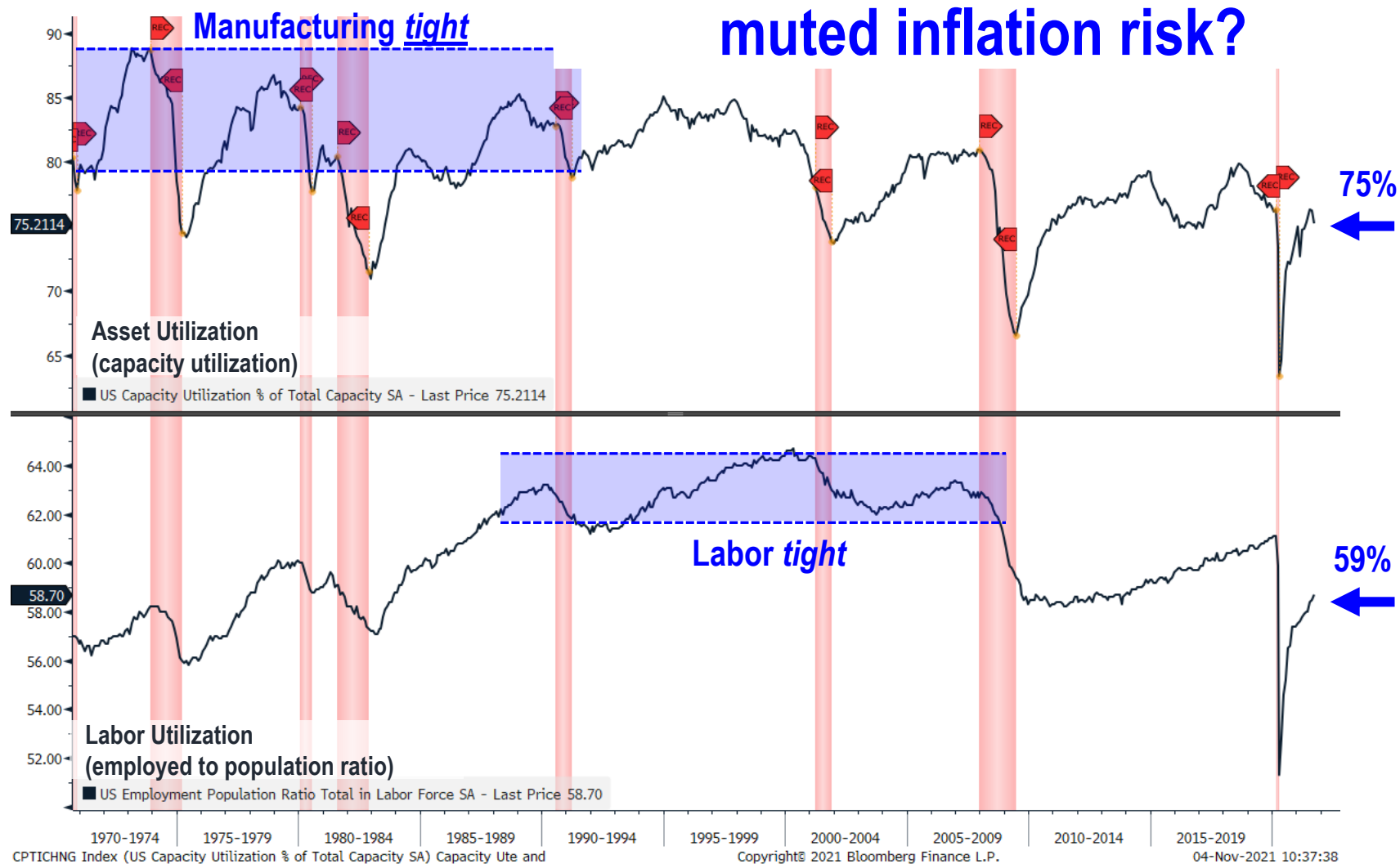**Goods arguably "transitory"**

Source: Fundstrat, BLS

UTILIZATION: Asset + Labor utilization

Figure: Asset Utilization and Labor Utilization
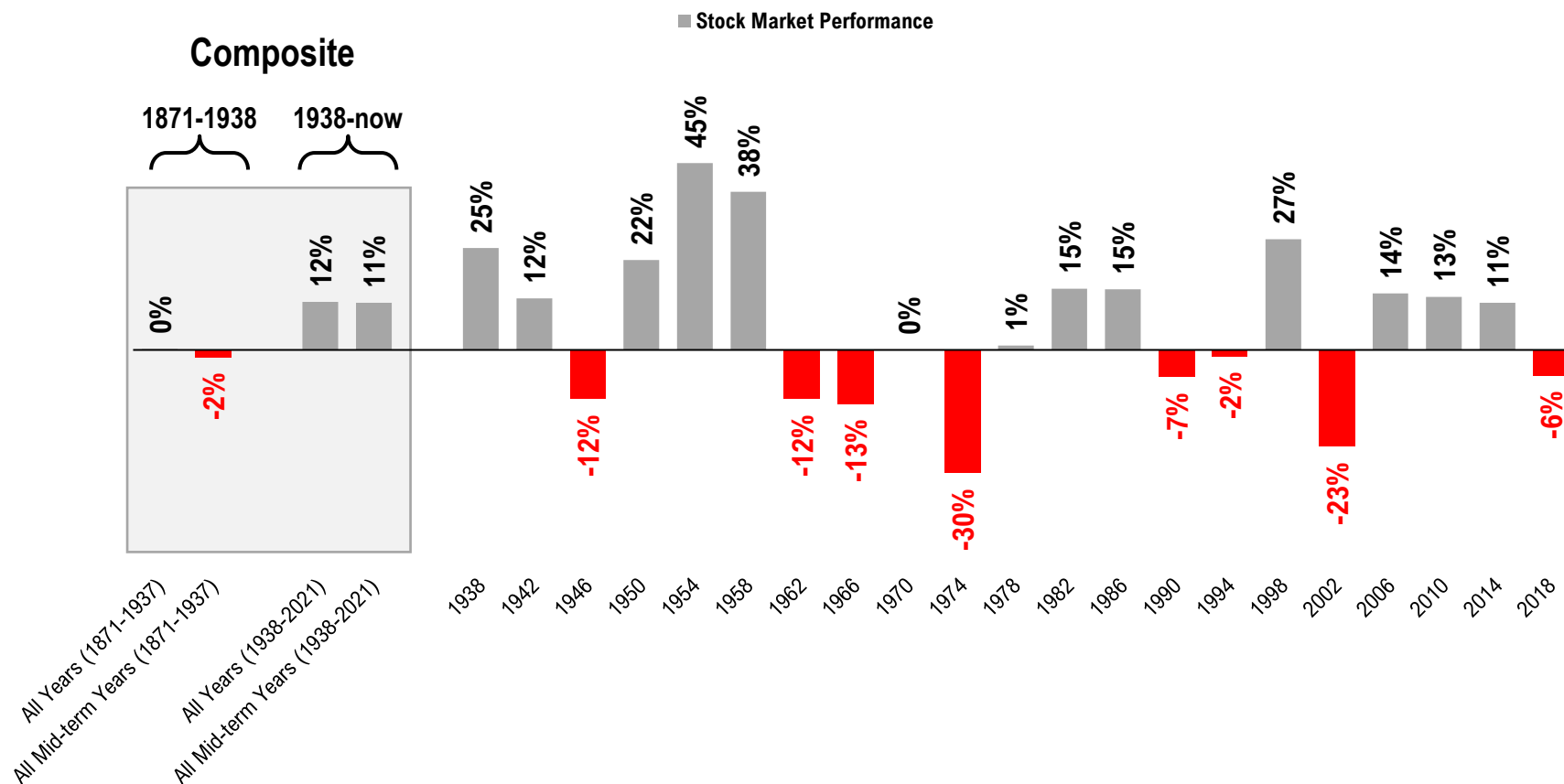Federal Reserve. Monthly, since 1970

Source: Fundstrat, Bloomberg

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

MIDTERM: History shows 1H2O22 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
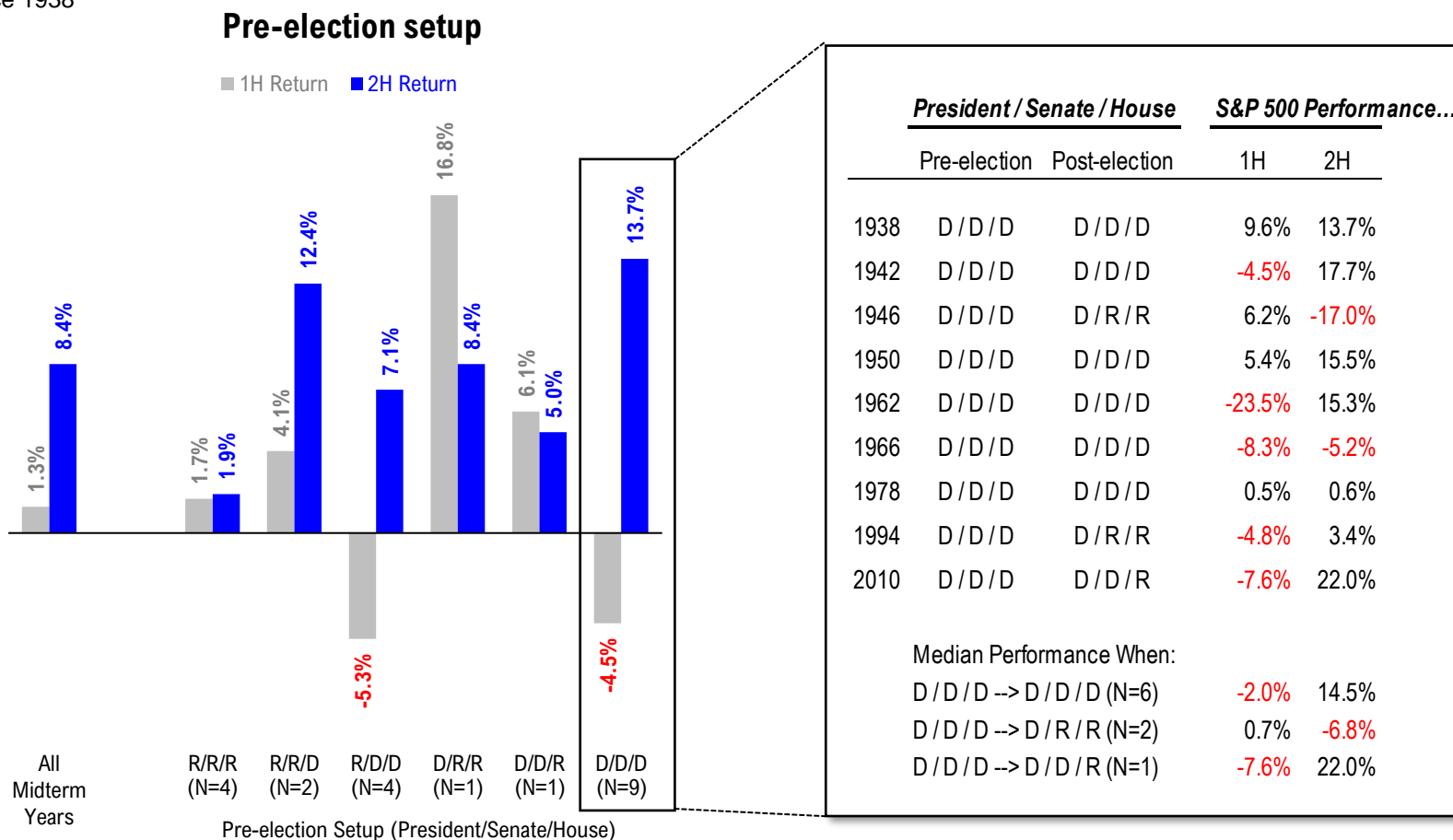Since 1938
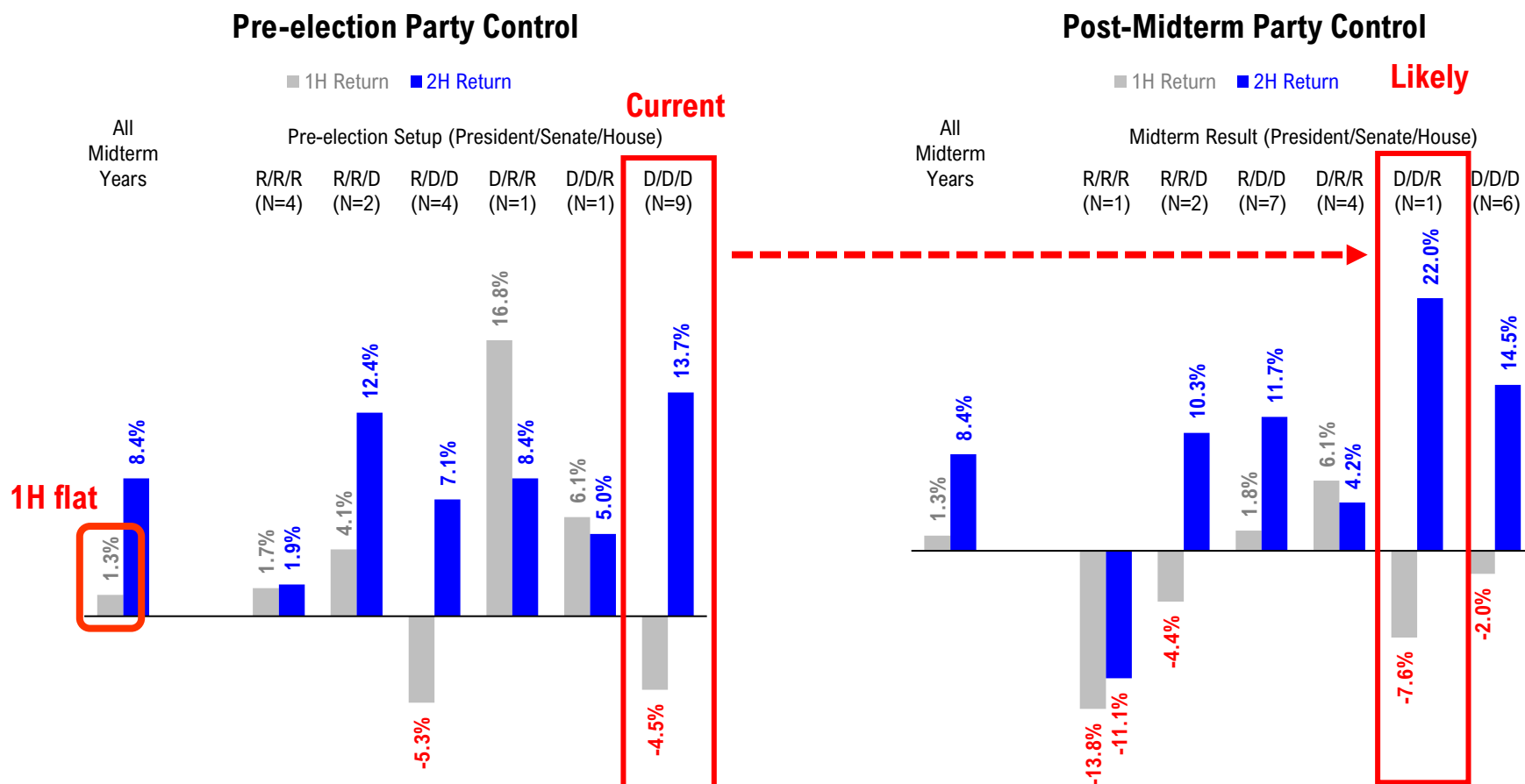
Source: Fundstrat, Bloomberg

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

Pre-election setup

■ 1H Return ■ 2H Return

	President / Senate / House		S&P 500 Performance...	
	Pre-election	Post-election	1H	2H
1938	D / D / D	D / D / D	9.6%	13.7%
1942	D / D / D	D / D / D	-4.5%	17.7%
1946	D / D / D	D / R / R	6.2%	-17.0%
1950	D / D / D	D / D / D	5.4%	15.5%
1962	D / D / D	D / D / D	-23.5%	15.3%
1966	D / D / D	D / D / D	-8.3%	-5.2%
1978	D / D / D	D / D / D	0.5%	0.6%
1994	D / D / D	D / R / R	-4.8%	3.4%
2010	D / D / D	D / D / R	-7.6%	22.0%
	Median Performance When:			
	D / D / D --> D / D / D (N=6)		-2.0%	14.5%
	D / D / D --> D / R / R (N=2)		0.7%	-6.8%
	D / D / D --> D / D / R (N=1)		-7.6%	22.0%

Pre-election Setup (President/Senate/House)

Source: Fundstrat, 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

| Since 1938 | N= | Stock Market Performance | | | Trailing 6-month Median Return | | | | | | | | | | | | | | |
		% 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%

INTEREST RATES: Negative "real rates" might be here longer than expected
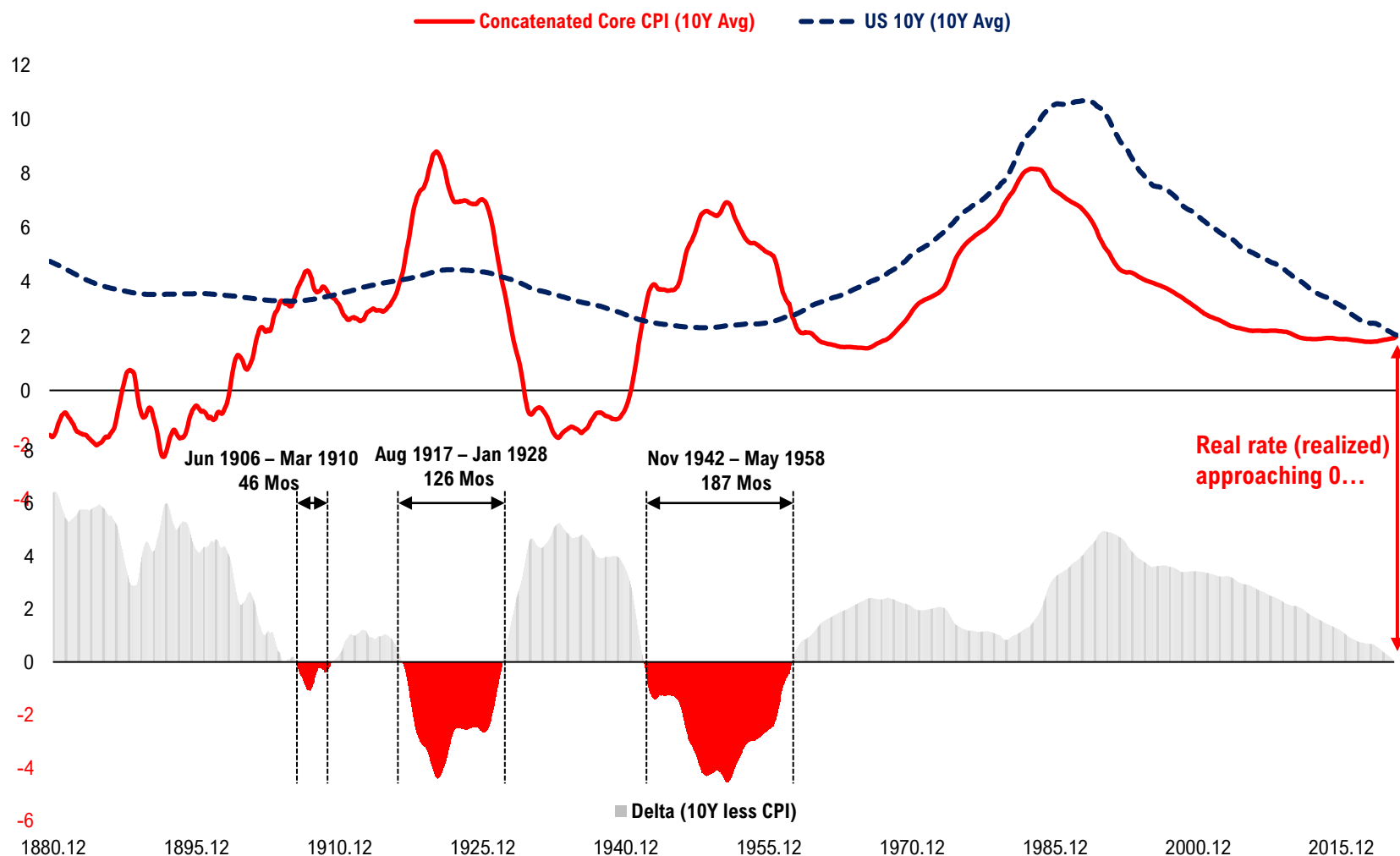
10-yr vs CPI – Europe + Japan + USA
10Y and CPI
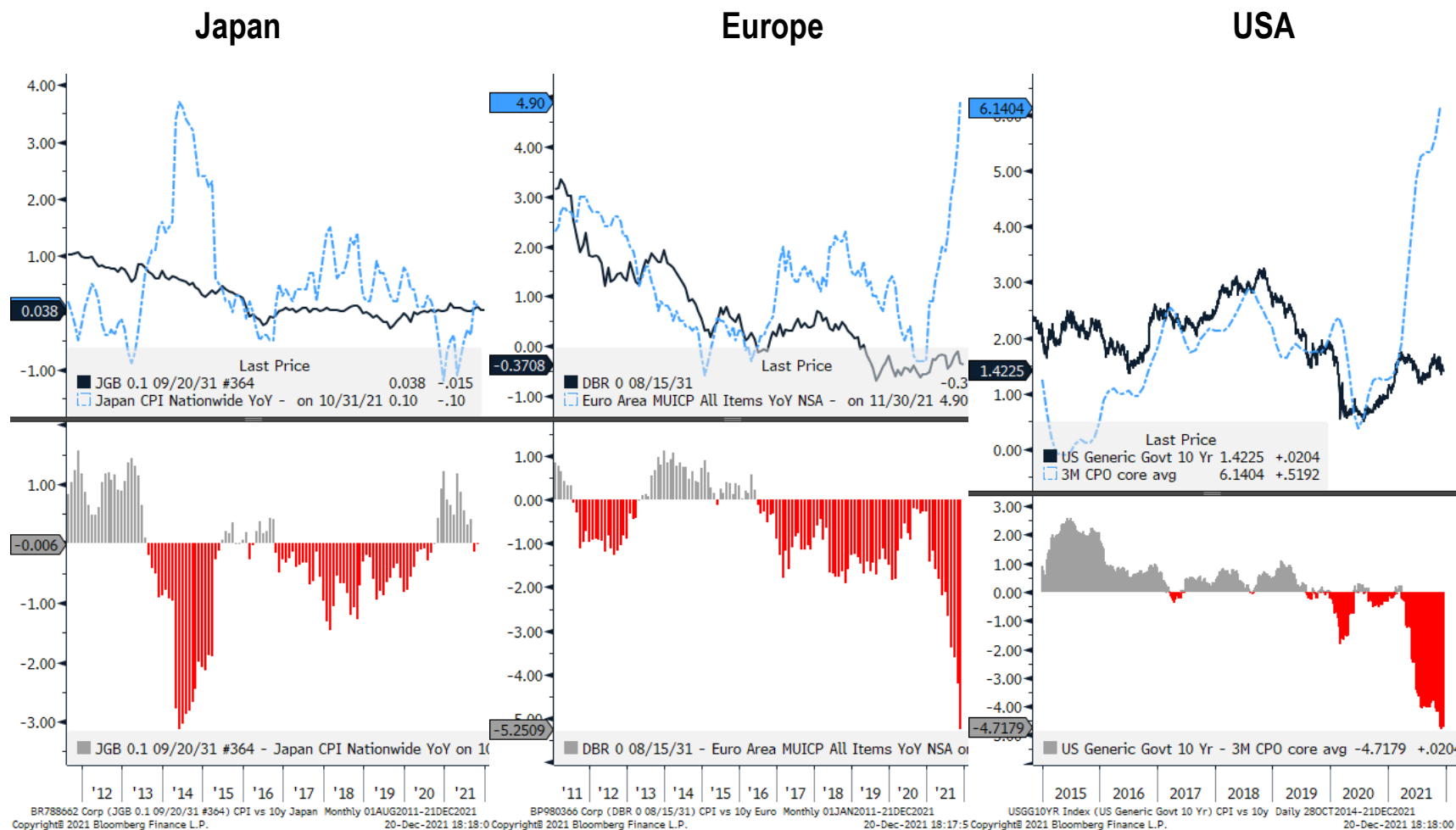
Source: Fundstrat, Bloomberg

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

—— **Concatenated Core CPI (10Y Avg)** - - - - **US 10Y (10Y Avg)**

Jun 1906 – Mar 1910
46 Mos

Aug 1917 – Jan 1928
126 Mos

Nov 1942 – May 1958
187 Mos

Real rate (realized) approaching 0...

■ **Delta (10Y less CPI)**

Source: Fundstrat, 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.

Delta (10Y less CPI)

S&P 500 10Y Rolling Total Return
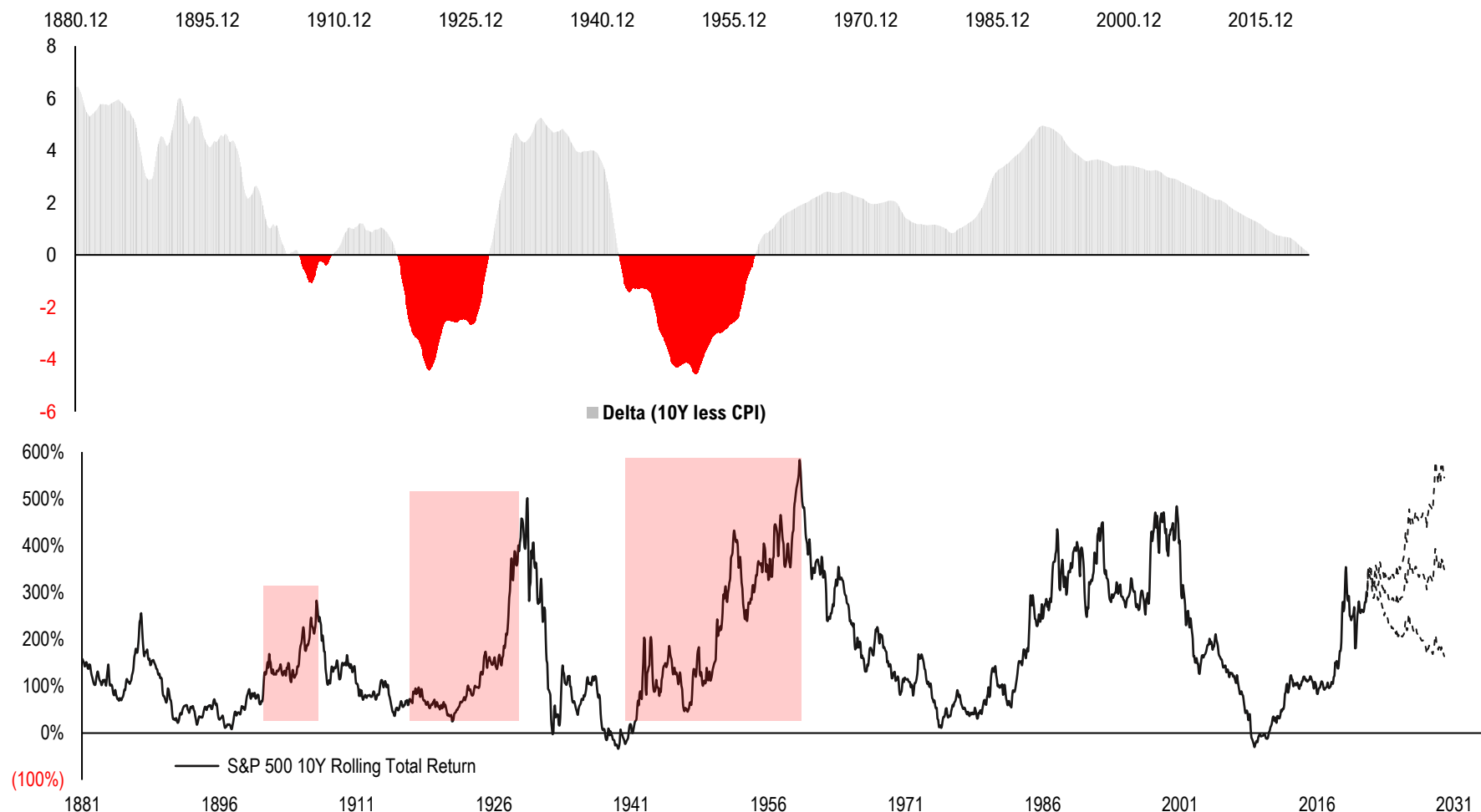
Source: Fundstrat, Bloomberg, BLS, FRED, Robert Shiller Online Data
* Stock Market Performance is calculated by using: i) 1880 – 1896: Shiller S&P Composite; ii) 1896-1927: Dow Jones Industrial Average; iii) 1927-Now: S&P 500

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

SECTOR: Sector ratings by Fundstrat research heads...

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

Figure: Sector views for 2022
Per Fundstrat. OW = Overweight. UW = Underweight. N = Neutral

	Market Cap	Macro Strategy Thomas Lee	Technical Strategy Newton	Quantitative Strategy Gould
Growth + Defensives	**$26,285**			
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
Epicenter	**$15,278**			
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: Fundstrat

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
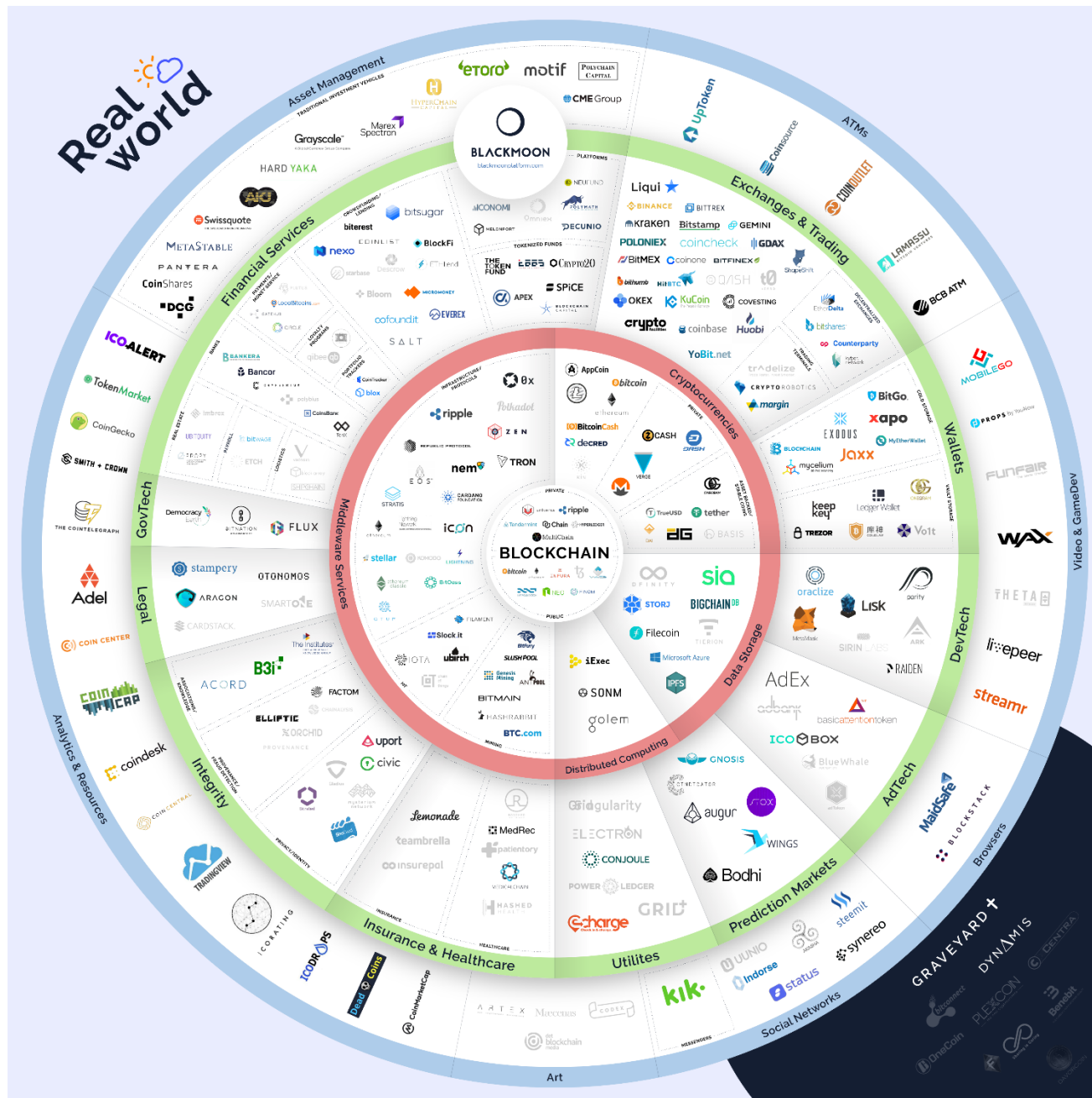Since 12/31/2011; 12/31/2011 rebased to 100
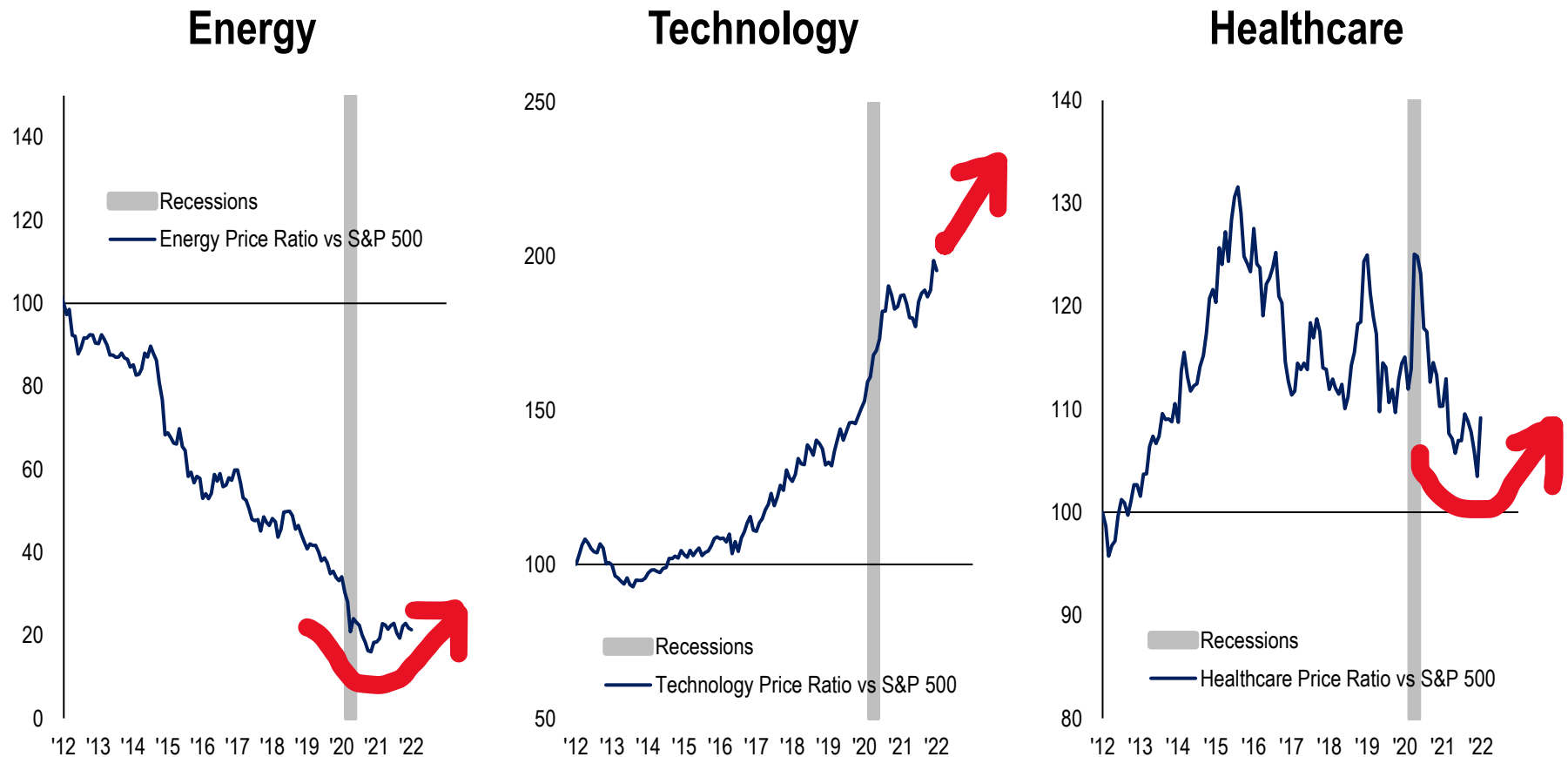
Source: Fundstrat, Bloomberg. FAMA until 1975

CRYPTO ECOSYSTEM...

BLOCKCHAIN PROJECT ECOSYSTEM
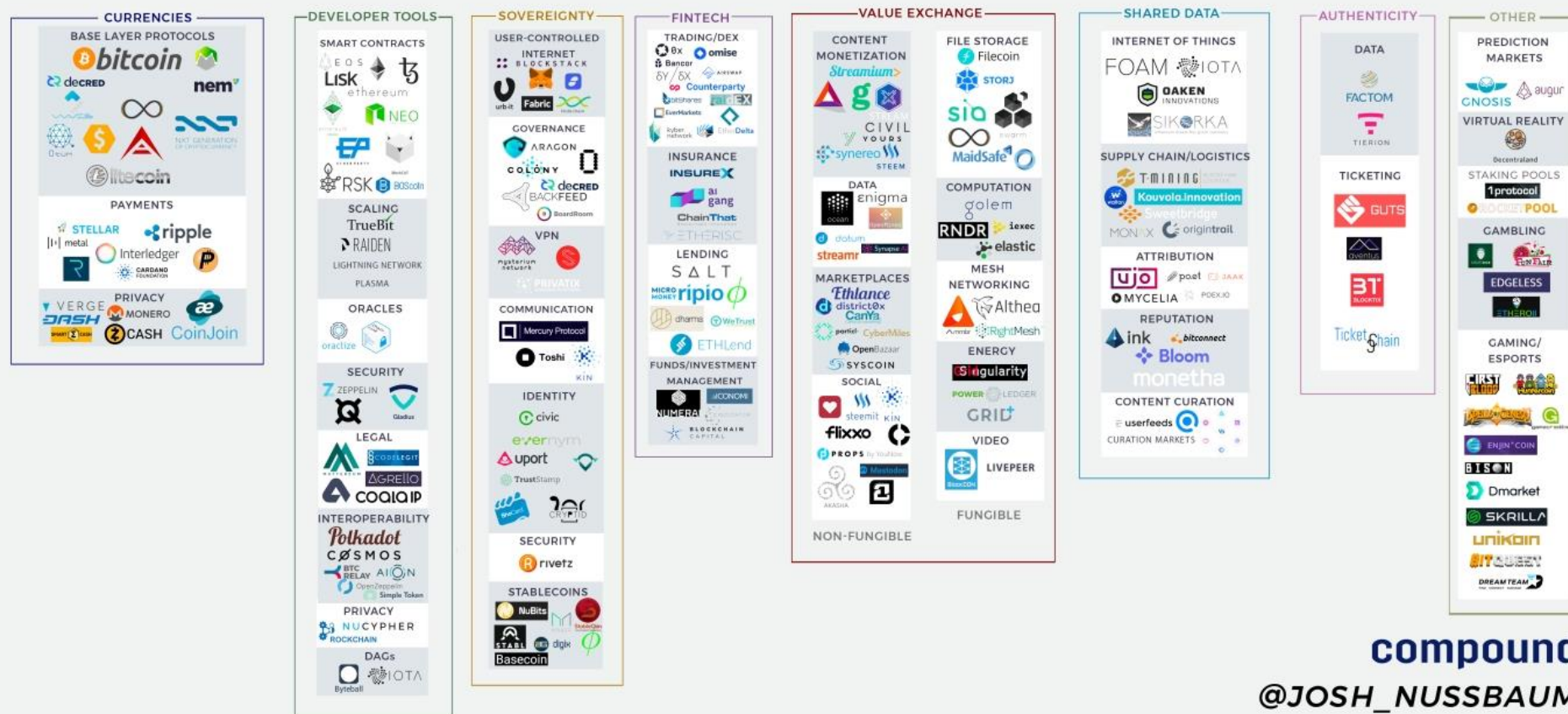
compound
@JOSH_NUSSBAUM

CRYPTO ECOSYSTEM...

CRYPTO: Number of equities with direct crypto exposure increasing

Type	Company	Ticker	Market Cap ($ Million)
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	Power & Digital Infra. SPAC I	XPDI	455
	Blockchain Coinvestors SPAC	BCSAU	418
	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

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: Fundstrat, Bloomberg
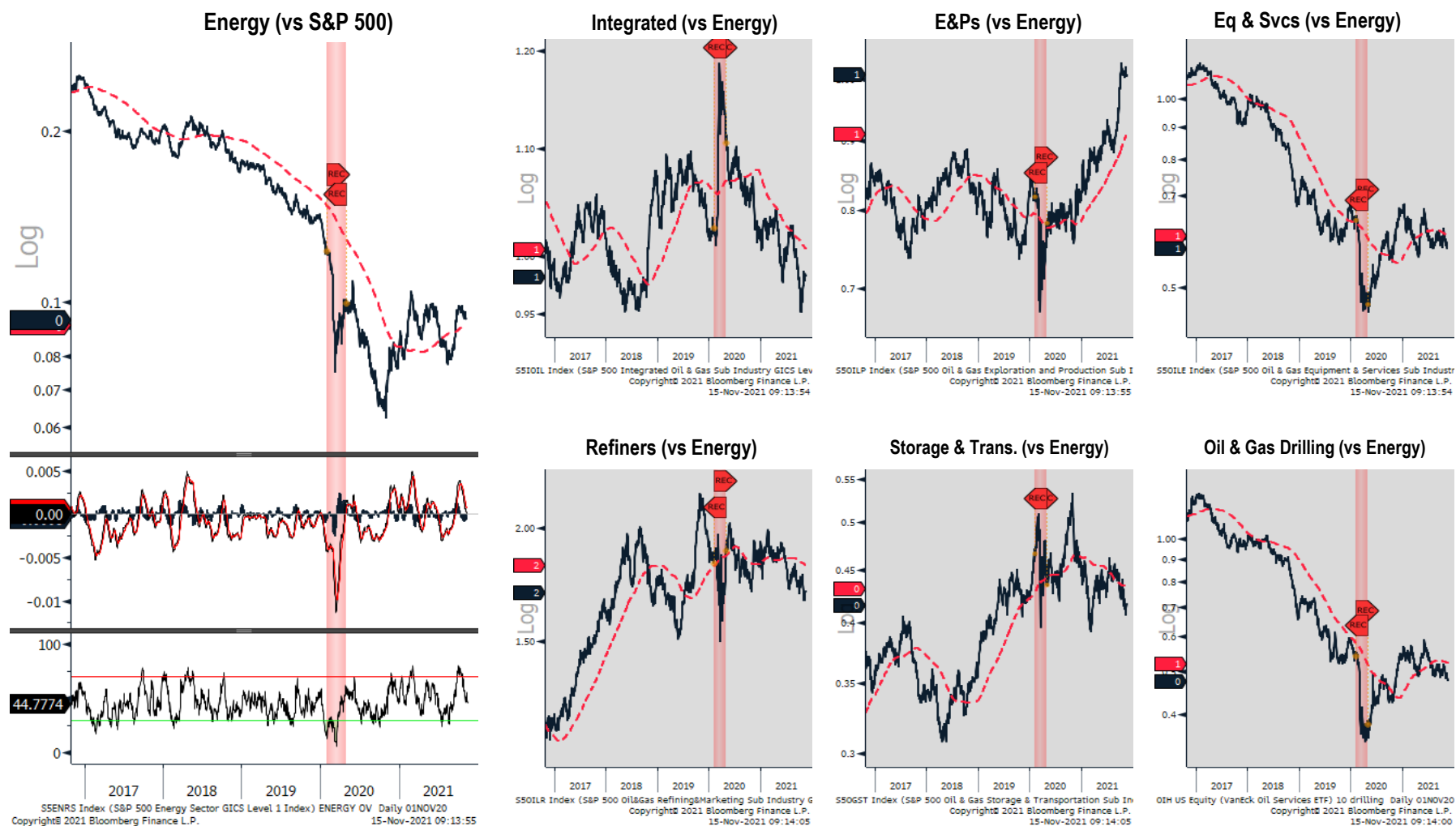
ENERGY: Surge in oil argues for big upside in Energy stocks

- **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 Fundstrat

Current ● — Trendline

WTI: $85
OIH: $700

$70 oil → OIH never <$400*

$80 oil → OIH never <$600

Does OIH at ~$220 make sense?

Oil Services ETF (^OIH)

Crude Oil Price
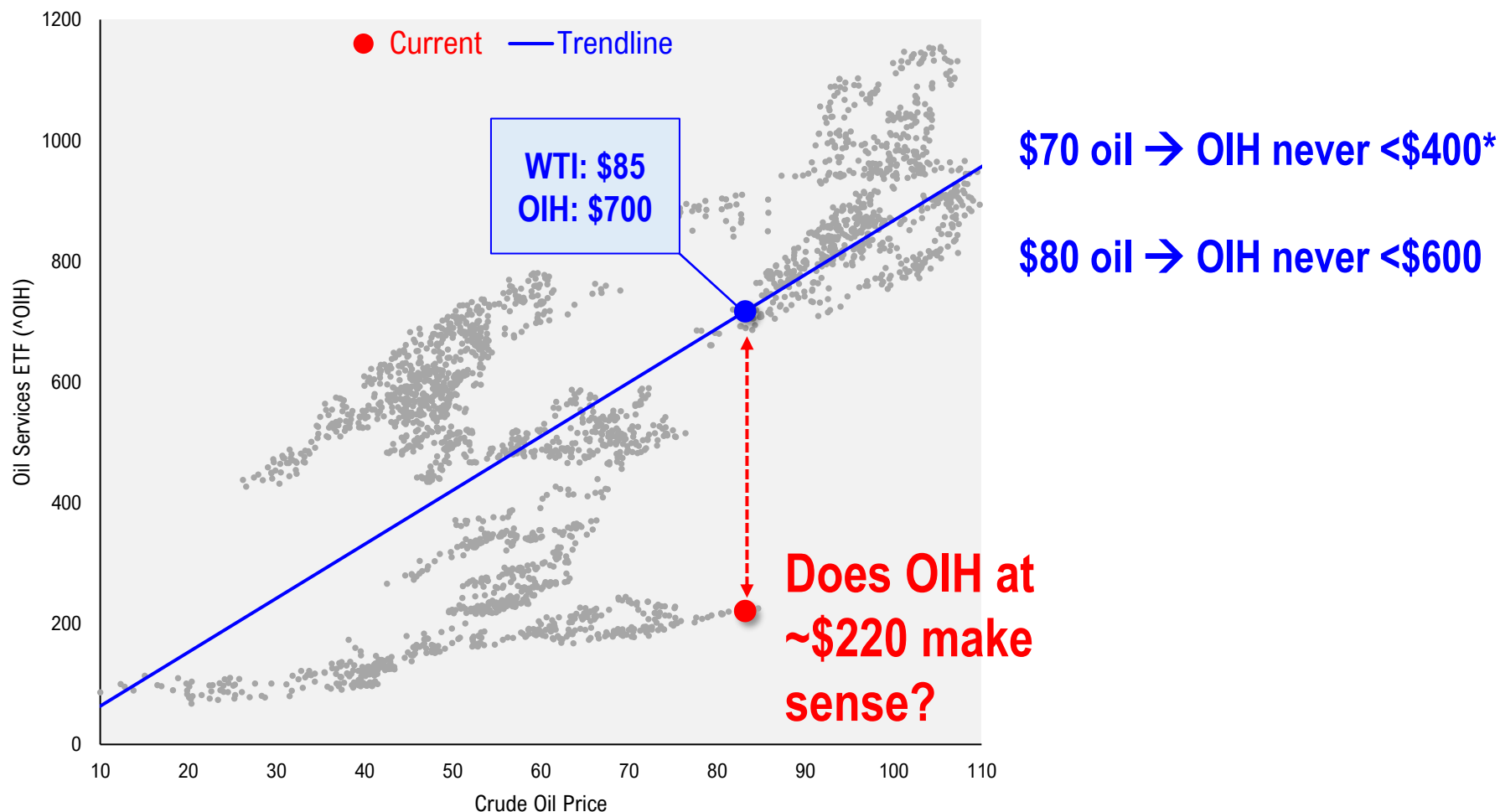
ENERGY: Energy so bad, one has to be back to 'moby dick' era

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

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
FB								75.7%	31.4%	34.9%	0.4%	34.0%	(19.5%)	27.7%	16.8%	(2.7%)
AMZN	(29.9%)	131.2%	(6.2%)	138.9%	21.0%	(3.8%)	31.5%	29.4%	(33.6%)	118.5%	1.4%	36.5%	34.7%	(5.9%)	60.0%	(20.2%)
NFLX	(18.1%)	(0.6%)	50.8%	60.9%	206.1%	(60.6%)	20.2%	268.0%	(18.6%)	135.1%	(1.3%)	35.6%	45.7%	(8.0%)	50.9%	3.2%
GOOGL	(2.6%)	46.6%	(17.0%)	78.1%	(17.0%)	8.7%	(3.9%)	28.8%	(16.8%)	47.3%	(7.7%)	13.5%	5.4%	(0.7%)	14.6%	43.2%
Median	(18.1%)	46.6%	(6.2%)	78.1%	21.0%	(3.8%)	20.2%	52.5%	(17.7%)	82.9%	(0.5%)	34.8%	20.1%	(3.3%)	33.8%	0.3%
Average	(16.9%)	59.1%	9.2%	92.6%	70.1%	(18.5%)	16.0%	108.7%	(23.0%)	100.3%	(2.5%)	28.6%	28.6%	(4.8%)	41.8%	8.7%
Composite (Weighted)	(6.5%)	54.8%	(14.9%)	88.9%	(5.8%)	2.8%	6.0%	38.6%	(11.9%)	59.9%	(3.0%)	26.1%	8.1%	2.4%	33.3%	4.4%

Source: Fundstrat, Bloomberg, Factset

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

Figure: Change in PE YoY
Delta. Based on composite (weighted)

FANG - Composite Delta Trailing PE

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
FB								11.9x	(18.0x)	1.8x	(18.7x)	(3.4x)	(9.2x)	10.7x	(3.2x)	(0.5x)
AMZN	31.6x	(23.6x)	(36.6x)	20.0x	8.0x	23.1x	37.5x	15.5x	(17.6x)	4.6x	(50.9x)	21.3x	(42.5x)	0.7x	5.1x	2.1x
NFLX	0.1x	(6.9x)	(3.9x)	5.4x	27.6x	(39.8x)	79.0x	33.5x	(71.2x)	161.8x	(43.6x)	(80.0x)	(14.8x)	(19.1x)	17.7x	(15.9x)
GOOGL	(33.9x)	0.8x	(28.6x)	10.9x	(6.7x)	(2.1x)	0.1x	7.2x	(4.6x)	5.7x	(3.5x)	5.6x	(9.6x)	2.6x	2.1x	0.2x
Median	0.1x	(6.9x)	(28.6x)	10.9x	8.0x	(2.1x)	37.5x	13.7x	(17.8x)	5.2x	(31.1x)	1.1x	(12.2x)	1.6x	3.6x	(0.2x)
Average	(0.8x)	(9.9x)	(23.0x)	12.1x	9.7x	(6.3x)	38.9x	17.0x	(27.9x)	43.5x	(29.2x)	(14.1x)	(19.0x)	(1.3x)	5.4x	(3.5x)
Composite (Weighted)	(26.9x)	0.6x	(29.1x)	12.4x	(4.4x)	(2.7x)	4.6x	11.4x	(7.6x)	9.5x	(9.5x)	2.2x	(8.7x)	5.2x	2.7x	(2.1x)

Source: Fundstrat, Bloomberg, Factset

FANG: EPS growth remains "incredibly strong"

Figure: Median EPS growth FANG
2006-2021

FANG - Median EPS Growth

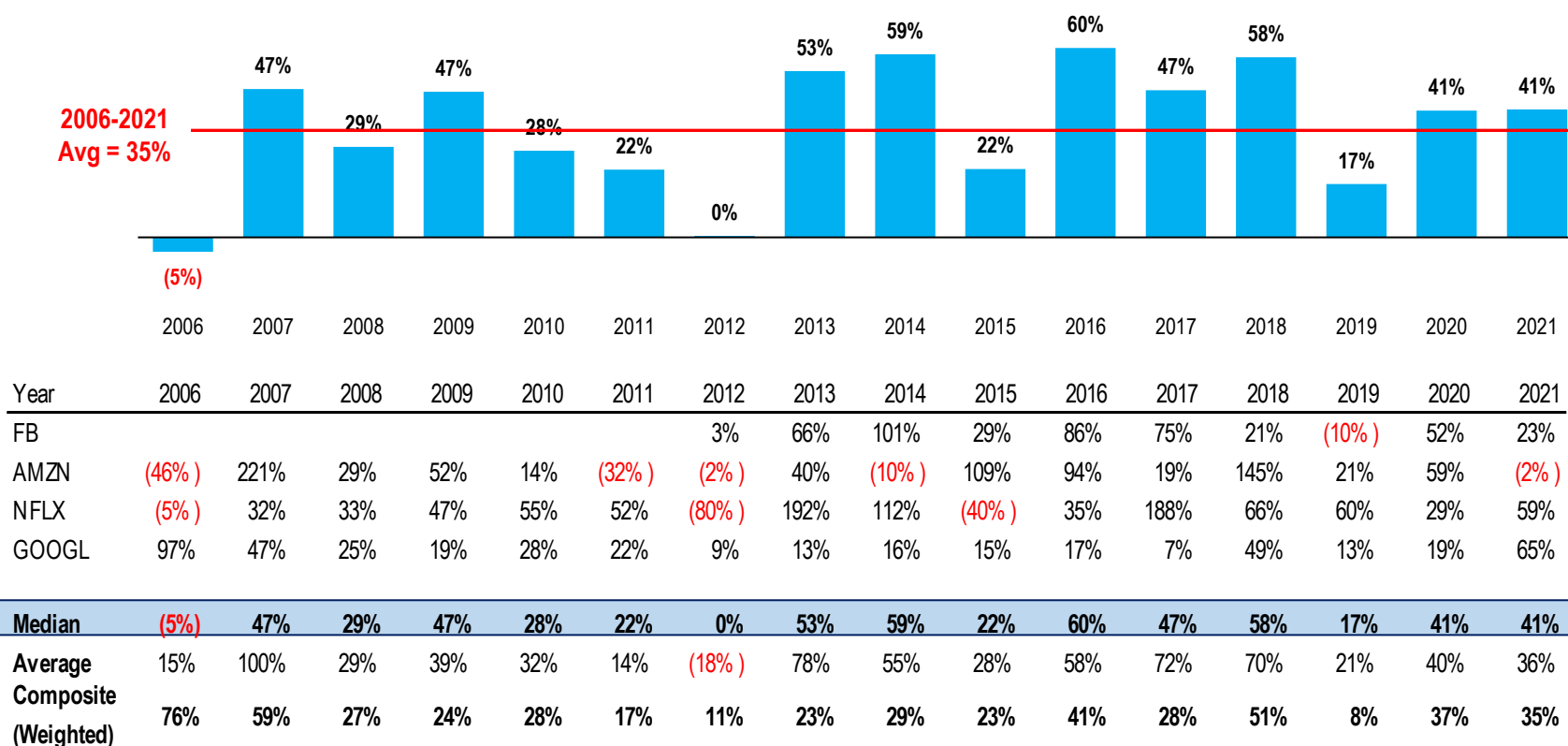| Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
FB							3%	66%	101%	29%	86%	75%	21%	(10%)	52%	23%
AMZN	(46%)	221%	29%	52%	14%	(32%)	(2%)	40%	(10%)	109%	94%	19%	145%	21%	59%	(2%)
NFLX	(5%)	32%	33%	47%	55%	52%	(80%)	192%	112%	(40%)	35%	188%	66%	60%	29%	59%
GOOGL	97%	47%	25%	19%	28%	22%	9%	13%	16%	15%	17%	7%	49%	13%	19%	65%
Median	**(5%)**	**47%**	**29%**	**47%**	**28%**	**22%**	**0%**	**53%**	**59%**	**22%**	**60%**	**47%**	**58%**	**17%**	**41%**	**41%**
Average	15%	100%	29%	39%	32%	14%	(18%)	78%	55%	28%	58%	72%	70%	21%	40%	36%
Composite (Weighted)	76%	59%	27%	24%	28%	17%	11%	23%	29%	23%	41%	28%	51%	8%	37%	35%

Source: Fundstrat, 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
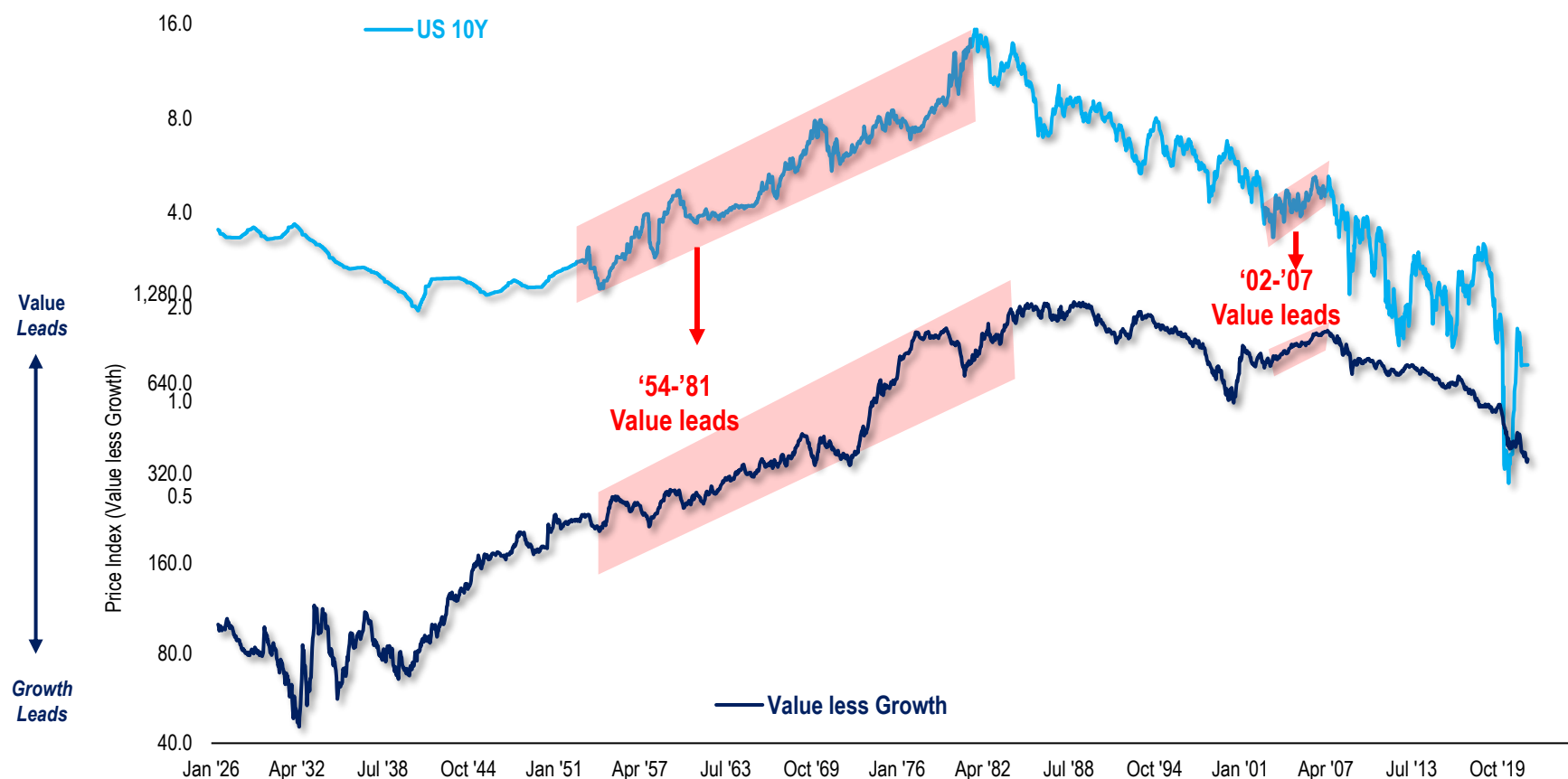
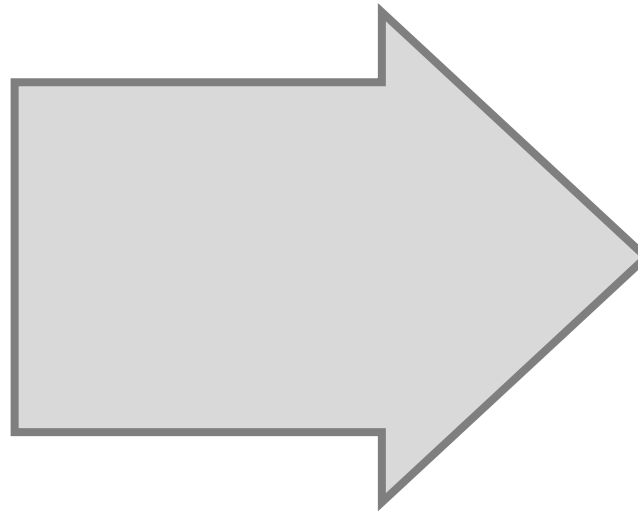Source: Fundstrat, Bloomberg. FAMA until 1975

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"
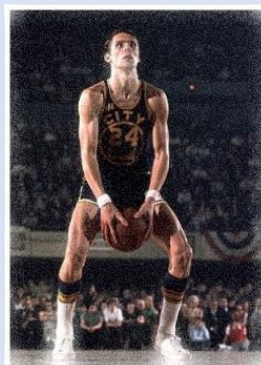Stocks which appear in multiple themes.

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

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

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.

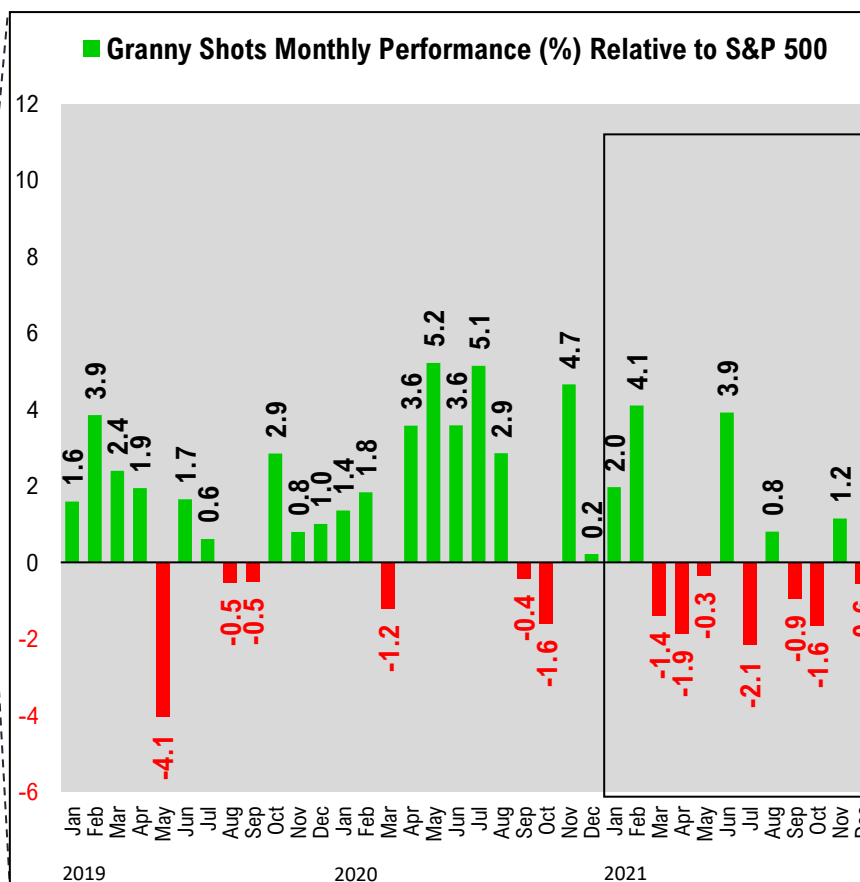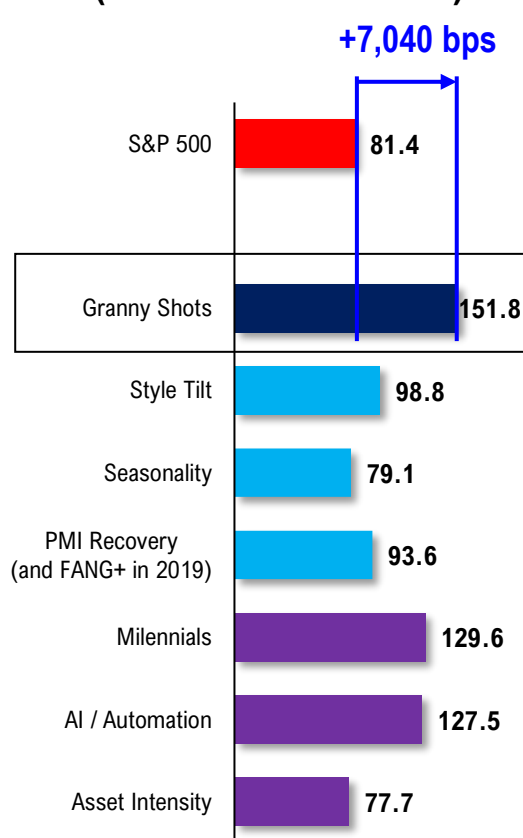# GRANNY SHOTS: Beat S&P 500 23 out of the 36 months since inception...

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)

+7,040 bps

S&P 500	81.4
Granny Shots	151.8
Style Tilt	98.8
Seasonality	79.1
PMI Recovery (and FANG+ in 2019)	93.6
Milennials	129.6
AI / Automation	127.5
Asset Intensity	77.7

Granny Shots Monthly Performance (%) Relative to S&P 500

2019: 1.6, 3.9, 2.4, 1.9, -4.1, 1.7, 0.6, -0.5, -0.5, 2.9, 0.8, 1.0
2020: 1.4, 1.8, -1.2, 3.6, 5.2, 3.6, 5.1, 2.9, -0.4, -1.6, 4.7, 0.2
2021: 2.0, 4.1, -1.4, -1.9, -0.3, 3.9, -2.1, 0.8, -0.9, -1.6, 1.2, -0.6

YTD Performance

+370 bps

S&P 500	25.4
Granny Shots	29.1
Style Tilt	14.9
Seasonality	32.6
PMI Recovery	25.5
Milennials	20.7
AI / Automation	25.6
Asset Intensity	26.3

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 Fundstrat

#	Ticker	Company name	Current Price	Mkt cap ($ mm)	YTD perf (relative to S&P 500)	FC Mean (5=Buy 1=Sell)(1)	Mean implied upside(2)	Dividend Yield	Issuer Rating	Short interest % of float	2022E sales growth(3)	2022E EPS growth(3)	P/E ('22E)	ROE	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-Cl 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
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
7	ATVI	Activision Blizzard Inc	$60.26	$46,936	-60.5%	4.51	55%	--	A-	1.0%	4%	0%	15.8x	17%	2
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
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
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
15	KLAC	Kla Corp	$409.91	$62,151	32.9%	4.17	5%	1.1%	BBB+	1.9%	32%	44%	19.6x	83%	2
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
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
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
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
27	ULTA	Ulta Beauty Inc	$394.61	$21,356	12.0%	4.10	13%	--	—	2.1%	7%	4%	22.2x	45%	2
28	USB	Us Bancorp	$56.74	$84,134	-3.6%	3.88	17%	3.3%	A+	0.8%	9%	-14%	12.9x	16%	2
29	WRB	Wr 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%	

Theme Membership columns: Value / Growth T, Seasonality, PMI Recovery, Millennials, AI / Automation, Inflation

Source: Fundstrat, Bloomberg, Factset

Perhaps this is all about Millennials

Source: Fundstrat

# 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
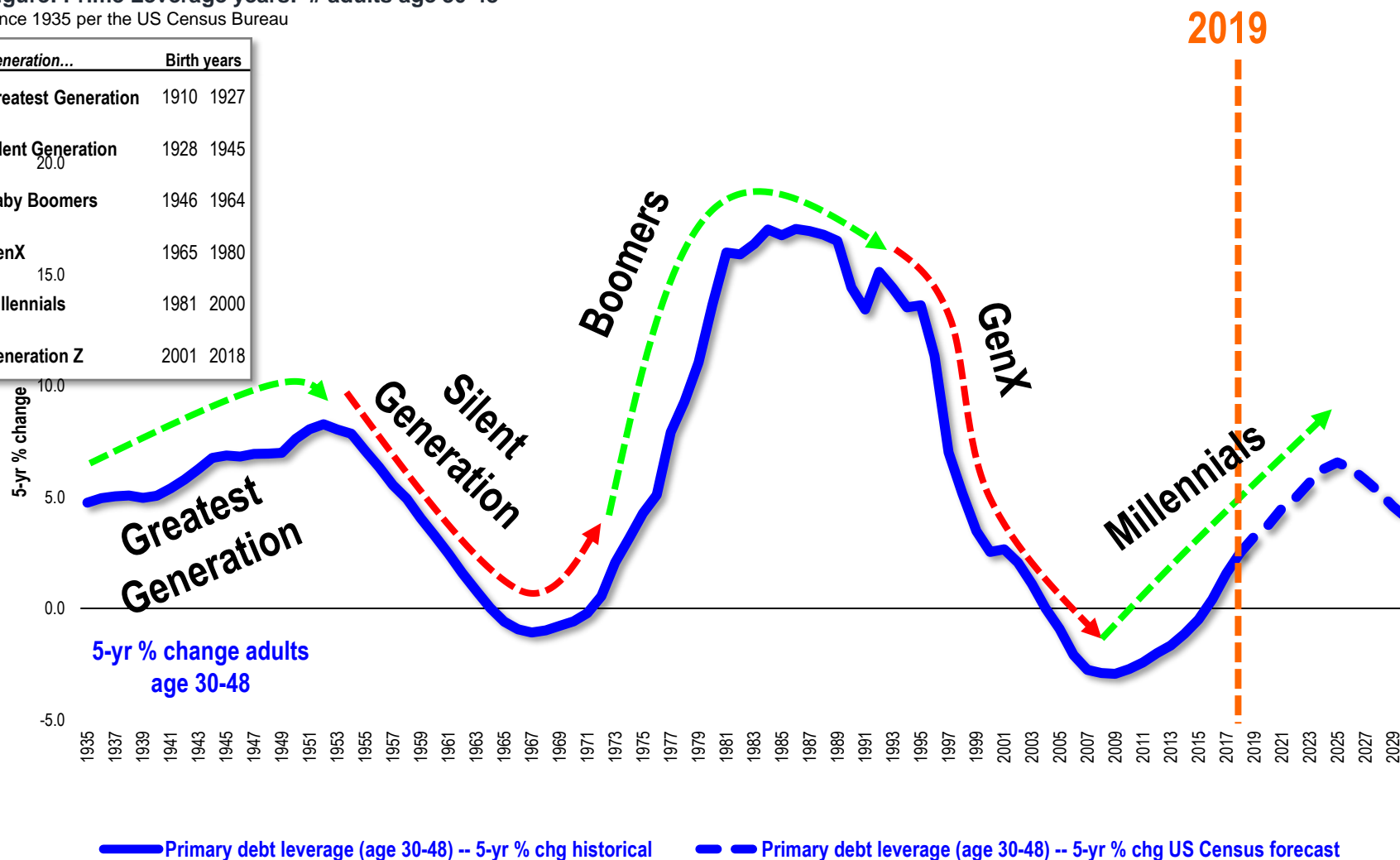
Primary debt leverage (age 30-48) -- 5-yr % chg historical
Primary debt leverage (age 30-48) -- 5-yr % chg US Census forecast

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

Implied
S&P 500
YE 2029

19,349
CAGR 20%

12,642
CAGR 15%

6,747
CAGR 8%

S&P 500 10Y Rolling Total Return

Bubble

Generational Buy

Greatest generation: age 28-48

Silent generation: age 28-48

Boomers: age 28-48

Millennials: age 28-48

GenZ: age 28-48

Stagflation Pre-conditions

Financial crisis

Today

5-yr % change adults age 30-48

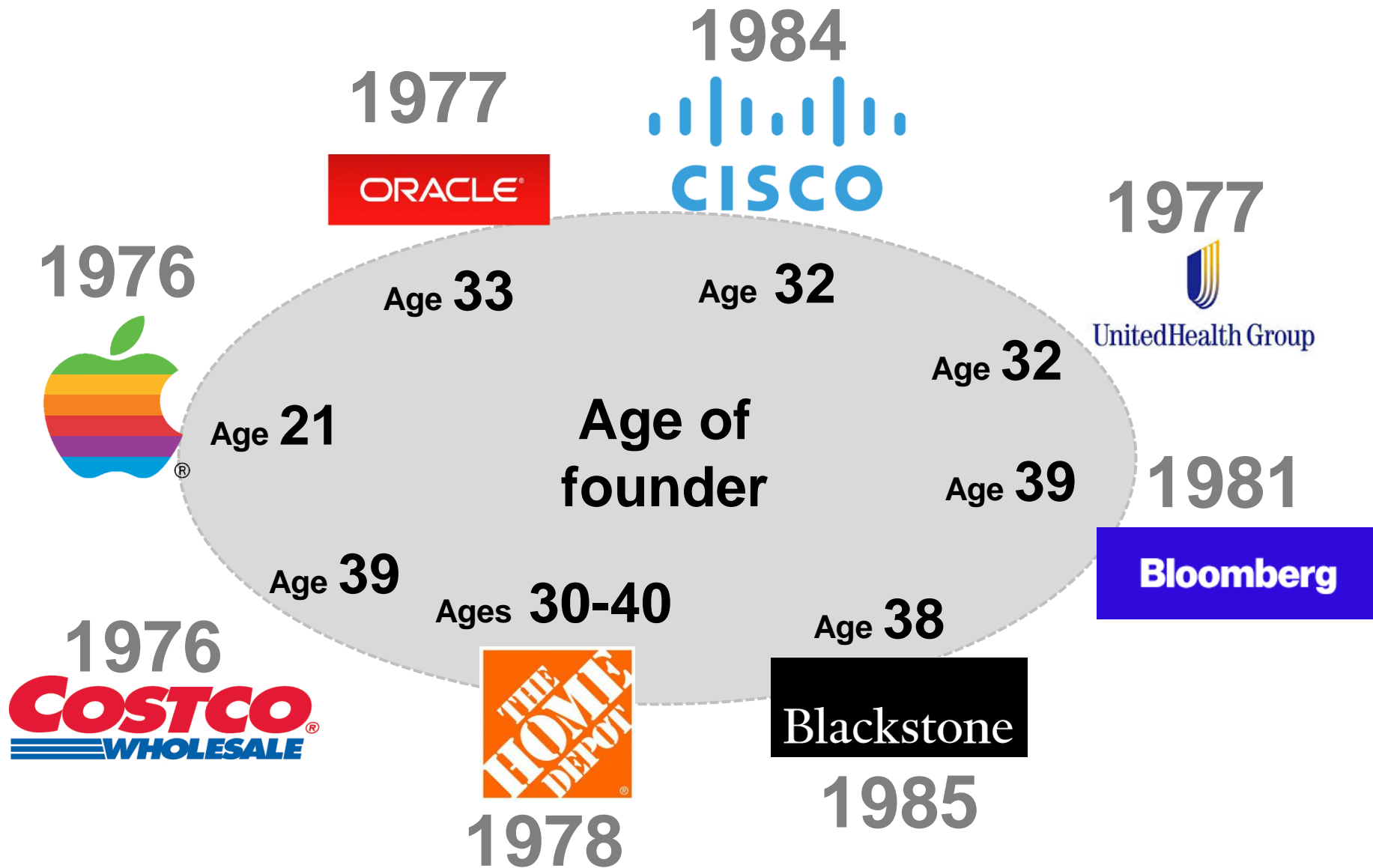**Primary debt leverage (age 30-48) -- 5-yr % chg historical**   **Primary debt leverage (age 30-48) -- 5-yr % chg US Census forecast**
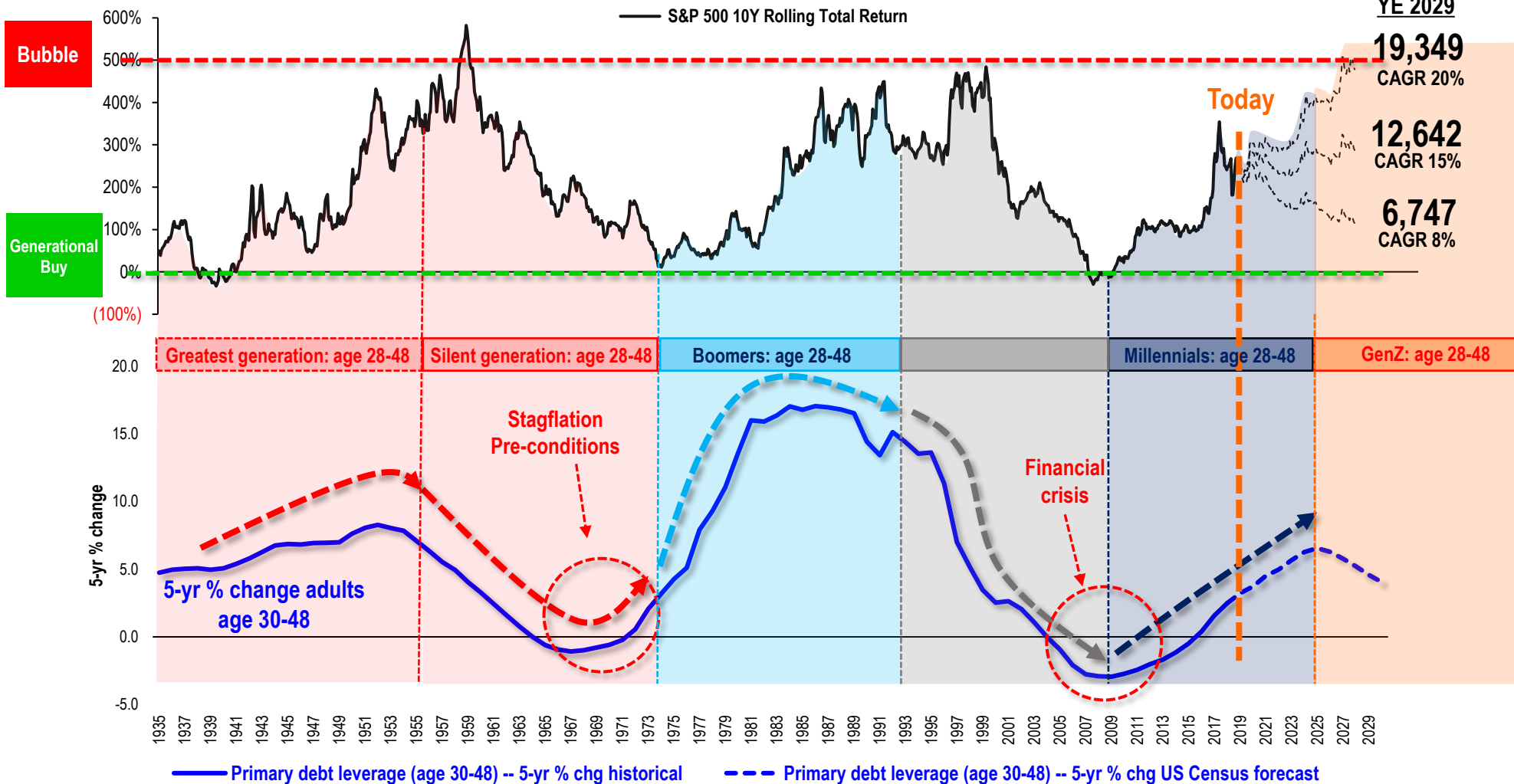
Source: Fundstrat, Bloomberg, BEA, National Association of Realtors, US Census Bureau
Disclaimer: Past performance does not guarantee future results

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

1984 — CISCO — Age 32
1977 — ORACLE — Age 33
1976 — Apple — Age 21
1977 — UnitedHealth Group — Age 32
Age of founder
Age 39
1981 — Bloomberg
1976 — COSTCO WHOLESALE — Age 39
1978 — THE HOME DEPOT — Ages 30-40
1985 — Blackstone — Age 38

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
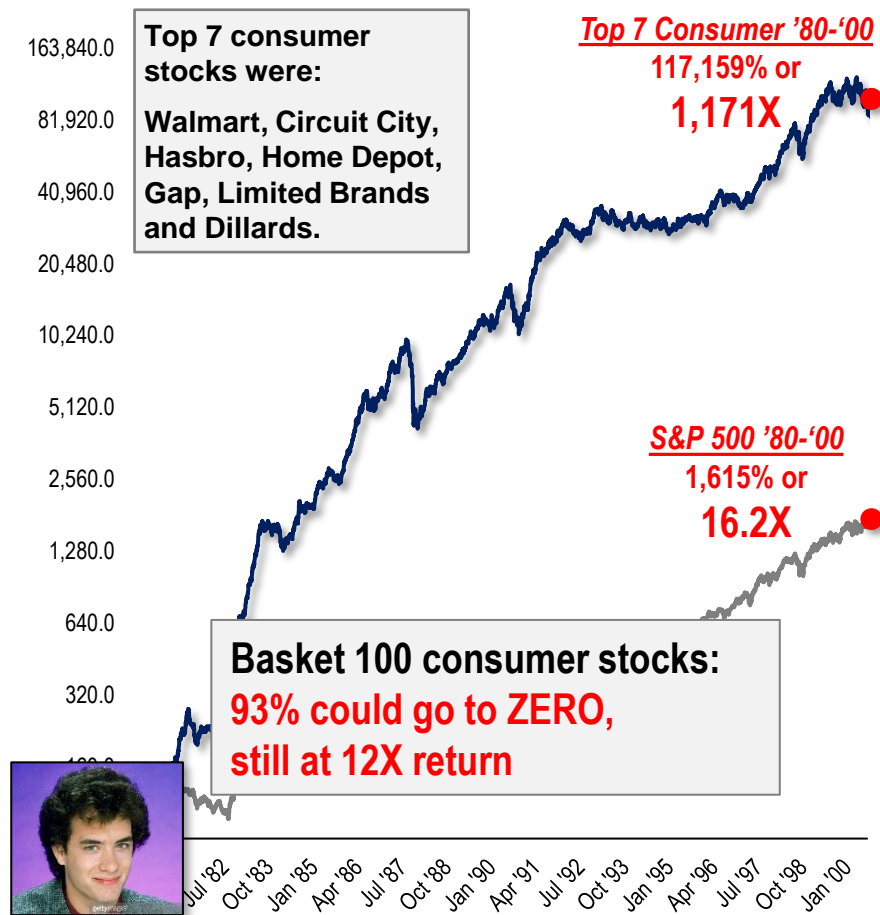Since 1935
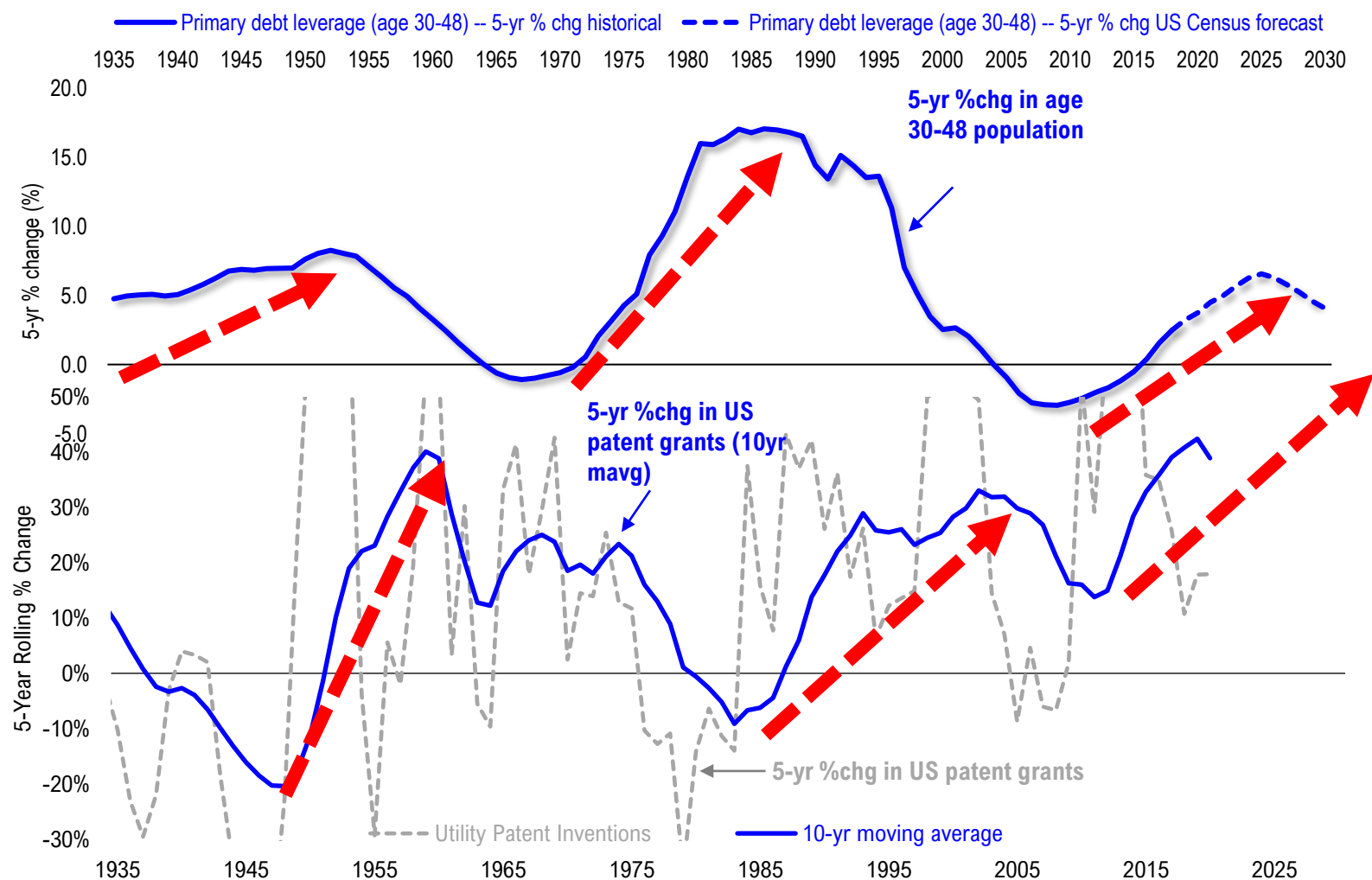
Source: Fundstrat, United States Patent and Trademark Office, Census Bureau

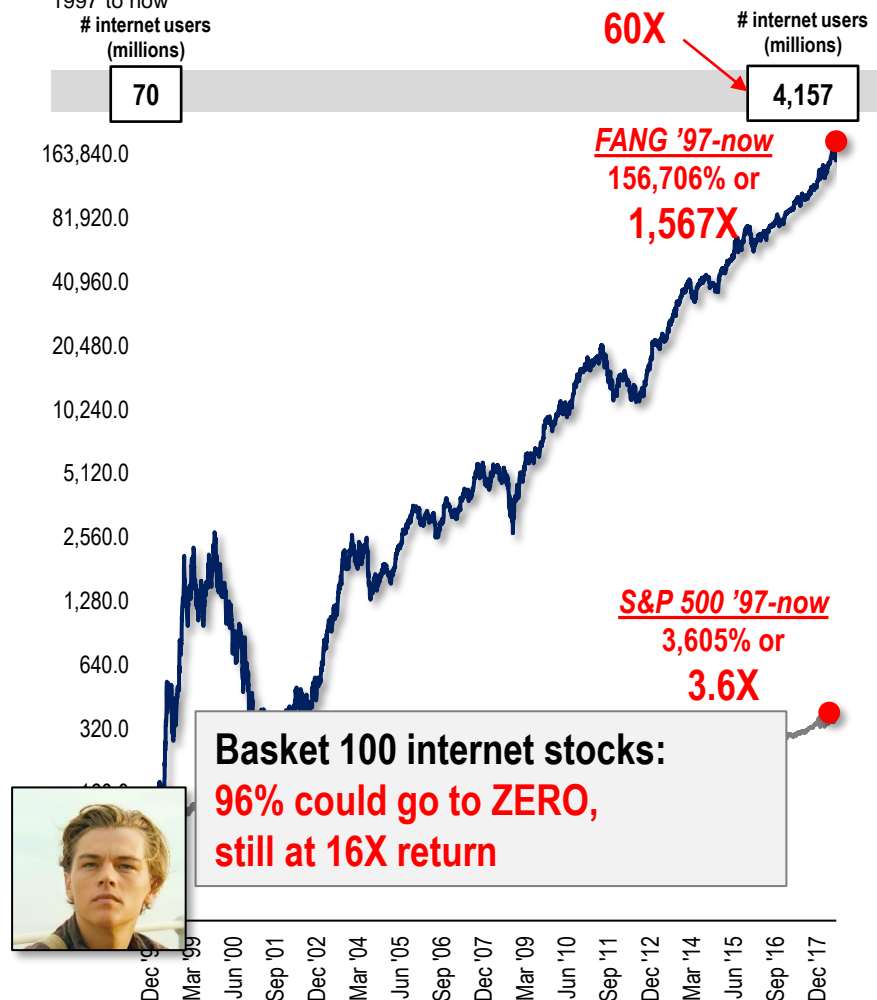# "Generational" Bets paid off for Boomers and for GenX

BOOMER SPEND VS PARENTS: Consumer Stocks was right vector	GenX FANG: Internet

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

Figure: Comparative performance of FANG
1997 to now

Top 7 consumer stocks were:

Walmart, Circuit City, Hasbro, Home Depot, Gap, Limited Brands and Dillards.

Top 7 Consumer '80-'00
117,159% or
1,171X

S&P 500 '80-'00
1,615% or
16.2X

Basket 100 consumer stocks:
93% could go to ZERO, still at 12X return

internet users (millions)
70

60X

internet users (millions)
4,157

FANG '97-now
156,706% or
1,567X

S&P 500 '97-now
3,605% or
3.6X

Basket 100 internet stocks:
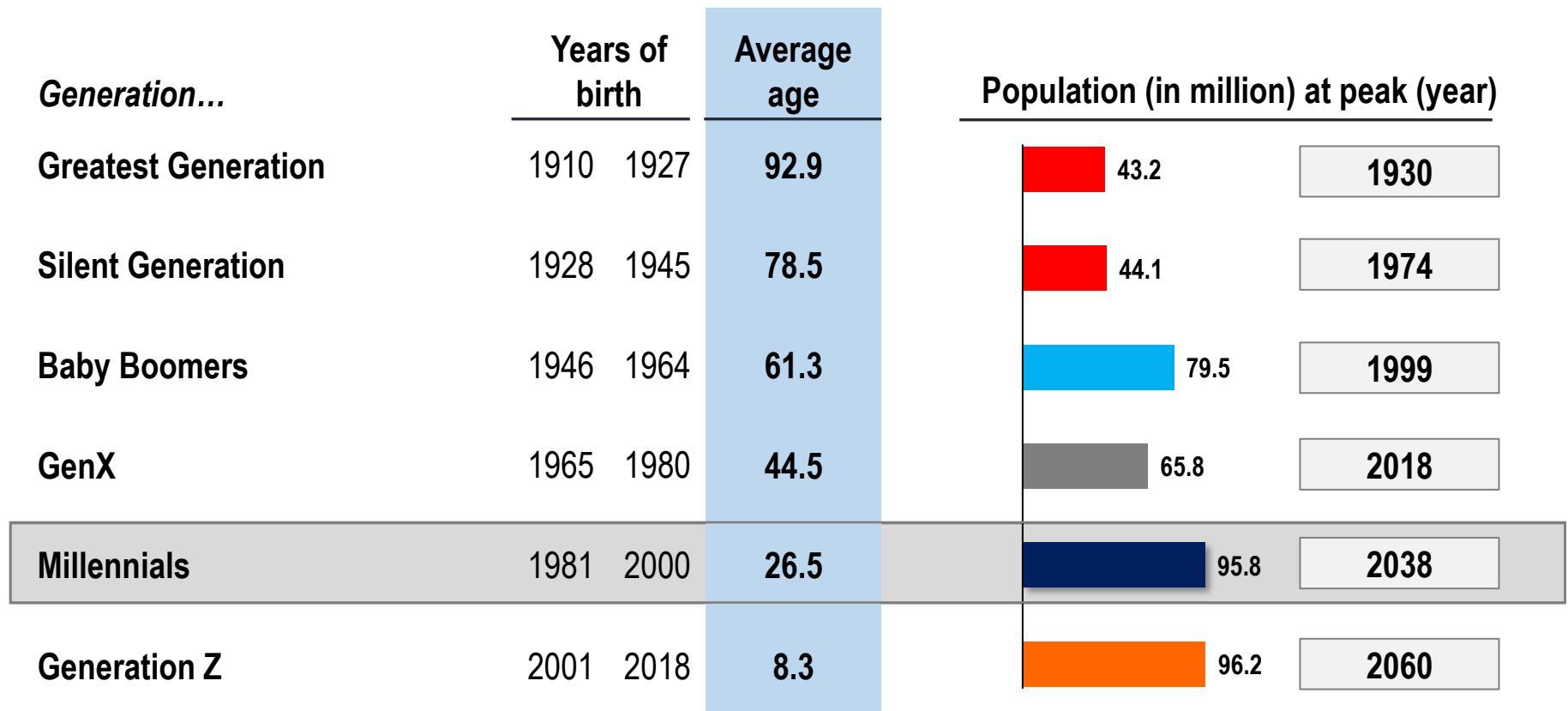96% could go to ZERO, still at 16X return

Source: Fundstrat, Bloomberg

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.

Generation...	Years of birth		Average age	Population (in million) at peak (year)	
Greatest Generation	1910	1927	92.9	43.2	1930
Silent Generation	1928	1945	78.5	44.1	1974
Baby Boomers	1946	1964	61.3	79.5	1999
GenX	1965	1980	44.5	65.8	2018
Millennials	1981	2000	26.5	95.8	2038
Generation Z	2001	2018	8.3	96.2	2060

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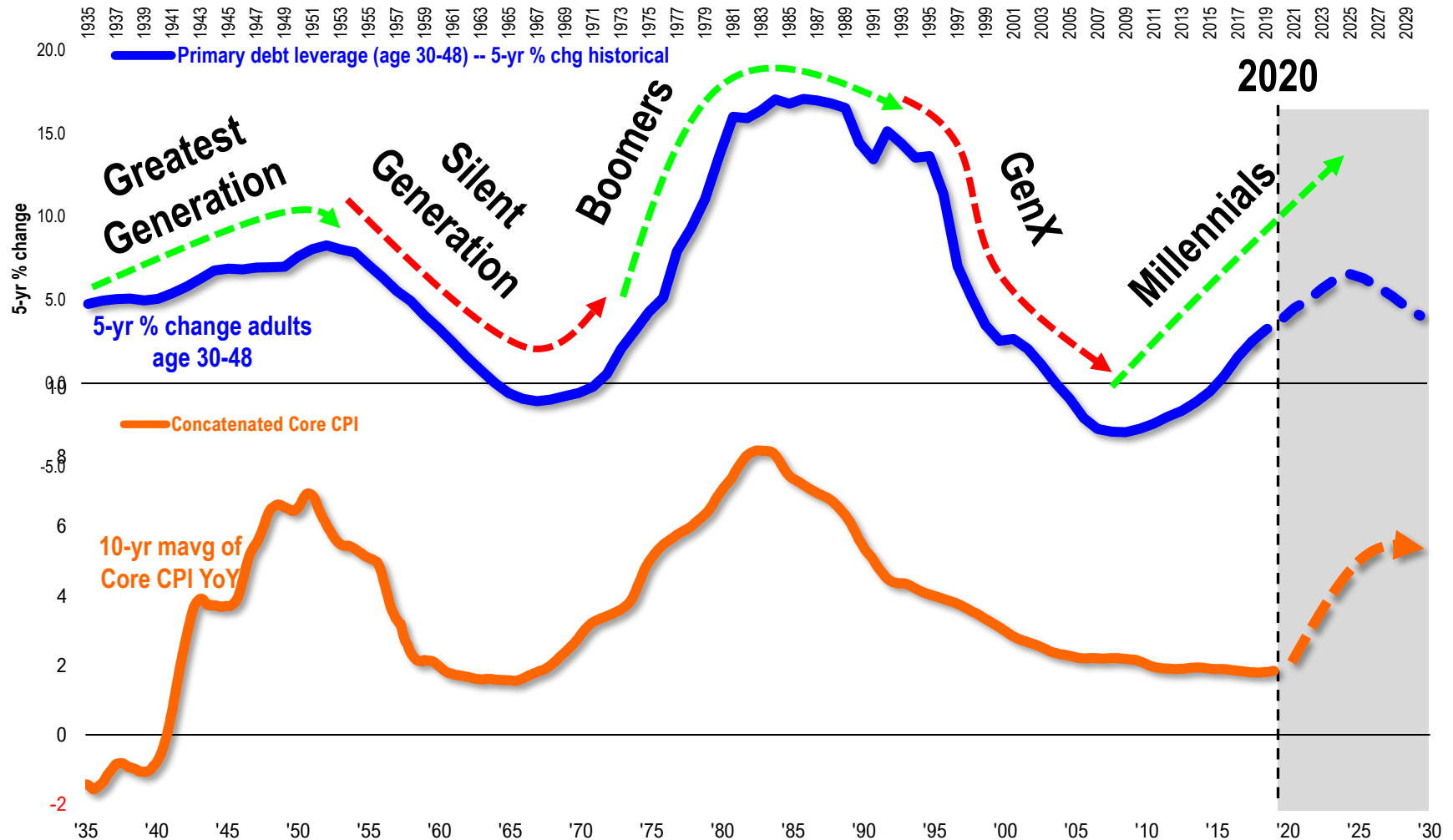
Source: Fundstrat, Bloomberg, BEA, National Association of Realtors, US Census Bureau

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