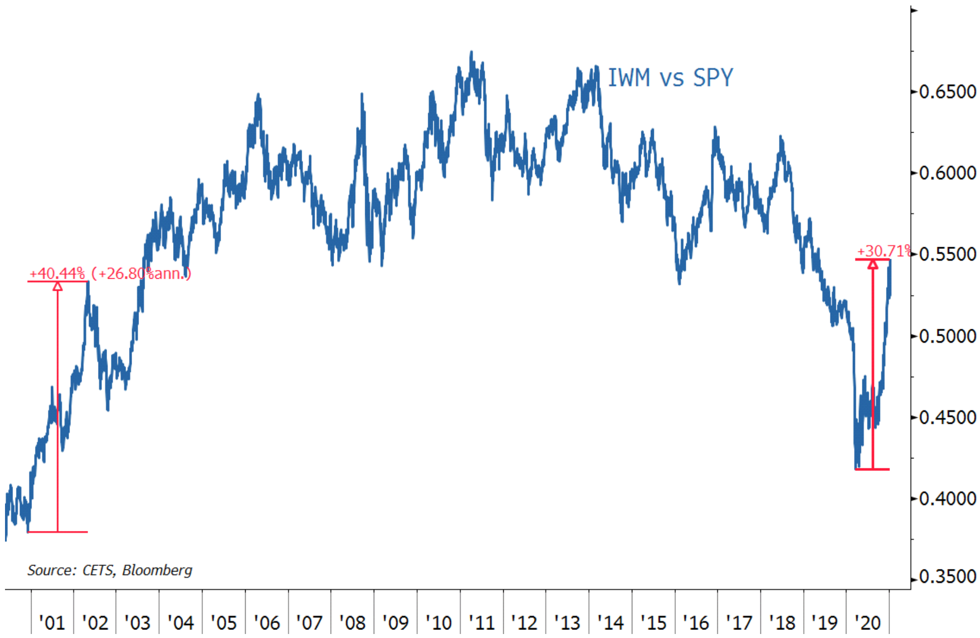
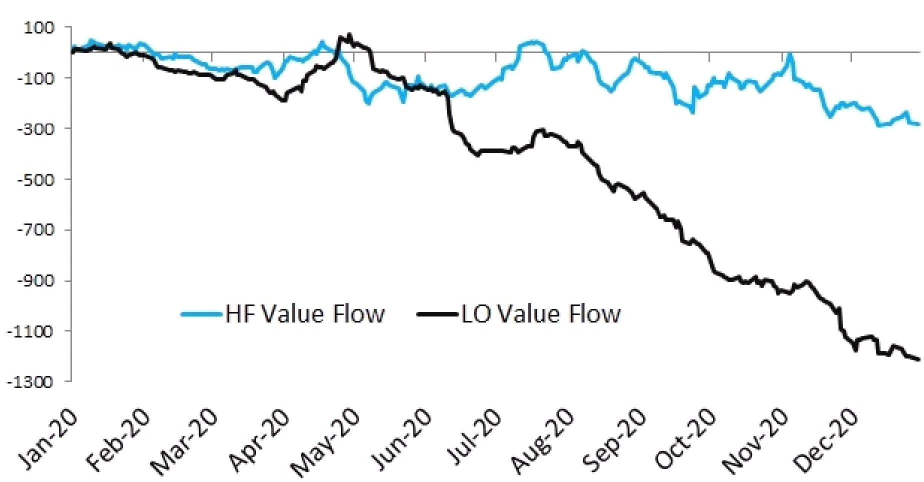
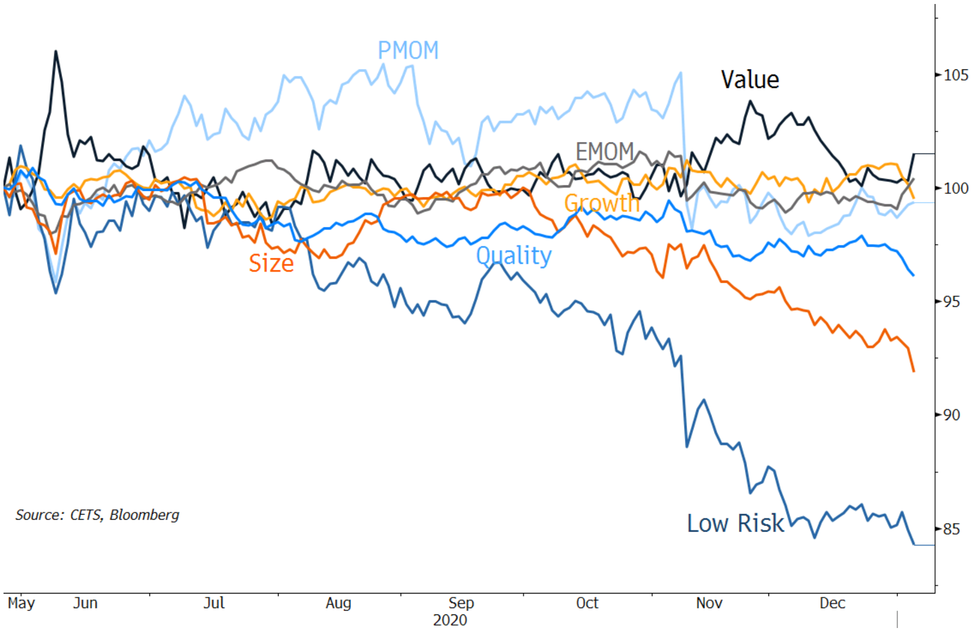
It was as though the 2020 album was over, and then the tape keeps playing to reveal some hidden bonus tracks. Notwithstanding the chaotic scenes that unfolded in DC during the afternoon session, it appeared that today's price action was akin to what was *supposed* to happen on November 4th, but better late than never with UST 10s finally breaking the psychological 100bps level (*likely explaining gold being offered, despite the reflation narrative*), and cyclicals continuing their strong start to the year; Financials in particular seeing the fourth best day of outperformance since the GFC. At one point, Russell 2000 was up over 5%, which has only been seen 30 times since Jan'00, of which these bounces were exclusively confined to periods of extreme market turbulence (2008/09, 2011, and 2020), and even eclipsed the move in midcaps observed on the day that Trump was declared the presidential winner in 2016. Perhaps even more remarkable was the fact that Russell outperformed the broader SPX benchmark by almost 300bps today, which has only been seen twelve times before over the past two decades. In fact, the magnitude of SMID outperformance from the 2020 nadir is starting to look a lot like the dotcom bust… all the more interesting if you think about some titans like AMZN and FB underperforming the benchmark by 15% since late August.



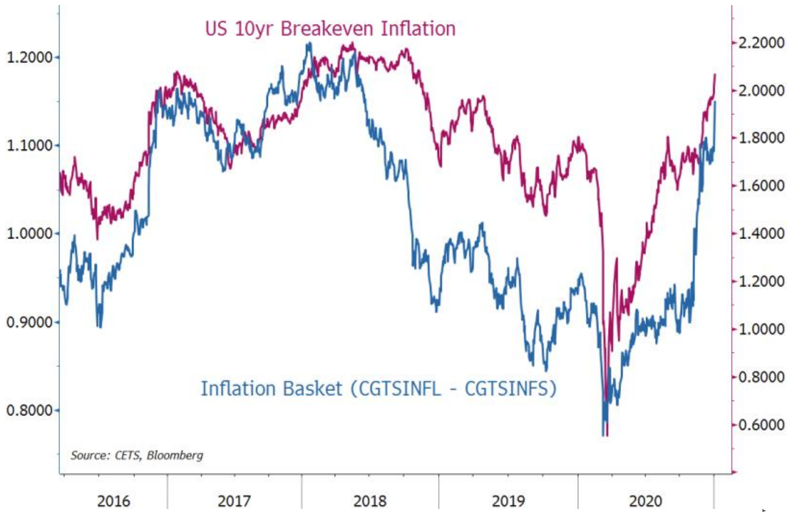
Unsurprisingly, the Georgia news gave Value a much-needed boost after spending most of December giving back the post-election gains. The factor was up 1.25% in pure terms, versus Low Risk -90bps – again an impressive feat appeared to be barely dented by protesters actually breaching the corridors of the Capitol and entering congressional chambers. I looked over our cumulative Citi flows dissector by factor and continue to find it surprising that Value – despite still being the best performing factor since May 2020 – simply cannot catch a real bid by the Long Only community. As one colleague mentioned to me, 'institutions remain in wait-and-see mode', although with RTY up 30% since the election I remain somewhat perplexed as to what they are waiting for (!)

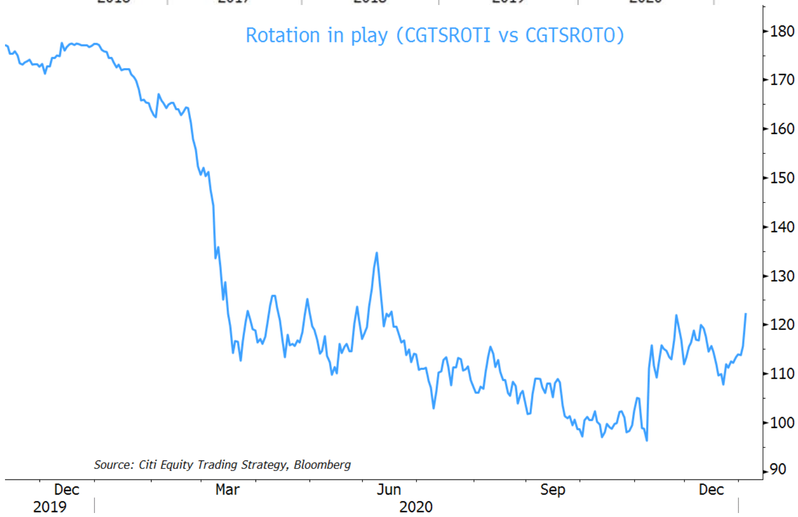


Source: Citi Equities

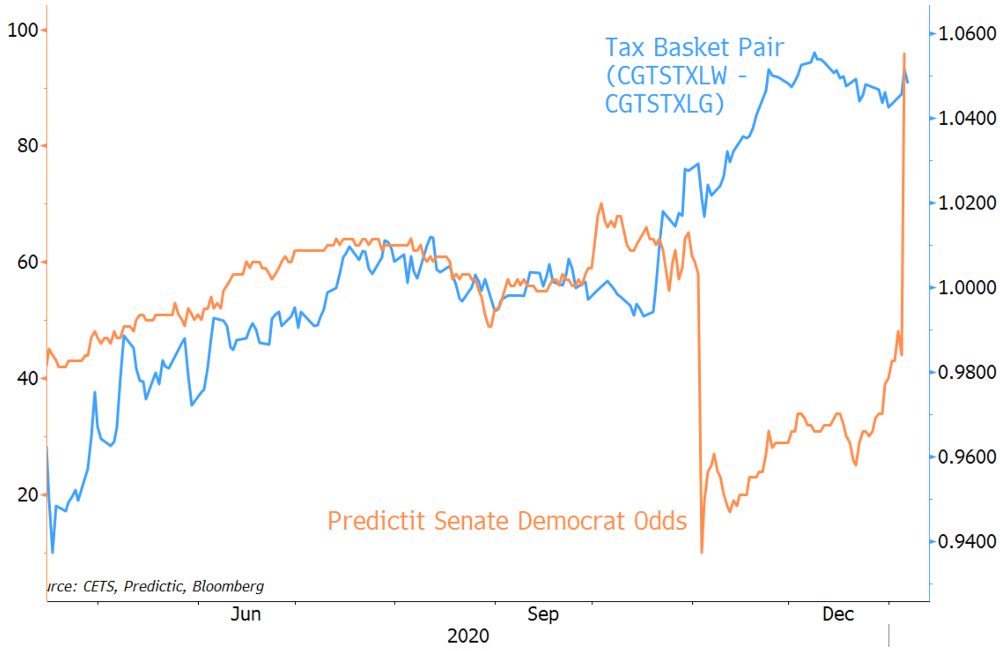


And on a similar vein, we witnessed a substantial bid to thematics like our Inflation basket (**CGTSINFN Index**) and Rotation Pair (**CGTSROTA Index**), both of which clearly play into the narrative of changing market leadership on the back of Georgia's overnight news. The question is, of course, whether the institutional flows will finally start to provide a tailwind to these kinds of trades versus last year where it felt like pushing water uphill, even if the price action was ultimately positive.





The question that kept cropping up during conversations today was with regard to what legislation a blue senate could actually get through. I outlined the key points around taxation in an email earlier today (see **The tax trade is on**), although there were queries about the size/scope of fiscal packages, as well as speculation (…dare I say *hope*) that more city/state aid by the federal government would be accompanied by a reversal in SALT deduction caps. I am certainly not smart enough to make any of these kinds of predictions – especially at a time when the congressional certification of the next presidency appears to be on hold – but it was rather curious that our tax basket pair was actually *down* on the session today (by approx 1stdev), which was either indicative that the market has yet to really focus on nuanced Democrat policy at this juncture, or placing a bet that tax changes would not get through Congress. One colleague asked me why taxation only requires 50+1 votes in the Senate versus say infrastructure needing a filibuster proof count of two thirds majority. And the reason is to do with the process of reconcilliation, which involves a number of procedural limitations as to what can and cannot be passed via this route. Most notably, the legislation needs to have a direct *revenue* impact if it is to be included on the reconcilliation bill, which therefore would exclude spending programmes. **I continue to believe investors will have to spend more time focusing on this topic in the coming weeks**, rather than exclusively looking at the near-term benefits of a Dem senate via the enhanced fiscal channel.



Away from the protests in DC, and the enormous dispersion observed, a headline sneaked in that the administration were considering adding Alibaba and Tencent to the China stock ban, sending FXI and KWEB down 1.5% and 2% respectively. My CETS colleague, Kai Lu, sent around **a** **brief summary** of the impact that the current bans would have on existing ETFs, hardly aided by the NYSE flip-flopping their delisting decisions, and our colleagues in Asia have **covered this topic extensively** as well. The big question will of course be whether these order roll over into the new administration, and whether they are used as a bargaining chip with China (along with tariff reductions) in the future.

Alty

Alexander Altmann
Head of US Equity Trading Strategy
Office +1 212 723 1999

Market Commentary and a not a product of Research. Intended for Institutional use.

All charts/data sourced from CETS, Bloomberg and Citi, unless otherwise indicated.