

# View From the Top

JANUARY 25 2021

Quartz Partners Investment Management's weekly update summarizing key data and highlights from the market week.



## MARKET DATA as of January 22, 2021

Index	Level	4 week %	YTD %
S&P 500	3841	4.3	2.4
Nasdaq Composite	13543	5.8	5.1
Dow Jones Industrials	30997	3.4	1.4
Russell 2000	5390	9.1	9.8
MSCI EAFE	2200	5.2	2.5
MSCI EMERGING	1393	11.7	7.9
BarCap US Agg Bond TR		-0.6	-0.8
BarCap US High Yield TR		1.2	0.5

	1.12%	10-year Treasury Yield		2.1%	5 Year Inflation Expectations
	2.8%	30-year Fixed Mortgage Rate		375	High Yield Spread (bps)
	\$52	Oil Price		\$1,856	Gold Price
	\$2.46	Gasoline Price (national)		\$33,368	Bitcoin Price

### STYLE RETURNS - 4 WEEK

### STYLE RETURNS - YEAR TO DATE

### FACTOR RETURNS

	Value	Core	Growth
Large	5.0	4.2	3.4
Mid	5.9	4.5	2.0
Small	10.8	9.1	7.5

	Value	Core	Growth
Large	2.6	2.6	2.7
Mid	3.9	4.0	4.1
Small	9.2	9.8	10.4

	4 week %	YTD %
MOMENTUM	4.8	5.8
SIZE	9.1	9.8
LOW VOL	1.2	-0.3
DIVIDEND	3.4	1.4
QUALITY	2.5	0.9

## QUARTZ PARTNERS P.R.I.C.E. MATRIX: MACRO OUTLOOK

### 3-6 MONTH OUTLOOK

- POLICY
- RISK PERCEPTION
- INFLATION & INTEREST RATES
- CREDIT & LIQUIDITY
- EARNINGS & ECONOMY

	NEGATIVE	NEUTRAL	POSITIVE
POLICY			
RISK PERCEPTION		-1	
INFLATION & INTEREST RATES			
CREDIT & LIQUIDITY			
EARNINGS & ECONOMY			

### P.R.I.C.E. QUICK TAKES

**POLICY:** market expects zero rates thru 2021, reinforced by communications from Federal Reserve; fiscal policy is exceedingly dovish; monitoring tax policy changes post-Congressional handover to Democrats...**RISK PERCEPTION:** Downgraded to Neutral from Somewhat positive; exuberance has picked up and we believe it has moved into extreme territory; expect any bad news to have a large effect on asset prices in the short-term...**INFLATION & INTEREST RATES:** the 5-year TIPS breakeven spread has risen steadily since April, coinciding with a steepening of the 2/10 yield curve; the short-end is expected to remain muted unless Fed speak evolves into talks of tapering QE, which is not expected in the intermediate-term; the CPI remains low at 1.6% thru December...**CREDIT & LIQUIDITY:** A largesse of liquidity driven by the Fed & US Treasury has driven high yield spreads down to 2019 levels; market expects most companies to be able to access capital markets to rollover debt and/or raise new capital...**EARNINGS & ECONOMY:** the global economy remains in recovery mode and has outperformed expectations; earnings, esp. in technology and mega retail, are on the up and up thru Q4 2020.

**RISK WATCH:** 10-year yield on the rise, COVID risks, possibility of hawkish tax policy (not in near-term), investor exuberance raises short-term downside risk.

## TALKING POINTS

The stock market put in a strong week, with the S&P 500 climbing just under 2%. Small caps rose 2.1%, with the YTD laggard Nasdaq catching up by jumping 4.2%. The technology (+4.4%) and communication services (6.0%) sectors saw the biggest gains, while Energy, Financials and Materials all suffered weekly losses. Treasury yields were largely flat, as bond investors have slowed down their selling after a stimulus-ignited selloff to start the year. High yield spreads were also close to unchanged last week and currently sit at 375bps. Overall, this week was marked by continued exuberance in the stock market, a resurgence in Big Tech stocks and pause in the US Treasury market as the Biden stimulus proposal evolves into the partisan negotiation phase.

The stock market is showing classic signs of "euphoria," a phase of uncertain duration that is marked by extreme optimism on future stock

prices, a fear of missing out (FOMO), and behavior in line with the "Greater Fool Theory," the idea that any price is a good price because someone will come around later to buy at a higher one. Recent market action in struggling brick & mortar retailer GameStop is a prime example of the latter.

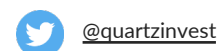
**GameStop's share price has exploded this year, from under \$19 at the end of 2019 to an intraday high of \$144** as of this writing. While the ostensible catalyst is turnaround hopes brought on by the vested interest taken by the co-founder of Chewy, the real impact has come from the Internet - but not on GameStop's website. Popular social media site Reddit, specifically the "Wall Street Bets" subreddit, has gained notoriety since last year as a message board for retail investors interested in speculative stock and option trades. Over the course of 2020, communal buy and sell decisions have dramatically impacted the prices of small stocks in a way reminiscent of the day trading

boom of 1999. Regarding GameStop, it seems as though WSB and other retail traders have targeted the company's stock, scooping up shares and a deluge of call options that make outsized gains if the stock rises in a predetermined time period. GameStop shares had an extremely high amount of *short interest*, meaning that Wall Street was heavily borrowing GME shares with the expectation that it could buy them back at a lower price. If the price were to rise sharply, which indeed it did, short sellers would be forced to cover, triggering a "short squeeze" which amplifies the upside move. While the GameStop story is isolated in some ways, it does offer insight to investor behavior over the past nine months in that investors have in many instances eschewed fundamentals, their confidence instead bolstered by massive stimulus and the herd effect.

## THE WEEK AHEAD

FOMC Meeting (Wed) • Q4 Advance GDP (Thu) • Q4 Earnings Season (Ongoing)

See next page for index descriptions and important disclosures. Although certain information has been obtained from sources believed to be reliable, we do not guarantee its accuracy, completeness or fairness. This material is provided for educational purposes only and should not be construed as investment advice or an offer or solicitation to buy or sell securities. Past Performance is not a guarantee of future results.



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Stock and bond values fluctuate in price so that the value of an investment can go down depending on market conditions. The two main risks related to fixed income investing are interest rate risk and credit risk. Typically, when interest rates rise, there is a corresponding decline in the market value of bonds. Credit risk refers to the possibility that the issuer of the bond will not be able to make principal and interest payments. There may be less information available on the financial condition of issuers of municipal securities than for public corporations.

Data Source: Morningstar, Federal Reserve, coindesk, US Energy Information Administration, Yardeni Research (sector performance).

5-year inflation expectations are calculated as the yield difference between US Treasury Securities and Treasury Inflation-Protected Securities (TIPS) of the same maturity. High Yield Spreads are based on the ICE BofAML US High Yield Bond Index.

#### BENCHMARK INFORMATION

Large Value: Russell 1000 Value TR USD  
 Large Blend: Russell 1000 TR USD  
 Large Growth: Russell 1000 Growth TR USD  
 Mid Value: Russell Mid Cap Value TR USD  
 Mid Blend: Russell Mid Cap TR USD  
 Mid Growth: Russell Mid Cap Growth TR USD  
 Small Value: Russell 2000 Value TR USD  
 Small Blend / Size: Russell 2000 TR USD  
 Small Growth: Russell 2000 Growth TR USD  
 Momentum: MSCI USA Momentum NR USD  
 Quality: MSCI USA Quality NR USD  
 Dividend: MSCI USA High Dividend Yield NR USD  
 Low Volatility: MSCI USA Minimum Volatility (USD) NR USD

#### BENCHMARK DEFINITIONS

BBgBarc US Agg Bond TR USD: This index is comprised of approximately 6,000 publicly traded bonds including U.S. Government, mortgage-backed, corporate, and Yankee bonds with an approximate average maturity of 10 years.

BBgBarc US Corporate High Yield TR USD: Includes all fixed income securities having a maximum quality rating from Moody's Investor Service of Ba1, a minimum amount outstanding of \$100 million, and at least one year to maturity.

DJ Industrial Average TR USD: Computed by summing the prices of the stocks of 30 companies and then dividing that total by a split-adjusted value.

MSCI EAFE NR USD: This Europe, Australasia, and Far East index is a market-capitalization-weighted index of 21 non-U.S., industrialized country indexes.

MSCI EM NR USD: captures large and mid cap representation across 27 Emerging Markets (EM) countries\*. With 1,397 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI USA High Dividend Yield NR USD: The index is designed to reflect the performance of equities in the parent index (excluding REITs) with higher dividend income and quality characteristics than average dividend yields that are both sustainable and persistent.

MSCI USA Minimum Volatility (USD) NR USD: composed of U.S. equities that, in the aggregate, have lower volatility characteristics relative to the broader U.S. equity market.

MSCI USA Momentum NR USD: measures the performance of U.S. large- and mid-capitalization stocks exhibiting relatively higher momentum characteristics.

MSCI USA Quality NR USD: The index aims to capture the performance of quality growth stocks by identifying stocks with high quality scores based on three main fundamental variables: high return on equity (ROE), stable year-over-year earnings growth and low financial leverage.

NASDAQ Composite TR USD: The Nasdaq Composite Index is the market capitalization-weighted index of over 2,500 common equities listed on the Nasdaq stock exchange.

Russell 1000 Growth TR USD: Tracks the companies within the Russell 1000 with higher price-to-book ratios and higher forecasted growth values.

Russell 1000 TR USD: Consists of the 1000 largest companies within the Russell 3000 index, which represents approximately 98% of the investable US equity market. Also known as the Market-Oriented Index, because it represents the group of stocks from which most active money managers choose.

Russell 1000 Value TR USD: Tracks the companies within the Russell 1000 with lower price-to-book ratios and lower forecasted growth values.

Russell 2000 Growth TR USD: Tracks the companies within the Russell 2000 Index that have higher price-to-book ratios and higher forecasted growth values.

Russell 2000 TR USD: Consists of the 2000 smallest companies in the Russell 3000 Index.

Russell 2000 Value TR USD: Tracks the companies within the Russell 2000 Index that have lower price-to-book ratios and lower forecasted growth values.

Russell Mid Cap Growth TR USD: Tracks the companies within the Russell Midcap Index with higher price-to-book ratios and higher forecasted growth values.

Russell Mid Cap TR USD: Measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 25% of the total market capitalization of the Russell 1000 Index.

Russell Mid Cap Value TR USD: Tracks the companies within the Russell Midcap Index having lower price-to-book ratios and lower forecasted growth values.

S&P 500 TR USD: A market capitalization-weighted index composed of the 500 most widely held stocks whose assets and/or revenues are based in the US; it's often used as a proxy for the U.S. stock market. TR (Total Return) indexes include daily reinvestment of dividends.

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