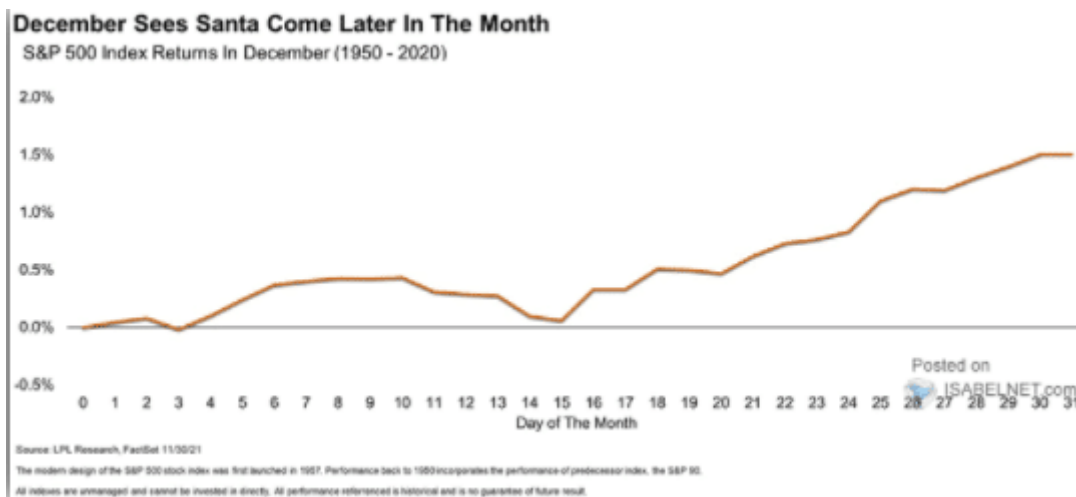


# Are Value Stocks In Vogue?

Are value stocks in vogue? The price action of the last few days screams yes. However, lasting rotations take much longer to verify. **We believe the rotation is not a sudden change in mindset but, likely the actions of mutual funds rebalancing their portfolios.** Frequently at year-end mutual funds sell the winners which have become overweight positions and buy the losers which are below their proper weights. The large returns this year in certain sectors are making these actions more visible than normal.

As we have shown previously, there is still some sloppiness likely over the next week or so, but such should theoretically set us for a "Santa Rally." However, 2022, could be an entirely different ballgame.



[dmc]

## What To Watch Today

### Economy

- *No notable reports scheduled for release*

### Earnings

### Post-market

- **Coupa Software** ([COUP](#)) to report adjusted earnings per share of 2 cents of \$178.46 million
- **MongoDB** ([MDB](#)) to report adjusted earnings loss of 39 cents on revenue of \$204.93 million
- **Gitlab** ([GTLB](#)) to report adjusted earnings loss of 48 cents on revenue of \$59.23 million

## Are Value Stocks in Vogue?

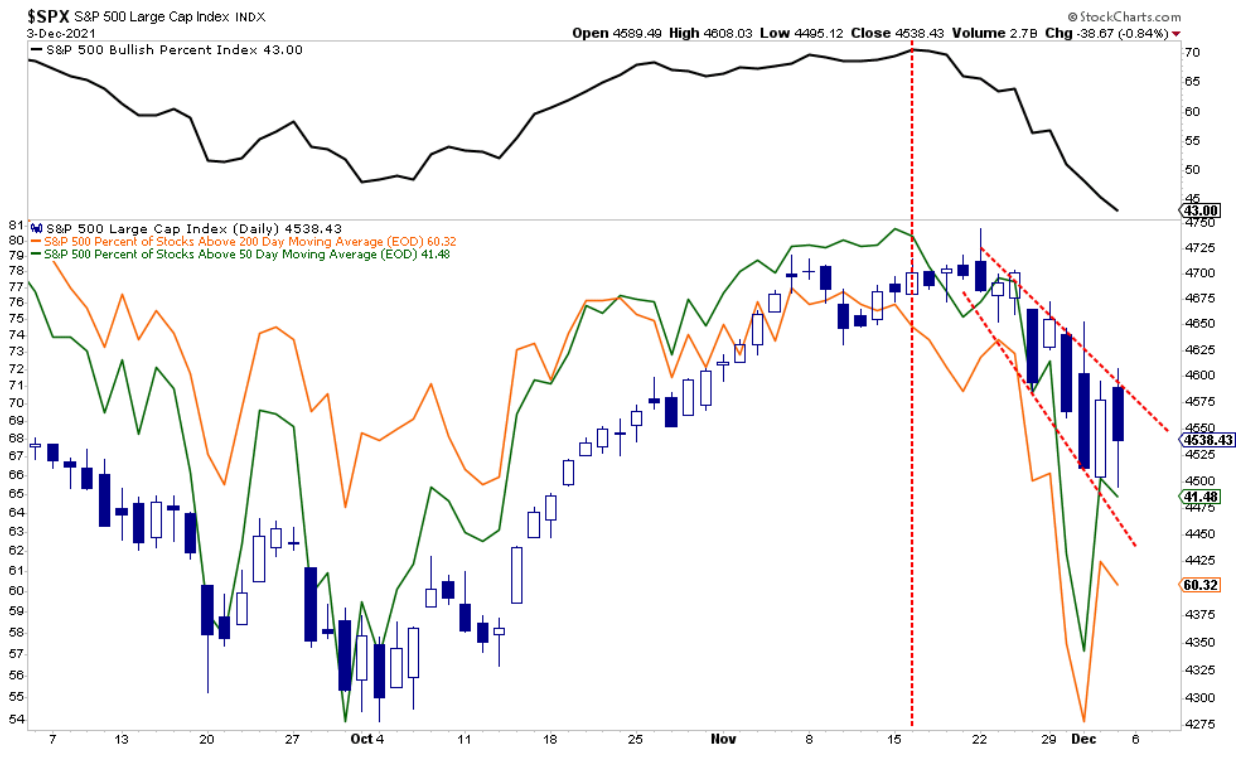
The Finviz heat map below shows there is a clear divide between the winners and losers. Value stocks are in vogue. The winners in green, are companies and sectors that have been lagging the

market. Many of these companies are considered value stocks, due to their relatively low valuations. Many of the companies in red are stocks that have done very well this year. In many cases, they are trading at or near record-high valuations. The last few days have been a rare instance of outperformance by the value sectors. It's way too early to call it a trend but it is worth following closely.



## First Impressions can be Deceiving

Stocks initially rose on the employment data. The logic was the weak jobs print might mean the Fed would step down from recent hawkish tones. St. Louis Fed President Bullard, quickly put an end to such wishful thinking and took the wind out of the sails of the stock market. He said the Fed could consider raising rates before they finish tapering. Almost all investors were under the impression the Fed would finish tapering before raising rates. Such implies no rate hikes until July unless the Fed speeds up its taper schedule. The May Fed Funds Futures Contract now implies a 65% chance the Fed tightens before June. The market is betting that Bullard is on to something.



## Top 10 Long- And Short-Positions

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These are high conviction stocks that TPA has recommended recently. They are technically positive for Buys or negative for Sells and trading at or near their investment action levels.

December 6, 2021

## **THIS WEEK'S TOP 10 BUYS AND TOP 10 SELLS**

### **BUYS**

	<u>Ticker</u>	<u>Name</u>	<u>Last Price</u>	<u>Action Price</u>	<u>Distance to Action</u>
1	XLE	S&P Sel Energy Spdr Fd	55.14	55.00	-0.25%
2	FIX	Comfort Systems USA	94.56	94.00	-0.59%
3	AIG	Amer Intl Grp	53.32	53.00	-0.60%
4	YUM	Yum! Brands Inc	124.83	124.00	-0.66%
5	STT	State Street Corp	90.01	88.00	-2.23%
6	NTAP	NetApp Inc	90.05	88.00	-2.28%
7	GD	General Dynamics Corp	197.63	192.00	-2.85%
8	DECK	Deckers Outdoor Corp	390.10	375.00	-3.87%
9	OXY	Occidental Petro Corp	29.16	28.00	-3.98%
10	ROP	Roper Tech Inc	466.07	445.00	-4.52%

### **SELLS**

	<u>Ticker</u>	<u>Name</u>	<u>Last Price</u>	<u>Action Price</u>	<u>Distance to Action</u>
1	CMCSA	Comcast Cl A	51.78	52.00	0.42%
2	IPG	Interpub Grp Cos	34.42	35.00	1.69%
3	EMR	Emerson Electric Co	90.28	92.00	1.91%
4	DAL	Delta Airlines Inc	35.98	37.00	2.83%
5	XLC	Comm Srvc Sel Sec SPDR Fd	74.70	77.00	3.08%
6	SYF	Synchrony Finl	45.28	47.00	3.80%
7	MMM	3M Co	172.59	180.00	4.29%
8	MMS	Maximus Inc	78.38	82.00	4.62%
9	AEO	American Eagle Outfitters In	26.32	28.00	6.38%
10	FL	Foot Locker	43.96	53.00	20.56%

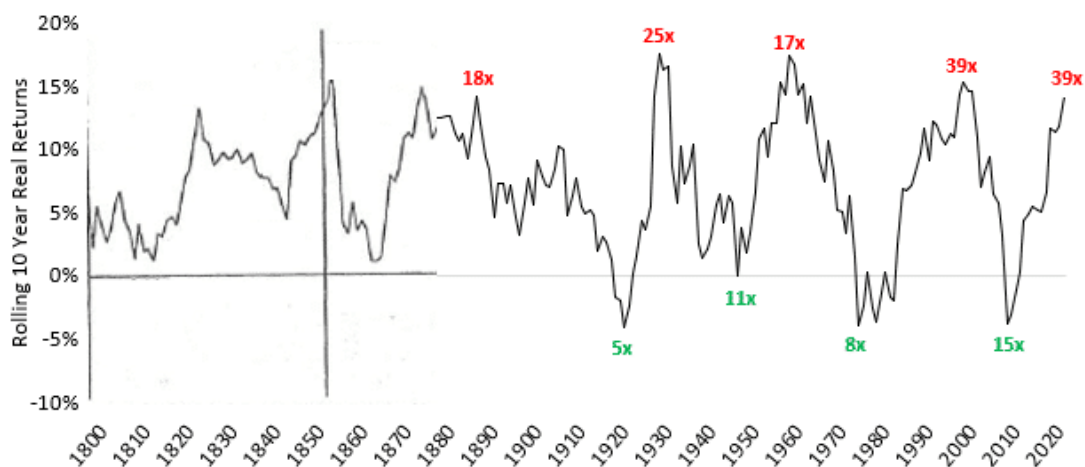
## **10-Year Rolling Returns - A Warning?**

We have often written on the [importance of valuations and forward returns](#). However, sometimes, it helps to hear it from someone else, in this case, [Kailash Concepts](#)

*"We certainly make no claims to market timing. **But what we do believe is that what you pay matters. As we frequently note, valuation is a useless tool when trying to assess future returns over one or two-year periods.** Yet for those willing to move their time frame out, valuation has historically offered a healthy estimate of the market's average annual return over 10-year time periods.*

*In fact, we know that the Buffett metric, currently at an all-time record of [234% of GDP](#), has had more predictive value than the Shiller PE metric we used in the above chart. **This indicates a dismal decade may lay ahead for impatient investors.** We have written a lot of material recently discussing the enormously popular and empirically*

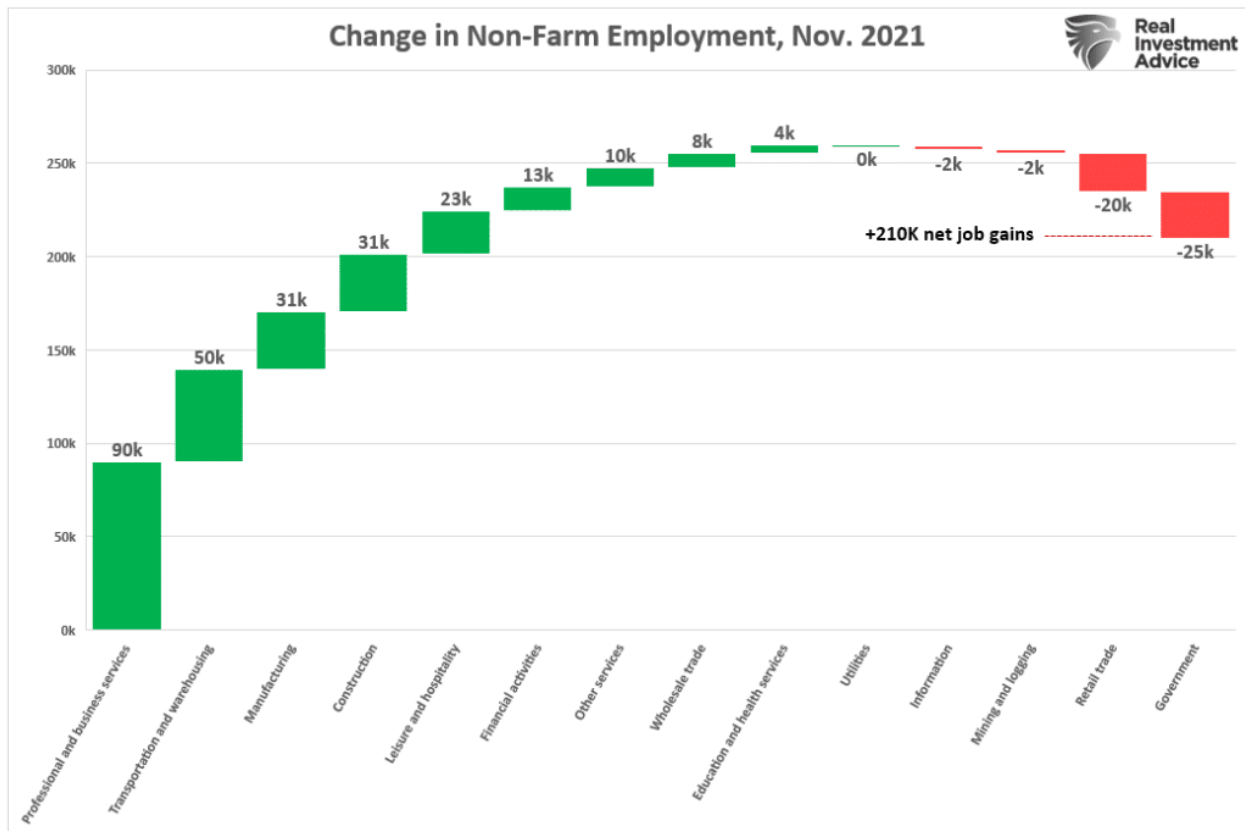
impossible claims of exponential returns? presented by the market's most popular investors & influencers. Nerds to the core, the KCR team believes the chart above is a simple and instructive reminder for investors that this time is NOT different . "



## The BLS Employment Report- Good or Bad?

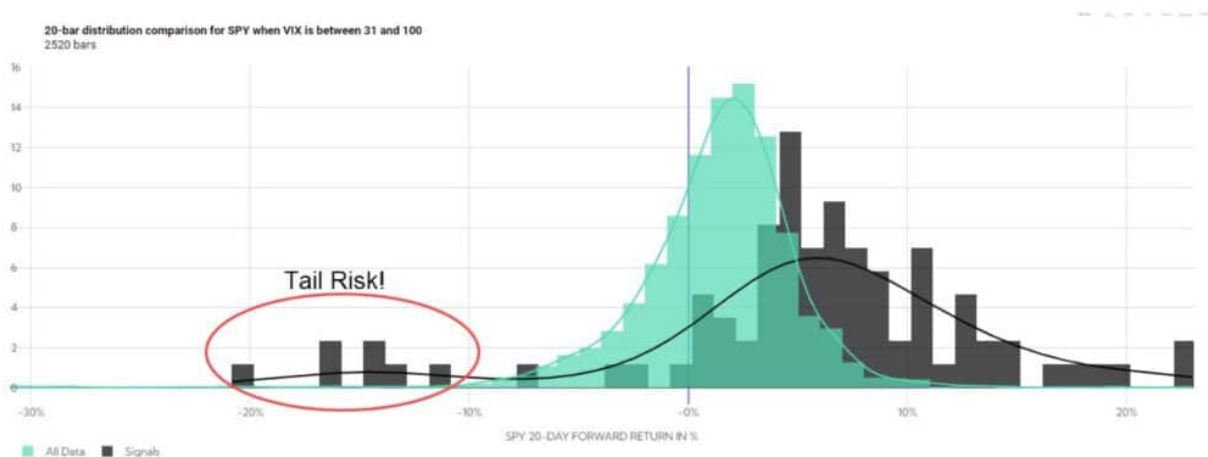
CNBC says "Job Growth Disappoints". CNN Money writes "The U.S. economy added 210,000 jobs in November, far fewer than expected." The headline number, +210k new jobs, is well off expectations for a gain of 545k jobs, thereby justifying the concerning headlines. However, the underlying employment data was robust. The unemployment rate fell from 4.5% to 4.2%. Maybe the most crucial data point persuading the Fed's assessment of the labor markets is the labor participation rate which rose .2% to 61.8%. Chairman Powell repeatedly uses the low participation rate as an excuse to remove monetary accommodation at a very slow pace. Might the pick-up in labor participation further support his recent hawkish tone regarding combatting inflation?

Our graph below shows that professional and business services accounted for nearly half of the job gains. Curiously, retail lost 20k jobs in November, which is one of the biggest shopping periods. We suspect the seasonal adjustments and Covid-related anomalies make reporting an accurate number difficult for that sector.



## More Risk and Reward When Volatility is Elevated

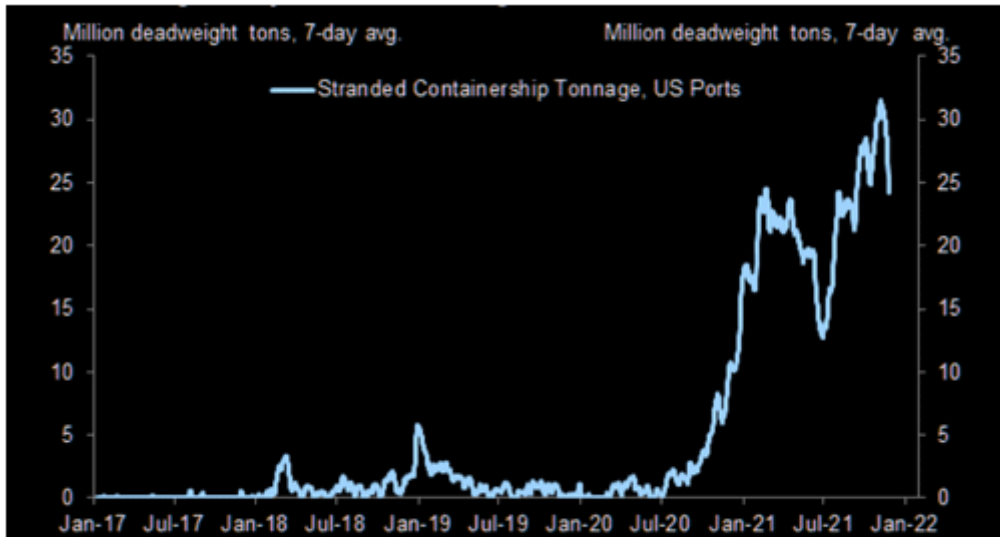
The graph below shows that the risk/reward equation for the S&P 500 becomes much more skewed when the VIX is between 31 and 100. The VIX has been hovering near 30 recently. The green shaded area shows that S&P 500 returns tend to follow a relatively normal distribution curve with a skew toward positive returns. The black bars highlight the non-normal distribution of returns when the VIX is elevated. During such periods, returns tend to be better than average but the risk of a 10-20% drawdown is also much higher than when the VIX is below 31.



## Stranded Containerships

The graph below courtesy of Zero Hedge and Goldman Sachs shows the amount of stranded containership tonnage at U.S. ports is abating. Per Goldman Sachs: *"While the amount of stranded tonnage is still historically elevated, a further decline in congestion could boost supply and ease inflation pressures for consumer goods and manufactured products in early- or mid-2022"*. It is also worth noting that as we pass the holiday season the demand for many goods will lessen

appreciably which should further relieve pressure at the ports.



Source: GS Datawork

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