

Goodbye To 2021 & Hello 2022

As we say goodbye to 2021, we want to offer our sincere thank you for reading our Daily Commentary and following our blogs, videos, and articles. We look forward to navigating the markets of 2022 with you and providing great research and analysis to help you answer the questions above and many others.

2022 is shaping up to be an exciting year. Can the markets continue to produce double-digit gains as the fiscal and monetary tailwinds shift? Will Covid continue to weigh on economic activity and increase the fortunes of some companies while harming others? Might inflation and economic activity finally normalize? Stay tuned; we will be out with our investment outlooks in the days and weeks ahead.

Goodbye to 2021 and hello 2022! **We wish you all the best in the new year.**



[dmc]

What To Watch Today

Economy

- *No notable reports scheduled for release*

Earnings

- *No notable reports scheduled for release*

Perception versus Reality?

We say goodbye to 2021 with one of the stranger divergences we have seen this year. After rebounding from the lows of 2020, the reality is that consumer confidence is now below those levels. The perception from investors is that things couldn't be better. It will be interesting to see how this odd divergence resolves itself in the new year, or maybe it doesn't.

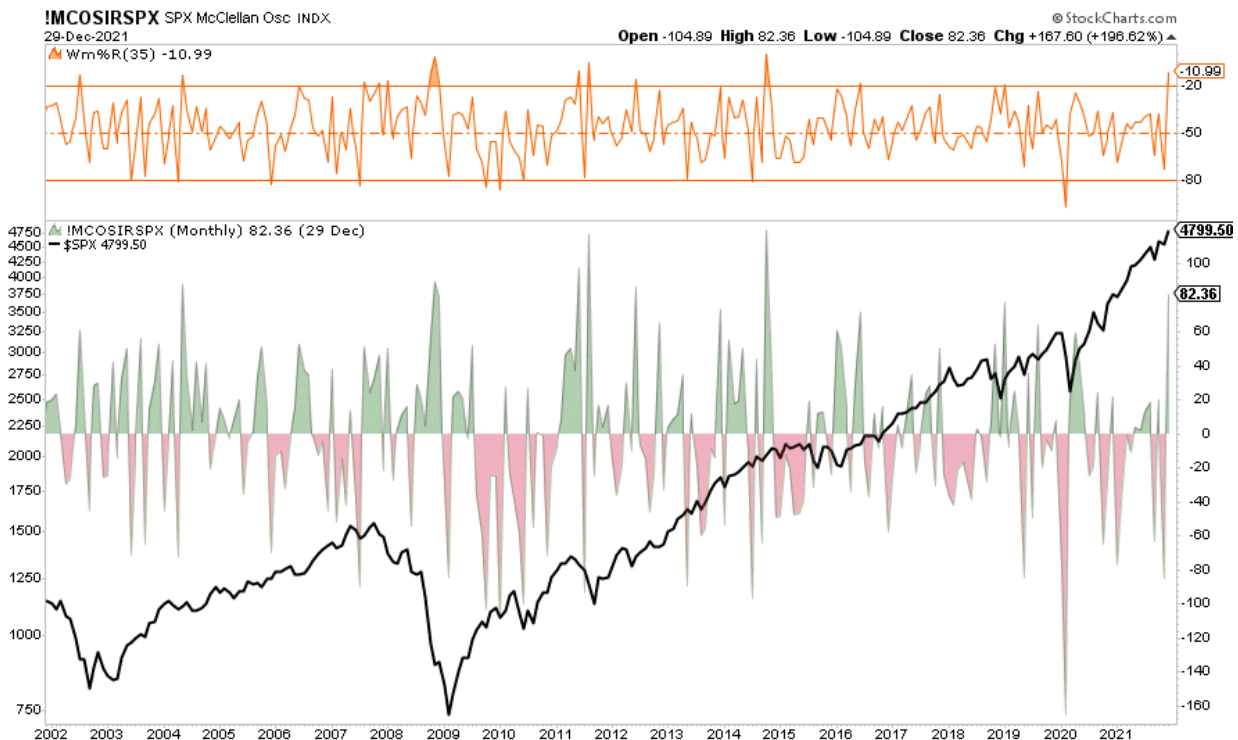


Breadth Remains A Weak Spot

As we say goodbye to 2021, one of the notable concerns of the year remains heading into 2022. Breadth and participation have been absent despite markets rallying to all-time highs. Historically, such weakness is foretelling of weaker markets, however, so far, this time has indeed been different.



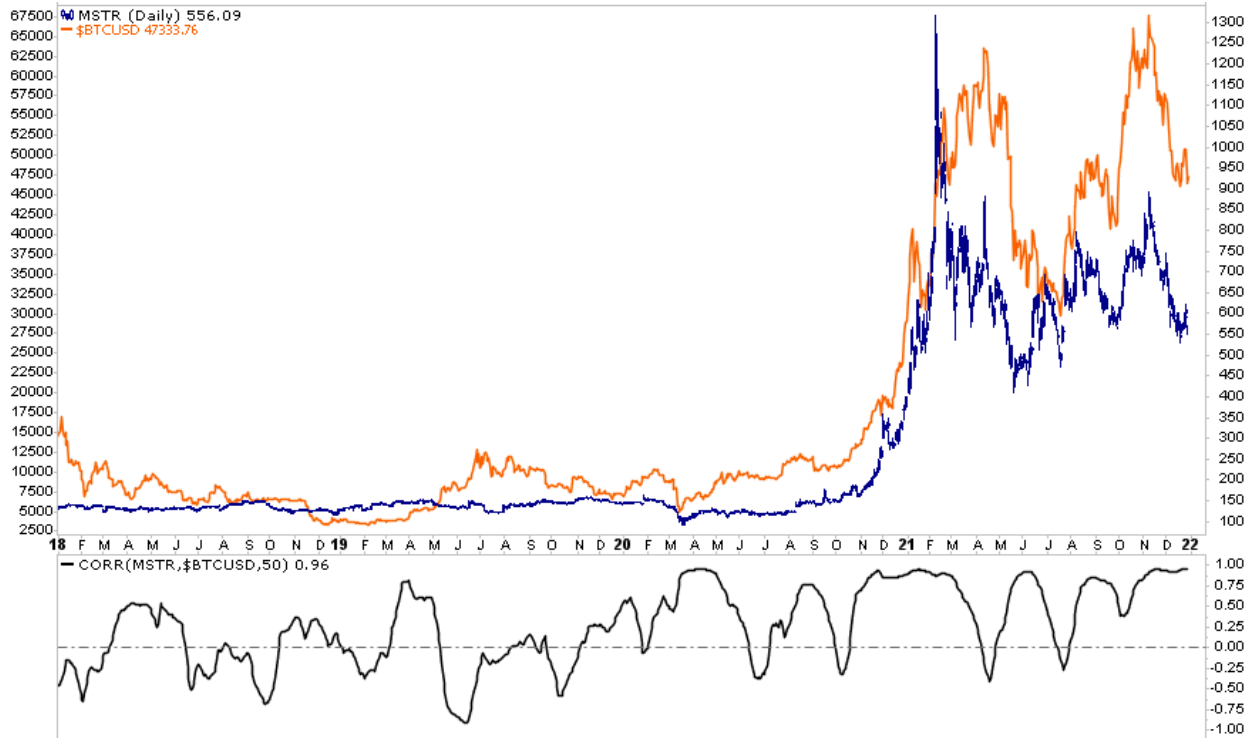
Currently, the market remains exceptionally overbought and the divergence of breadth from advancing stock prices may be warning of increased volatility ahead. Risk management will be key in 2022.



Another Struggling Winner

Thursday's commentary highlighted how ARKK, SPACs, and IPOs struggled after a strong start to 2021. Microstrategy (MSTR) is another once-hot stock we can add to the list. MSTR just disclosed they bought \$94 million of Bitcoin (BTC) and funded it by selling \$94 million in stock. MSTR has made no secret they intend to invest all available funds, earned and borrowed, into BTC. Despite the performance of BTC, MSTR is 50% below where it peaked in February. The graph below shows MSTR has consolidated in a wide range since peaking. Further, BTC (orange) has behaved

similarly, albeit with an upward bias. The second chart plots the strong running 50-day correlation between MSTR and BTC. For those investors that cannot directly buy BTC, MSTR offers a proxy. MSTR owns approximately 124k bitcoins. However, MSTR has liquidity risks punctuated by a heavy debt load and negative earnings.

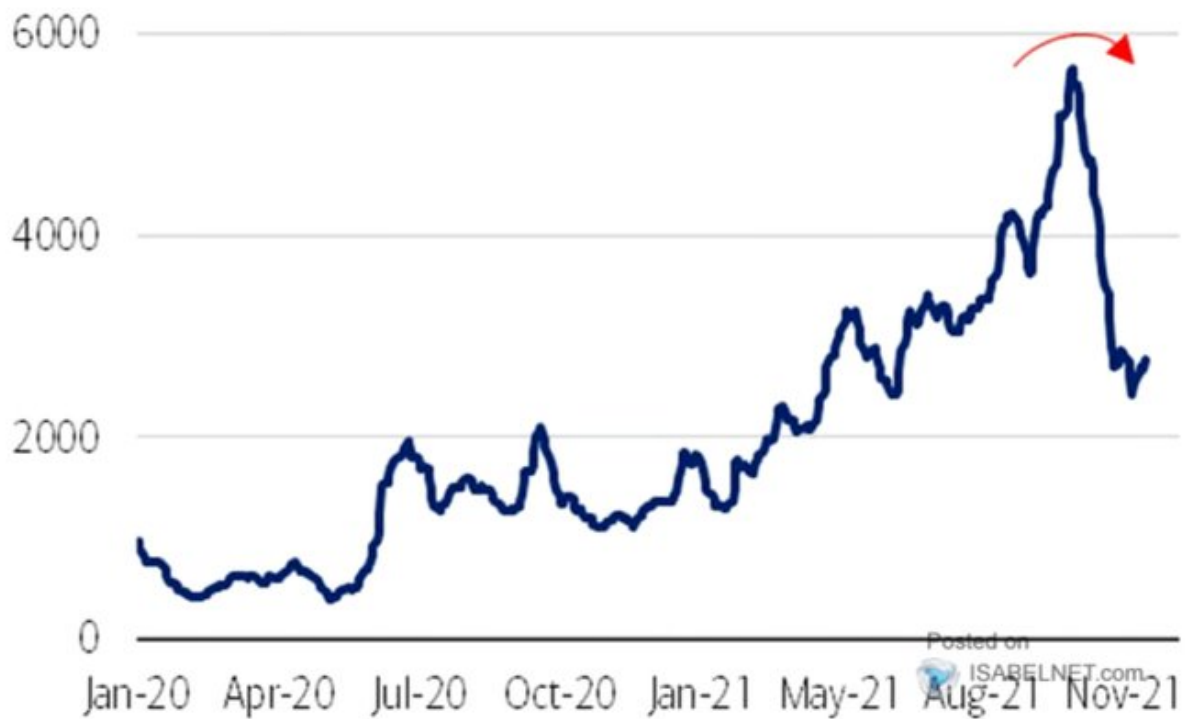


Shipping Costs Are Falling- Will Inflation Follow?

Yesterday we shared how the latest Philly Fed manufacturing survey shows price inflation may be peaking. Today we share another graph that provides information related to a primary cause of inflation, supply line inefficiencies. As shown below, courtesy of BofA and @Isabelnet.com, Baltic Dry shipping costs are well off of this past April's highs. The index tracks the tanker shipping costs of raw commodities like coal and ore. We have also seen other data that helps confirm that supply lines problems are beginning to thaw. For instance, railroad traffic and congestion at the Los Angeles ports are easing.

Exhibit 12: Shipping costs are down ~50% since October peak

Baltic Dry Index



Source: BofA Research Investment Committee, Bloomberg

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