

Is A Value Rotation Afoot?

As we enter 2022, we wonder if this is the year we finally see a rotation to value stocks? The graph below shows how value has lagged growth tremendously over the last four years. The chart plots the price ratio of the iShares Value ETF (IVE) to their growth ETF (IVW). Since early December, the ratio has risen by about 10%. Is this another head fake? Could be. Stay tuned, as this is one area we are closely watching as we consider how to approach the markets given the incoming fiscal and monetary headwinds.



[dmc]

What To Watch Today

Economy

- 8:30 a.m. ET: [Non-farm payrolls](#), December (447,000 expected, 210,000 in November)
- 8:30 a.m. ET: [Unemployment Rate](#), December (4.1% expected, 4.2% prior)
- 8:30. a.m. ET: **Average Hourly Earnings**, month over month, December (0.4% expected, 0.3% prior month)
- 8:30 a.m. ET: **Average Hourly Earnings**, year over year (4.2% expected, 4.8% prior month)
- 8:30 a.m. ET: **Labor Force Participation Rate**, December (61.9% expected, 61.8% prior month)
- 3:00 p.m. ET: **Consumer Credit**, November (\$20 billion expected, \$16.897 billion during prior month)

Earnings

- *No notable reports scheduled for release*

Fox Business Interview

<https://twitter.com/LanceRoberts/status/1479209571050831878?s=20>

ARKK Is Taking On Water

The Ark Disruptive Innovation fund (ARKK) has fallen on hard times lately. ARKK rode the Reddit/meme craze and became a market darling. As we show below, its 2020 performance was spectacular. Cathie Woods, founder and portfolio manager, fuels investor speculation by discussing the potentially outsized returns of investing in disruptive companies. She has thus far been right on Tesla, her top holding, but many of her other picks have fallen significantly. Her top five holdings and their respective 6-month changes are as follows: TSLA +62%, ROKU -55.1%, TDOC -48.9%, ZM -56%, and COIN -1.8%.



Meme Stocks Falling Out of Favor

The graph below, courtesy of Goldman Sachs, shows that the stocks most favored by retail traders on the popular investment chat forum Reddit are down almost 40% over the last six months. Not only are many of these stocks highly volatile but many lack solid fundamentals and are built on questionable narratives. Gamestop (GME) and AMC, two meme stocks are good examples. Looking at the graph you will notice a similar loss from highs between January and May last year. That five-month decline was erased in a month. With the Fed turning aggressively hawkish and the monetary and economic environments very different than last year, investors may want to carefully consider if a repeat is possible.



Gamestop Throws A Hail Mary

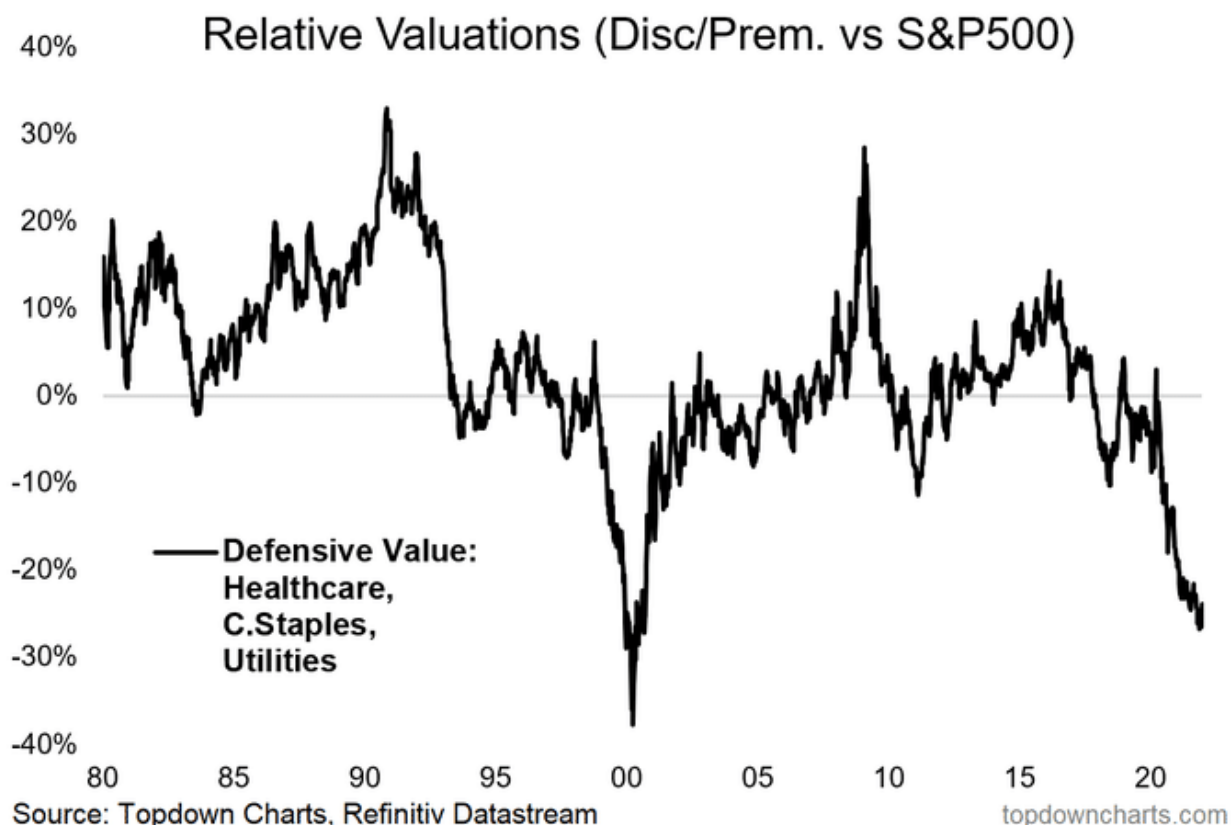
"In a desperate attempt to recreate the short squeeze from a year ago, GameStop stock is surging after hours after a [report from the WSJ](#) that the company which once was a video game retailer and now nobody really knows what it does, is launching a division to develop a marketplace for nonfungible tokens and establish cryptocurrency partnerships - in short throwing all possible catchy buzzwords at the wall and hoping something sticks - pushing the company into much-hyped areas as it tries to turn around its core videogame business." - Zerohedge



Interestingly, one of the "meme stock" companies that have an opportunity to sell "movie memorabilia" as NFT's is AMC movie theatres. Let's see if they pick up on the trend.

Out Of Speculative Stocks and Into ??

If ARKK, Meme stocks, SPACs, and yesterday's winners are out of vogue, where might the crowd rotate to? The graph below from Topdown Charts shows that the defensive value stocks have been grossly lagging the S&P 500 for the last five years. The last time it was at such a discount to the S&P 500 was on the eve of the tech bust.



As we have noted in our [SimpleVisor Technical Value Scorecard](#), the defensive sectors have been leading the market as of late. To wit in our last report-

The value-oriented, higher dividend, and lower beta sectors continue to perform well. Over the last 35 trading days, real estate, utilities, healthcare, and staples were the top four performers. Last week utilities, real estate, and staples led the market.

It's way too early to claim a major value rotation is afoot. However, value rotation is a theme we are watching closely and will position our portfolio accordingly.

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