PVG Asset Management

LOSS AVERSE INVESTING

Market in a Minute

August 17, 2021

Index Performance: As of August 13, 2021			
Index	**Price**	**Last Week**	**YTD**
S&P 500	4,468.00	0.71%	20.74%
Dow Jones	35,515.38	1.66%	17.51%
NASDAQ	14,822.90	1.02%	16.73%
Russell 2000	11,458.82	-0.08%	14.89%
Russell 2000 Growth	10,837.79	-1.00%	5.55%
Russell 2000 Value	15,934.70	0.89%	25.02%
Russell 1000 Value	2,860.49	1.13%	19.87%
SPDR Gold Shares	166.41	-1.89%	-8.73%
GS Crude Oil Total Return	120.01	-10.44%	135.31%
Powershares US $ Index	24.85	0.32%	2.43%
Ishares EAFE Index	81.44	2.45%	11.04%
iShares Barclays 20+ Yr Treasury Bond	148.54	-0.66%	-5.71%
Utilities Select Sector ETF	66.67	1.06%	9.08%
Vanguard REIT ETF	106.68	0.37%	29.83%
iShares Mortgage Real Estate	36.6	1.16%	18.48%
Alerian MLP ETF	32.99	-2.71%	29.68%
iShares Global Telecom	87.63	1.18%	19.03%
ETFMG Alternative Harvest ETF	17.04	-5.12%	14.67%
Grayscale Bitcoin Trust	38.37	10.45%	9.38%
Shanghai SE Index	4,468.00	0.71%	20.74%

Source: Bloomberg & Yahoo.com, Returns are appreciation only.

S&P Sector Performance: As of August 13, 2021

A Word on the Market

By: Patrick Adams, CFA

There is a good interview of Dr. Ed Yardini in Barron's this week, he is generally bullish, he is well thought-out and does good research. If you want the bull case Dr. Yardini is a great source. Essentially, he is saying that in 2023 the earnings for the S&P 500 will be around $230 with a P/E multiple of 22x his price target is 5060. That gives the stock market 13.3% upside. His case is based on **productivity gains in the economy driving earnings growth**, but not P/E expansion in the stock market. The P/E multiple stays flat.

We believe the Yardini view sounds reasonable, but his thesis has a great deal of risk. The bear-case, if the market trades similar to other recessionary periods of 12x current earnings there is -46% downside risk, this is similar to the 2000 and 2008 bear markets. Assuming no recession, higher interest rates, and a P/E multiple still well above average (15.5) of 18x, the market on 2023 earnings is still 7% overvalued.

Under a Biden Administration it is likely to see higher than normal inflation, with higher taxes as well. Under this scenario, it is hard to see great productivity growth. **To get productivity growth you need to increase supply, generally done by cutting taxes allowing reinvestment of capital at attractive returns.**

The politics around the infrastructure bill are simply dirty. Pelosi will not allow the infrastructure bill to move forward without an $3.5 trillion additional government stimulus. **With inflation running hot this fiscal stimulus is pure poison for the financial markets.** The additional spending is paid for by higher taxes and will create an inflationary problem that is likely not going to be transitory. We surmise,

Index	Price	Last Week	YTD
Information Technology	2,724.67	1.16%	21.09%
Consumer Disc.	1,444.55	0.48%	12.17%
Consumer Staples	749.81	1.50%	8.87%
Health Care	1,559.99	1.39%	18.46%
Financials	640.38	5.52%	32.36%
Industrials	105	1.59%	21.51%
Energy	371.04	-0.52%	29.51%
Communications Services	277.42	1.51%	26.92%
Utilities	374.77	11.83%	20.60%
Materials	542.3	2.83%	20.23%
Real Estate	292.07	0.70%	32.52%

Source: Bloomberg website, Returns are appreciation only.

Interest Rates

Fed Fund	.25	**5-Year**	0.79
3-Month	0.06	**10-Year**	1.29
6-Month	0.05	**30-Year**	1.92
2-Year	0.23		

Source: Bloomberg.com

Economic Events This Week

17-Aug	Core Retail Sales m/m	-0.4%	0.2%
17-Aug	Retail Sales m/m	-1.1%	-0.2%
18-Aug	Official Cash Rate	0.50%	0.25%
18-Aug	CPI y/y	2.3%	2.5%
18-Aug	Unemployment Rate	5.0%	4.9%

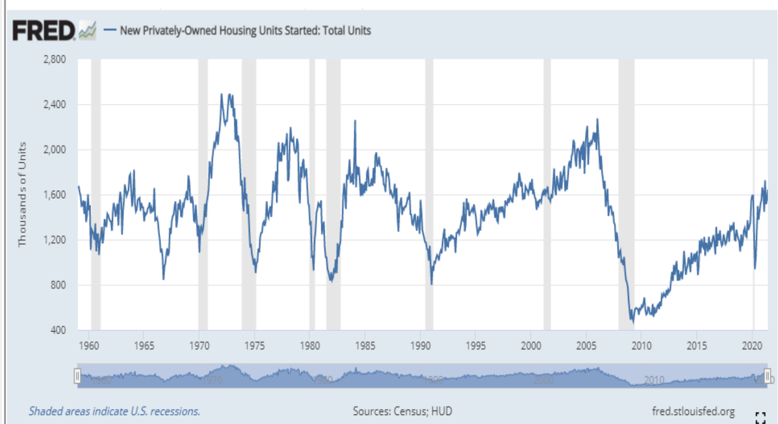
Source: Briefing.com

Economic Events Last Week

Date	Event
U.S. productivity gain level out in second quarter	**Aug-10**

the additional $3.5 trillion will not be easy to pass but is a risk for the long-term health of the markets.

On Wednesday, Housing Starts will be announced and should be a monthly run rate of over 1.6 million. Housing is becoming less affordable due to sharply rising prices. If interest rates rise meaningfully one of the main drivers of the economy will be lost. We don't see a major problem in housing demand at present, but see a slowing trend coming. The monthly supply is now at 6.3 months of supply which is back to a reasonable level. Below is the long-term chart of housing starts, we would describe the current level as late in the middle part of the cycle



A stock we find very interesting is GOED, the largest pure play online appliance retailer. Appliances are in short supply. This company was created by two companies coming together. The stock recently reported earnings and is valued at a very attractive 5x 2021 earnings estimate, while the market is at 22x, with the company having very compelling growth prospects. This is a speculative investment due to the lack of seasoning being a new company, but the upside is significant.

As a patriotic American, it is very upsetting to see how the Afghanistan withdrawal was handled. It makes no sense, the U.S. held all the cards, and an interest in seeing 20 years of rebuilding not being squandered away! Granted there is no economic risk to the markets but implies some issues longer-term in creating a terrorist breading ground. The other issue is the tone it sets, it conveys a lack of strength regarding the message sent to China and their desires to control Taiwan. If the Chinese want to truly takeover Taiwan it is an open invitation.

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U.S. inflation shows signs of moderating in July	**Aug-11**
PPI finds U.S. wholesale prices surge again as inflation is still rampant	**Aug-12**
U.S. import price rise 0.3%	**Aug-13**
Source: Briefing.com	