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OCCASIO PARTNERS LLC

San Francisco, CA

Quarter Way Home: The first quarter of 2021 is officially in the books, and if it is any indication of what we have in store for us for the next nine months then we better fasten our seatbelts and make sure the tires have plenty of air. Despite the volatility index breaking under 20 and becoming a teenager again, that is not at all symptomatic of what is going on underneath the surface. For starters, we are finally experiencing a sharp increase in fixed-income volatility, something that has been missing for years now and is a now pronounced factor for pricing equities and, to an extent, commodities.

This is a change from recent years as we noted previously, and it has created a learning curve for investors and traders across the globe. One that will continue to challenge and confound us all at times, but also provide some amazing opportunities in the coming months. We are fairly confident in pronouncing that despite the Fed's insistence that low rates are here to stay for a few more years, the middle and long-end of the curves are beginning to grow up ready to go out on their own sans the shackles of their helicopter parents which in this instance is played by the Fed.

We have only had approximately 90 days of 2021 thus far and already we have witnessed:

- Rising fears of inflation after nearly a decade and a half of strictly deflationary fears.
- Some of the biggest equity fund inflows in history,
- The most contentious transition of power in US history.
- The biggest fiscal stimulus bill(s) in world history.
- A short squeeze attack coordinated by retail traders over social media that actually worked.
- One of the largest margin calls in history with the deleveraging of Archegos and its subsequent fallout in late March.

It's no wonder that even with the indices near or at their all-time highs, the frustration amongst funds and retail traders is palpable. There are a lot of underlying crosscurrents that are being hidden from the media headlines and general public's knowledge. The massive margin calls in Archegos being the highlight as certain issues fell 30-40% in a matter of two days. Giving up your gains for the year in a matter of hours tends to leave a lot of people flat footed or shell shocked, which inevitably lends itself to a massively frustrating environment. And that is what we have now and likely will have to deal with for the immediate future. It won't be easy or pleasant, but there will be and have been good opportunities out there for those with the patience to persevere.

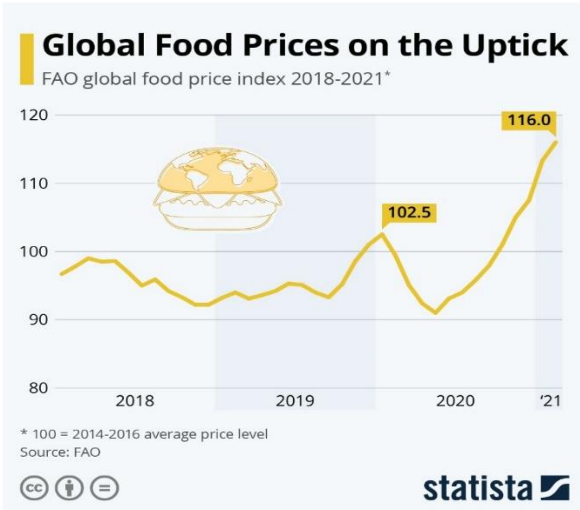
We aren't breaking any news this month by stating that inflation has become the topic de jour for 2021. Hardly a day goes by without seeing blaring headlines on financial TV stoking the flames and the recent Google search trends have spiked for "inflation"

The Fed in its meeting on the 17th was confident in stating that inflation would be transitory in nature and cited the re-opening of the economy after a year of severe contraction as a one-off event that would eventually level out and allow inflation to tamp down to more normal, manageable levels. Also, many are pointing to strained supply chains, hampered by the Texas ice storm and the Suez Canal disruption this month as another example of transitory issues that hopefully are and will continue to be resolved all in the slow return to normalcy, we are all craving so much.

"We're committed to having inflation expectations anchored at 2.0%, not materially above or below 2.0% "– Fed Chairman Powell at FOMC press conference 3/17

That sounds great on paper. And the world would be a much more manageable place if we could know the *exact* rate of inflation for the next few years - as apparently the Fed does. But it sure seems like a herculean task given the backdrop of re-opening economies, spotty supply chains, and partial re-lockdowns in Europe, to sound so confident in keeping inflation in the proverbial box they claim they can.

The price of oil sure isn't helping their case for a 2% bottom/top. Crude oil surged over $60 a barrel in March and the price of gasoline hit $2.50/gallon. All this before the summer driving and travel season that is just weeks away, one which could be as crowded and active one as we have seen in decades. To further complicate matters food inflation is also touching alarming levels. The USDA saw food prices shoot up an average of 3.6% since 2020 and it's even worse in such less developed, lower socioeconomic places as the Middle East, Africa, and parts of Asia. The chart below sums it up well:



The Fed won't admit it, at least publicly, but this chart terrifies them. You can rationalize inflation all you want until it starts to cause food security problems – then all bets are off.

It may not show up in CPI data, but when it starts to cause real world misery there will be serious consequences for those in charge.

History bears this out.

So, the Fed, despite its calming reassurances, definitely has its most challenge scenario in front of it in years. They, along with other central bankers, have no qualms continuing to expand their bloated balance sheets and keeping the quantitative easing party on full tilt until that fateful day when the bond market finally fights back and takes away the punchbowl.

ECB President said on Tuesday 3/29 that investors can **"test us as much as they want"** and that policy makers won't shy away from using all their powers to stop bond yields from moving higher. – Bloomberg 3/31

Some would argue that it's happening right now, and we are in the very early stages of exactly that – but we would argue the telltale signs are not there- yet.

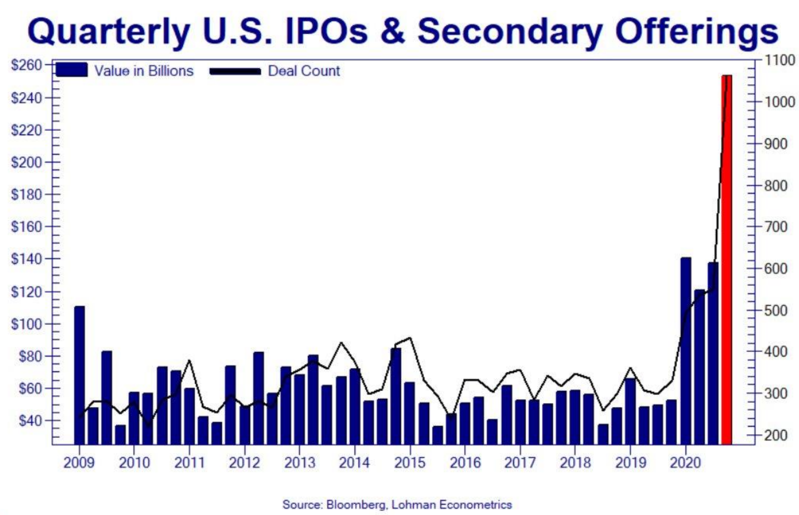
But we are beginning to realize and accept that the new normal is unchecked spending by governments without any regard to concern for the future ramifications it will "someday" unleash on society, and particularly the younger generation which will be saddled with the mess. Modern Monetary Theory is the old axiom they dug up to justify it and Yield Curve Control may be the tactic they resort to in order for it to actually work.

Looking Forward and Other Market Commentary: After a long weekend for Easter, the markets will be light of scheduled news until earnings season kicks off for another round on April 14th. The focus, however, seeing all the damage that has been done in the past six weeks, will be on tech and their now suddenly stretched valuations. Also weighing on shares are the increased pending regulations coming from the Biden administration for domestic companies, along with tougher SEC scrutiny for Chinese listed companies. Stocks such as BIDU, GSX, Tencent, and Vipshop were obliterated in the final week of March as delisting concerns swept across trading desks - further enhanced by some gigantic margin selling as a high-profile family office was forced to liquidate their holdings.

Tech is in a precarious place, to put it mildly, the rise in rates has put their valuations under intense scrutiny - especially in the software sector, a sector that we were bullish on for most of 2020 – but now finds itself down 1.7% percent thus far in 2021. In our opinion, the best part of tech to focus on for the next few months is the semiconductor sector. There is currently a global chip shortage and it is affecting everything from automakers (GM cut production in March due to chip supply issues) to phone manufacturers (Samsung did the same this month). Foxconn said this month that they see the chip shortage until “at least” 2022.

Micron reported their quarter on the last day of March and helped solidify our thesis that the chip sector is the top sector for capital. They beat estimates by $0.03 on inline revenue of $6.2 billion. However, there upside guidance was massive: They now see Q3 EPS of $1.55-$1.69 versus the $1.33 previously projected. They also raised revenue estimates by nearly $500 million. Also, Taiwan Semiconductor said they plan on spending $100 billion on Capex over the next three years, signaling more very positive growth in this area at least.

Another negative for tech that we have seen in 2021 is the amount of new supply hitting the markets in the forms of IPO’s and secondaries. It seems barely a day goes by without some mid-tier tech (often foreign) doing a secondary to secure more capital – usually after a strong move higher and then a subsequent gap-down the next day after the announcement. It generated some frustrating situations for us in March as we were caught holding the bag after secondary announcements from SOS Limited and LIZHI Inc.



There have been a lot of sellers so far in 2021. The red bar to the left is symbolic of that.

Hot markets tend to bring out supply as everyone wants to capitalize on the environment.

The only question is will the demand be there to sop up that huge red bar?

It should be noted that even though indices are near or at their all-time highs, there are over 200 stocks off 50% from highs in 2021. Which circles back to the frustration theme we touched on earlier.

Overall, According to FactSet, consensus view for the S&P 500 is for a year over year earnings increase of 23.3%, up from 21.8% just a few weeks ago. Consensus view on revenue growth is up to 6.3% from 6% a few weeks ago. The S&P 500 now trades at 21.6 times next 12 months expected earnings. Not cheap, but not too extreme either.

Also, some of the once hot IPO's have settled down in to trading ranges at much lower levels and likely trapped some capital that was expecting more upside fireworks like we have seen in the past. Some of these names include: Unity Software, Coupang, Door Dash, Roblox, and to a lesser extent Air BnB. But the lackluster price action has not dampened the enthusiasm for the investment bankers to rush more issues to the market. Some of them include: Compass, Stripe, Data Bricks, Kaltura, and UiPath.

It feels like we are at a crossroads for the equity markets. The "easy" trade is over. Meaning, the re-opening thesis (highlighted by the surge in the Russell 2000 and crude oil) has worn itself out and has likely already been priced in. Also, the stimulus checks or "stimmy" rally so many were sure was coming and would be driven into small cap meme plays via Robinhood accounts never really materialized and in fact we saw a thrashing of small cap stocks in the latter days of March – especially in such formally hot sectors such as cannabis, crypto miners, electric vehicles and SPACs.

So, as we enter a new quarter we have to admit and accept that the road ahead for profits will likely be harder than it has been for the past few months. Not that it's ever easy - but the enthusiasm and vigor for equities was met with a harsh reality in March and that change of tone will be with us for a while.

Another factor to consider is that the new administration is becoming more and more vocal regarding new and stiffer forms of taxation. Higher corporate taxes, top marginal income-tax rates on individuals, capital gains taxes, and financial transaction taxes.

If indeed President Biden gets his way, and with both houses he very well may, he will be ready to spend $6.9 trillion before his first 100 days in office.

In a testimony on March 24th, treasury secretary Yellen said tax increases would be required to fund the next stage of the Biden administration's economic agenda. All these concerns are the same concerns that were talked about if the Democrats were able to take Georgia in the run-off Senate race back in early January. But after the "blue-wave" did indeed come to fruition – it was subsequently ignored by the markets. Now it appears those fears and concerns are creeping back in. Interesting how psychology works.
We recorded moderate success actively trading Tesla from the short side in March. As noted, we are only using options when trading Tesla. That is to keep our risk defined and avoid any kind of GameStop scenario.

We all know Tesla makes a great product and surely are the current leaders of the electric car world. No one in their right mind would dispute this. But at this valuation and market cap we feel the only way for Tesla to continue to massively outperform their rivals is to be the first to perfect autonomous driving. Now, granted, that is a far away for anyone. And there are some heavyweights working on this for sure: namely Google, Amazon, Apple, and a host of Chinese car makers as well. It is a real slugfest taking place and the likely result is there will be a variety of winners after all the dust settles (and billions spent)

But if you take away that aspect, then Tesla is just a leading electric car maker with tons of competition nipping at its heels. Which is fine, except when you look at its $650 billion dollar market cap and begin to realize just how dominant the market is assuming that, going forward, Tesla will be in the retail space. Granted, there has been talk of Tesla facing stiff competition from the other car makers for years now, and essentially it has just been all talk thus far as the competitors have not been able to produce the quality nor price points to even come close to matching Tesla.

That may slowly finally be changing. Electric vehicles are (very) slowly becoming the new norm and the younger generations are as environmentally conscious as ever and insist on doing things green. Audi, BMW, Ford, Porsche, Ford, and Nio (China) are finally making some real progress and are begging to slowly steal buyers from Tesla. It will be interesting to see what Tesla says on April 2nd when they announce their deliveries for Q1. The bear case, at least in our minds, is that Tesla is just ready to revert back to the mean to some extent with regard to their overwhelming market cap dominance within the whole industry. There isn't a smoking gun per se (accounting, car recalls etc.) it's just the fact that it ran too far too fast - pushed in part by the Redditt and Ark Fund crowds.

Also, as the largest holding in the ARK Funds and a large percentage member of the SP-500, Tesla has taken on a more algorithmic personality and hence has made it a little easier to gauge supply/demand at certain points. That too has aided our trading in March.

April will bring us four centrally developed banks meetings: The ECB (22nd), BOJ (27th), Bank of Canada (21st), and our Fed on the 28th. Obviously, with the threat of inflation, the strengthening role of crypto currencies, and continued balance sheet expansions, the verbiage from these various bankers takes on more and more importance at every meeting. There is little to chance that there will be any rate hikes or cuts forthcoming anytime soon. But you can bet each word will be scrutinized by every algorithmic program in the world.

Bitcoin update: the slow adaption of Bitcoin into main street commerce took a large step forward this month when both Visa and PayPal announced they were both going to use Bitcoin as accepted forms of payment for transactions. PayPal has agreed to use 4 cryptocurrencies for all transactions: Bitcoin, Ether, Litecoin, and Bitcoin Cash.

"We think it is a transitional point where cryptocurrencies move from being predominantly an asset class that you buy, hold or sell to now becoming a legitimate funding source to make transactions in the real world at millions of merchants" – PayPal CEO Dan Schulman

Visa said they will allow the use of cryptocurrencies to settle transactions on its payment network, announced a partnership with Crypto.com, and implied they would offer the same option to more partners in the future. Fidelity, who has had a strong presence in crypto for years now, announcing they were looking to launch an American-based Bitcoin ETF.

Also, this press release came out on March 31st: Wall Street investment bank Morgan Stanley said in a Thursday regulatory filing that a number of its institutional funds may gain exposure to bitcoin in the form of cash-settled futures or a Grayscale's Bitcoin Trust.

Goldman Sachs also weighed in this month saying due to high demand from clients they would begin to offer Bitcoin products, including physical storage. The more we hear news like this from major financial institutions, the more we are starting to feel that players who are not involved in this new asset class are essentially short it.

That may sound odd, but if your competitors are making headway in a new asset class and you don't have any exposure or ability to aid your clients – you are theoretically betting against the market becoming bigger. And judging by the constant flow of new institutional involvement and consistent demand all while considering the entire crypto market just hit $1 trillion – out of $354 trillion worth of global assets, we wouldn't want to be short either.

Bitcoin has remained volatile, as it has been and will likely continue to be. It breached $60,000 for a very short time in March, then quickly retreated $8,000 back to $52,000 - only to close the month out right back around the $60,000 mark.

As hard as it is to ignore its volatile nature, we are maintaining our bull thesis and doing our best to remain long-term holders and avoid the pitfalls of becoming too emotional over this exciting new asset class.

Despite a $1.1 trillion stimulus bill, a $2.5 trillion infrastructure bill ($1.5 of it monetized) and a rumor of another stimulus bill coming in late April, the precious metals continue to look anything but precious. In fact, they are beginning to look almost worthless. Throw in the fact that central bank monetary expansion has only accelerated in the past year and per our Fed chair's last press conference shows no signs of slowing down – the ideal bull case for owning the metals continues to come – and then go lower.

Some point to cryptocurrencies as the new substitution for gold. We aren't quite in that camp yet but do have to admit there is some correlation we notice the now inverse relationship between gold, silver, and the miners and the price of Bitcoin.

We have unsuccessfully tried to play the long side in gold but more so silver. Not because we are gold bugs that feel you must always own metals, but more so due to the fact that the complete monetary recklessness has to result in some consequences and precious metals have usually been the beneficiary of that. But lately, that relationship is completely broken. Something we need to remind ourselves of more often. There will be a day when the metals start to shine (sorry-had to do it) and the "dead forever" narrative reeks of arrogance. But until they can show some real strength and follow through, it's likely better to be an observer than an active anticipator of better prices ahead.

Finally, the great state of California has decided that they are going to hold our governor's feet to the fire for his handling, or mishandling, of the Covid crisis. There is a recall vote coming in the fall, and while it is unlikely (according to early polling) that it passes - it does raise some interesting questions.

There was obviously a difference of philosophy between Florida and California when it came to Covid. Simply, Florida chose to essentially remain open and deal with the spikes in cases as best it could while allowing commerce to hopefully survive and kids stay in school. California did the exact opposite- implementing draconian lockdowns and keeping kids in Zoom school for practically the entire school year. Yet the case, hospitalization rates, and death curves of both states remain statistically close to equal.

There are obviously other factors involved (weather, population density, adherence to masks) but here we are one year later, and the Governor of Florida is being hyped to run for President in 2024 whereas the Governor of California may be unemployed by Thanksgiving.

Who is right and wrong is a sure way to cause a spirited debate, and of course political view takes are an overriding factor, like everything it seems these days. But the facts are the facts, and as our Governor always likes to say it is "science-based,". which isn't helping his case.

Currently Florida is seeing record inflows of new residents and a booming economy with school children about to finish up an in-person school year.

California is seeing pronounced migration out of state, flocks of depressed children, and it may toss the Governor out of office in the fall.

Guess the voters will decide who got it right.

Occasio Partners, LLC