July 2021

OCCASIO PARTNERS LLC

San Francisco, CA

Uncertainty Reigns: We have been trying to point out in these pages during the last few months that despite the placid surface that the major indices have been masking, underneath the still waters there have been some real dislocations taking place. This month that trend continued as we saw pronounced weakness in small caps, banks, transports, energy, crypto, miners, biotechs, meme stocks, and most notably Chinese ADR's (more below)

To further complicate matters, the bond market was bid up all month in spite of the fears of inflation, possible tapering verbiage out of the Fed soon, and an arguably robust economy that is still re-opening by degrees. A likely explanation for such inexplicable strength in the bonds is the worrisome resurgence of the Covid Delta variant that has skyrocketed in Asia and parts of Europe and is becoming a bigger threat here in the US almost daily (notably so here in the Bay Area which boasts a 75% vaccination rate)

Technically speaking, the breadth of the markets remains very weak – again, despite the general strength in the indices. In fact, over 35% of US listed stocks remain below their 200-day moving average. And volume has been light on the majority of up days-which helps explain the lack of conviction for the underlying stocks that remain well below their highs.

But despite a few big down days (e.g., July 19th), markets on the whole remain calm. However, we continue to hear high levels of consternation amongst stock pickers who are nowhere near having the success that the indices are exhibiting.

Part of the reason the overall indices are holding up so well is the fact that corporate earnings have continued and will likely continue to remain stellar. Granted, the year-over-year comparisons are light based on the 2020 pandemic. Analysts are using $200/share in earnings for the SP-500 for 2021 as the benchmark needed to justify current levels. The Q1 aggregate earnings were $46/share and $50 is projected for Q2. But even with 2021 earnings coming in at $200, that still puts the current valuation for at 21.6x – hardly cheap by any historical standards.

As we continue to chew away at the second half of 2021, there remain the lingering concerns that we highlighted last month - that in our opinion have not been resolved. They still include: inflation concerns, valuation, pronounced weakness under the surface (breadth), talk of Fed tapering (maybe this month at Jackson Hole?), and the unfortunate constant threat of the Delta variant continuing to climb in cases and in increasingly more sections of the world. Also, the absolute stubbornness of the bond yields refusal to rise in the face of an increasing inflationary environment, strong economy, and, as noted above, the fact that the strong corporate earnings are at the very least disconcerting make us wonder if we will look back at this moment and proclaim, "that was obvious!"

We come into August with a cautious tone due to the above-mentioned concerns and the fact that August and September historically are weaker periods for the markets. Hopefully, our concerns over the Delta are overblown and Dr. Gottlieb is correct in saying that we are in the final throes of the spike, and that it will level out after August. Also, our short-term trading has been going well for the past few months and we see no reason to change that anytime soon. Finally, it feels like the majority of the catalysts for the markets have come and gone – notably most earnings. The only caveat being the Jackson Hole summit in a few weeks.

Bitcoin Update: It has become more of the same in cryptocurrency land for the past few months - that is, weak to dull action in the space despite more and more mounting evidence of continued participation by institutions, hedge funds, family offices, and retail clients. This month, both Goldman Sachs and Fidelity said they were trying to fill the demand from clients who want exposure to cryptocurrency.

From the Goldman Sachs report this month: "*There are many who think that this technology is going to be as impactful as the internet has been from an efficiency and productivity perspective"*

Also, this month JP Morgan became the first big bank to give the green light to all its financial advisors to allow access to crypto funds for their clients.

But the most important headline for all of July in our opinion was from Senator Elizabeth Warren (whom we disagree with on many topics) who came on CNBC and said digital currency and central bank digital currency may be an answer to help the unbanked into the financial system. Keep in mind that in 2020 banks charged $12 billion in overdraft fees, ATM fees, and checking fees; much of it paid by the working- and lower-class clients.

It's all well and good that more and more people and more importantly institutions are clamoring to get involved. We have been highlighting this for a while now and the fact remains that the price action in the crypto landscape has been pretty awful since May. We have managed to weather the storm respectfully with short hedges in Coinbase, MicroStrategy, and Riot Blockchain – which we detailed in the last two updates.

We are very cognizant of the fact that bad price action on good news is not a bullish development. And maybe since we are in the early innings of a potential seismic shift that *could* change the way we view currencies, debt, and fiscal transactions, we are allowing more leeway than we would traditionally -and, candidly, maybe that will prove to be erroneous. But if we view all markets and catalysts with a risk/reward prism then the odds stack up well here, especially when you consider that we bought into our Bitcoin Trust position at the underlying equivalency of a little under $6,000 per Bitcoin.

We have mentioned in passing that we have been working on an automated alert system for triggering trade ideas. It has been and continues to be a work in progress, but we are seeing some exciting results the more we fine-tune and back-test. This is not an automated execution system that relies on algorithms to auto-trade. We have explored that road but feel there is 1) too much competition 2) too much room for error 3) too much noise to filter out along with added layers of risk management that seem too cumbersome in our opinion.

What we are developing is an alert system that tries to catch short-term extreme moves and then reduce the trend or a reverse it. It is being combined with macro factors, technical conditions, news/pending news, and overall sentiment to create trades that are defined by price parameters and able to capture short-term moves with the bigger hope of capturing the beginnings of a longer-term trend change.

Again, it's still a work in progress, and frankly, always will be as the environment evolves, but we are very excited about the prospects and want to share the news with our partners. The goal would be to run a portion of the portfolio using this "system" while counteracting it with other strategies and allocating the capital to whatever is working best at the moment based on an overall feel for the environment we are currently in and what is showing best statistically.

This is all part of the quest to evolve and change in an environment that changes daily. Markets today can produce moves in 2 days that used to take 6 weeks. That dynamic will only intensify as technology and the offering of more and more derivatives grow.

We have been and need to continue to adapt to these new dynamics and are increasing our commitment to cryptocurrency and more automated signals. It's exciting and potentially very lucrative, but it's going to take a lot more work and capital to accomplish.

We will have more to say on this in August. We are trying to wrap up a sample prospectus which we will share with all our partners in a separate email soon.

Looking Forward and other Market Commentary: Everyone always assumes August is the slowest month of the year due to obvious catalysts: heavy vacation time and the beginning of kids going back to school. This year both of those will be magnified for obvious reasons. However, we would like to point out again that August tends to be a very volatile/weak month (maybe because of the above reasons and the lower levels of liquidity) but nonetheless it's not a month to let down your guard.

We still have approximately two weeks of earnings results to pore over. Some of the interesting names left to report include: Alibaba, Akami, Expedia, Booking Holdings, Palantir, Roku, Uber, Wynn Resorts, Moderna, Penn Gaming, Wayfair, and Beyond Meat – to name a few.

But the "main event" will be the Jackson Hole Summit slated for the August 26-28th. This gathering has produced some meaty headlines in the past and this year there are many who think it's where Chairman Powell will announce the beginning of its tapering program (although the bond markets certainly would disagree)

A more pressing date to consider is August 2nd, that is the day Treasury Secretary Janet Yellen has urged Congress to pass the extension of the debt limit ceiling and avoid a government shutdown that would commence on October 1st, if nothing is done. Ms. Yellen warned of a payment-default risk if the matter persists. Those who were around in 2011 remember the immediate bear market that ensued after our government debt was downgraded due to the same scenario.

Normally, we would pass over this story and just assume it was more government posturing and the ceiling would ultimately be raised. But these are not normal times as we all know and the vitriol between the left and right is at an all-time extreme. So, unfortunately, we need to pay way more attention to this story than usual – thus, a special thank you to our trusted leaders is in order.

Twitter reported their quarter on the 22nd of the month and this time they delivered. They beat estimates by an impressive $0.13 and saw a whopping 74.2% year-over-year increase in revenues to $1.19 billion. Advertising revenue jumped 87% and the closely watched Average Monetizable Daily Active Users grew at 11%, which is good, but admittedly not great.

The company also guided Q3 revenues higher and reiterated their commitment to the subscription model that they slowly have been implementing and will continue to push forward.

A week after their earnings release, Twitter announced that they were launching a pilot of Shop Module - a feature that allows them to explore how shoppable profiles can create a pathway from talking about and discovering products on Twitter to purchase them. Another great step in monetizing the brand name and hopefully a direct shot at Amazon, eBay, and Shopify. Imagine the leap in profitability if they could swipe some market share from those behemoths?

At the current $55 billion market cap, Twitter remains woefully undervalued when compared to Facebook or other tech giants. Twitter will likely never be on par with the tech heavyweights, but we still feel that with few more quarters like this one, and if the digital ad market can remain robust the stock has tremendous upside even at these levels.

As most partners know, we have had a tumultuous relationship through the years. It has had moments of euphoria followed by periods of serial disappointments. We have always believed in the name, and like the product, but have been underwhelmed by the management and the lack of vision when it comes to monetizing such a global brand.

Maybe that is all behind us now? Maybe now we can settle into a serious, calm relationship that will last for years and produce bountiful returns. All the signs are there for it to prosper and if we could get a serious CEO in charge, we can only imagine the upside potential. We mentioned in the June update that we were likely going to put on a call spread strategy for the earnings event, and that is exactly what we did. It paid off modestly on the 4.5% jump in price after the release. We have now moved our call option position to the October expiration and will likely tweak it some as conditions change.

We feel the stock should be able to trade over $81 (currently $72) to new all-time highs at some point this year if general market conditions remain buoyant and want to be involved when it does.

A name we aren't so bullish on is Netflix. They also reported their quarter on the 20th, and it wasn't as robust as Twitter. They missed by $0.19 on the top line and came in with in-line revenues. They also issued only in-line guidance and added 3.5 million subscribers. All-in-all, an uneventful, unimpressive quarter.

No one is calling the end to Netflix, but those numbers hardly scream growth. Also, after 2020, when everyone was essentially sent home to binge Netflix shows to pass the time, we have to wonder how much new demand will be created for the service and just how much Disney has and will continue to peel away. That may explain why Netflix announced they are in the early stages of expanding into offering video games.

Netflix often gets lumped with the high growth tech category along with Facebook, Apple, Amazon, and Google, or FANG as it is known now. But we have to wonder if the N should really be there and, if so, then why their performance has lagged behind the others so badly even with the pandemic tailwinds?

The stock is currently down -0.7% YTD and has been stuck in a between $600 and $480 for all of 2021. This performance pales by comparison with the other FANGs and further questions the growth narrative. This is an awfully tough environment to short right now, but if we see another downside set-up, like we did around mid-month, Netflix will be one of the first stocks that we will short. It seems broken fundamentally (at least growth wise) and more so technically.

One of our favorite long positions, Nokia, reported their results on July 29th and they certainly lived up to what we had hoped. The telecom giant, who remains instrumental in the 5G rollout, posted earnings of $.09 per share, which was $0.05 better than expected on revenues of $5.3 billion, also slightly exceeding expectations.

Furthermore, the company also guided FY21 higher. For all that, the stock rose 4.4% and is now up 55% year-to-date. Nokia is a slow mover and can sit in constricted ranges for days on end, but we are in the camp that it is slowly working itself out of a *massive* base since

2013 and is one of the best stocks/turnaround plays to own for the next few years – as long as you have patience.

Some are staring at the markets in disbelief as they see the SP-500 tick to new all-time highs despite the increasingly scary headlines regarding the Delta Covid strain. But maybe the market is going higher *because* of those headlines?

Sounds perverse, yes? But let's remember how much stimulus the Fed supplied during 2020, does anyone (especially with the current administration) really believe they aren't ready and willing to add more liquidity to any areas necessary? The other explanation could be that the Delta variants have peaked the UK, Spain, Netherlands, and Portugal. Using those timetables the US should peak in approximately 1-2 weeks. Let's all hope so.

Rates globally are close to zero, or negative, they cannot go any lower. If CPI and other inflation metrics keep staying elevated for longer, that is a scenario the market is not priced for, stagflation. The Fed's only choice then would be to raise rates and/or tighten monetary accommodation. We know what that means because this entire market is built on a very delicate house of liquidity.

The nightmare scenario that nobody wants but is not off the table is stagflation. Meaning we have persistent inflation over 2% combined with slowing growth. It's way too soon to declare that yet. But if we are indeed on a sugar rush from the Covid re-opening and that slows as we head into more normal times in 2022 (hopefully), then unless inflation really is transitory and deflates along with the economy, there is a legitimate chance this becomes reality.

Which would force the Fed to raise rates and tighten monetary accommodation and create a re-setting of valuations. That's not this month's news necessarily, but it's on everyone's radar as we head into the fall.

It was another frustrating month for the precious metals crowd, of which we have been a small part of for the past few months via our silver (SLV) calls. All the positive checkmarks continue to line up for the advancement of the metals space and yet the price action remains putrid. Traditionally, July has been a strong month for the price of silver, but that was certainly not the case this year as the metal fell 2%.

But as we look ahead and try and anticipate the potential change in real rates via a shift in Fed policy, owning bonds at these levels seems dangerous - especially when you factor in what you are paid to hold them. Stock market index protection makes sense, but it is particularly hard to time and select the right instrument.

So, what else has a high correlation to real rates? The precious metals. To be clear, we are not, and never have been in the gold bug camp. We find their views way too negative and that they are often backed by conspiracy theories, of which we want no part of. However, that doesn't mean we should shun the entire sector, especially given the environment we are likely going to be entering in the next few years.

Additionally, the option structures (Greeks) around the silver ETF (SLV) are particularly favorable right now to those with some patience and hedging ability. We continue to feel that there will be a substantial upside move in the metals at *some point* soon and we will continue to favor silver. But we also have been continually dead wrong thus far on our attempts to capture this alleged move. Thankfully, we have only used call options and thus have limited our risk but have still suffered losses.

We come into the new month very small in all our silver positions (thanks to the July expiration) and aren't in a rush to get aggressive until we see a real sign of a turn. We will monitor the charts for some type of bottoming reversal pattern on heavy volume and see if that can commence an upside move. If we do indeed get back into a long silver position - it will be structured for much longer time frame, likely well into 2022.

The most underreported story of July, and maybe all of 2022, is the massive amount of carnage being laid to waste in the Chinese equity sector. This month we saw over $300 billion worth of market melted away in Chinese ADR's. The explanation was some vague verbiage out of China regarding crackdowns first on education for profit stocks, but eventually that spread to bigger cap names such as Bidu, Alibaba, and Tencent. The mainland government has now implemented aggressive reforms forcing not just Chinese money out of their domestic marketplace but foreign investment to flee Chinese markets, which includes ADRs of Chinese companies listed in the US.

China is always opaque in their reasoning and motivations. But it's pretty clear this is a direct shot at the US and its policies regarding Taiwan and free trade. It's also likely they are testing the resolve of President Biden and trying to compare the amount of resolve he has as opposed to that of President Trump, who was not afraid to criticize and sanction China. Also, China has shown in recent years they aren't comfortable with billionaires being born out of free enterprise there, the most glaring example being Jack Ma of Alibaba. This may be the latest attempt to reign that in and remind the world that they remain a communist country.

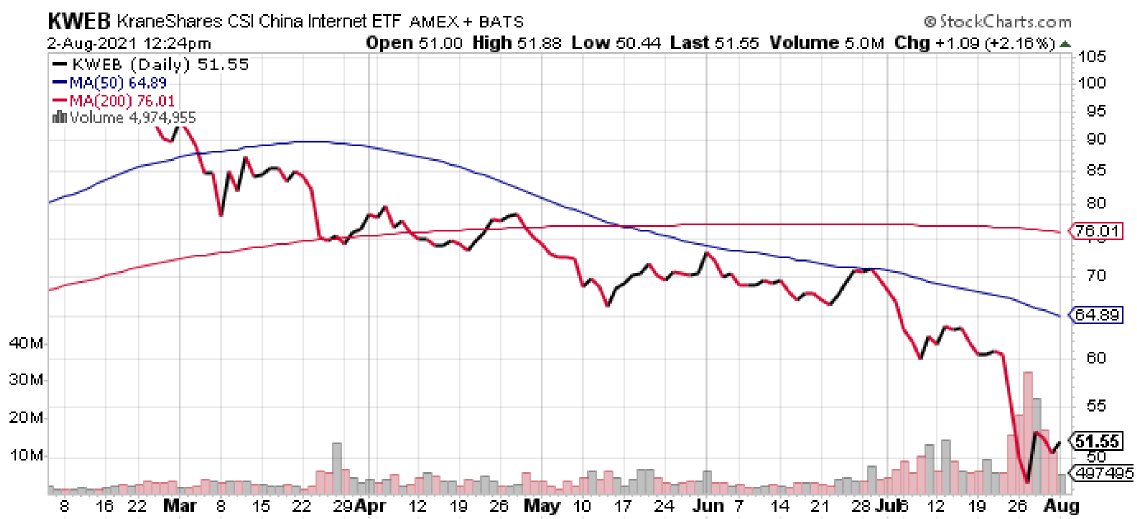
Whatever the reason is, they are doing themselves a real disservice with this latest stunt. It's going to be awfully hard to raise any type of capital in the US anytime soon we would think. Especially considering they did all this right after their version of Uber, Didi, came public on the last day of June and has fallen nearly 45% since -burning a lot of investors who were stuffed with shares. The Chinese government knows the stock market can create social and economic outcomes they are not comfortable with, that in fact goes against their long-term plans.

The question is if this latest move out of China, a move we have seen before-most recently with the gaming industry, will define the rest of the year and begin to leak into other derivatives and markets, or if it is another one-off event that will largely be ignored by the masses?

A bigger question, and one that pertains to us more is where is all the money going? If China is going after the rich, then where are they putting their assets to protect themselves? And the answer could be Bitcoin? It's interesting that the $12,000 bounce in Bitcoin from the sub $30,000 level to over $40,000 coincided with the Chinese tech stock destruction. It also helps make sense of why China has been so adamant about trying to control digital currencies.

"The spread of declines from the Chinese equities space into the yuan signals that the concerns over regulatory risk in China might have taken a turn for the worst," said Terence Wu, foreign-exchange strategist at Oversea-Chinese Banking Corp

"The key concern now is whether regulators will do more and expand the crackdown to other sectors. The regulatory concerns will be the key overhang to the market for the second half." - Daniel So, strategist at CMB International Securities Ltd.



Stocks on the whole are performing well across the globe, but not the Chinese ADR's. A chart like this combined with some of analysis we shared on these pages makes one wonder if dabbling in this arena makes any sense anymore?

We are knee deep in earnings season and so far, it has been spectacular, with well over 80% of the SP-500 reporting handily beating their estimates and the beats are averaging 17.2% above expectations, the 4th highest level since 2008. The SP-500's net profit margin also set a new record at 12.9%.

This shouldn't (and hasn't) come as much of a surprise to market watchers. And we hate to be the Debbie Downer but… we must keep in mind that we are using Q2 of 2020 as the comparison bar and that was obviously right in the heart of the pandemic.

So, are looking at peak earnings in this quarter? Also, are we at peak economy as many think as the re-opening euphoria wears off and the threat of mask wearing, further restrictions, and possible re-lockdowns unfortunately replace the positive headlines.

In addition, despite all the great reports, we for the most part, saw a "sell the news" type reaction, particularly in big cap technology, especially Amazon. This adds credence to our cautious stance as we enter the last summer month and begin to set our sights on the Fall.

The Fed met on the 28th and to no one's surprise didn't say anything that changes anything – for lack of a better way to put it. They came out with the usual cautious wording:

"Overall financial conditions remain accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses."

And to **no one's** surprise said:

"We're clearly ways away from considering raising interest rates. It's not something that's on our radar screen right now."

But there was this and it's something to keep on the radar:

"Inflation has increased notably and will remain elevated in coming months before moderating"

So, we now know that Chairman Powell has conceded that inflation has run hotter than he expected. And now he is expecting (praying) that it's transitory (there's that word) that it comes in by the end of year and allows the Fed to stay on course and somehow ease out of the massive debt trap that they are in.

But even the most ardent bulls will have to concede that if inflation remains steady or picks up significantly, they will have to take some action that may not be market friendly. Which makes the Jackson Hole meeting less important now (can't see a lot of change in 4 weeks) but does put uber importance on the remaining Fed meetings (September, November, December) and make any inflation data (CPI, PPI) become as important a data point as we have had since 2008-9.

As for the current statistics:

The odds of Fed Funds remaining at their current 0-25 basis point level through December 2022 fell to 42.8 percent from 44.5 pct yesterday. The probability of 1 rate hike between now and then increased to 40.0 pct from 39.0 pct, and the odds of 2 rate hikes rose from 13.9 pct to 14.5 pct

All this while President Biden has not yet confirmed that he will retain Mr. Powell when his term is up in February 2022.

Finally, is it time to disrupt the Olympics? This year's postponed games are slated to cost Japan in the neighborhood of $20 billion. The last summer games in Brazil cost a country, that frankly has many better things to spend money on, $13 billion and currently report that several venues have fallen apart, and their soccer stadium was shuttered due to $930,000 in unpaid electric bills.

Yes, the games bring the fans in, although not this year obviously, and that revenue helps in some esoteric ways. But overall, it's more of a negative than a positive in a purely financial sense.

The answer is to use already standing venues and build nothing for the games except some extra grandstands or portable locker rooms. Make the games a truly global event: soccer in Brazil? basketball in Los Angeles? gymnastics in Florida?

Why not? 99% of the fans watch the games on TV and don't care what country they are coming from. Yes, the time zones and live TV coverage will be crazy, but it already is.

We already have way more global competitions than ever before, and half the US professional leagues are dotted with foreign players. So how about we lighten up on the Olympics importance, which we all know have has now become overrun with "silly" sports (3-on-3 halfcourt basketball?) and stop causing undue economic stress.

Sadly, no one will listen to our gold medal idea.

Occasio Partners, LLC

Occasio Partners, LLC