

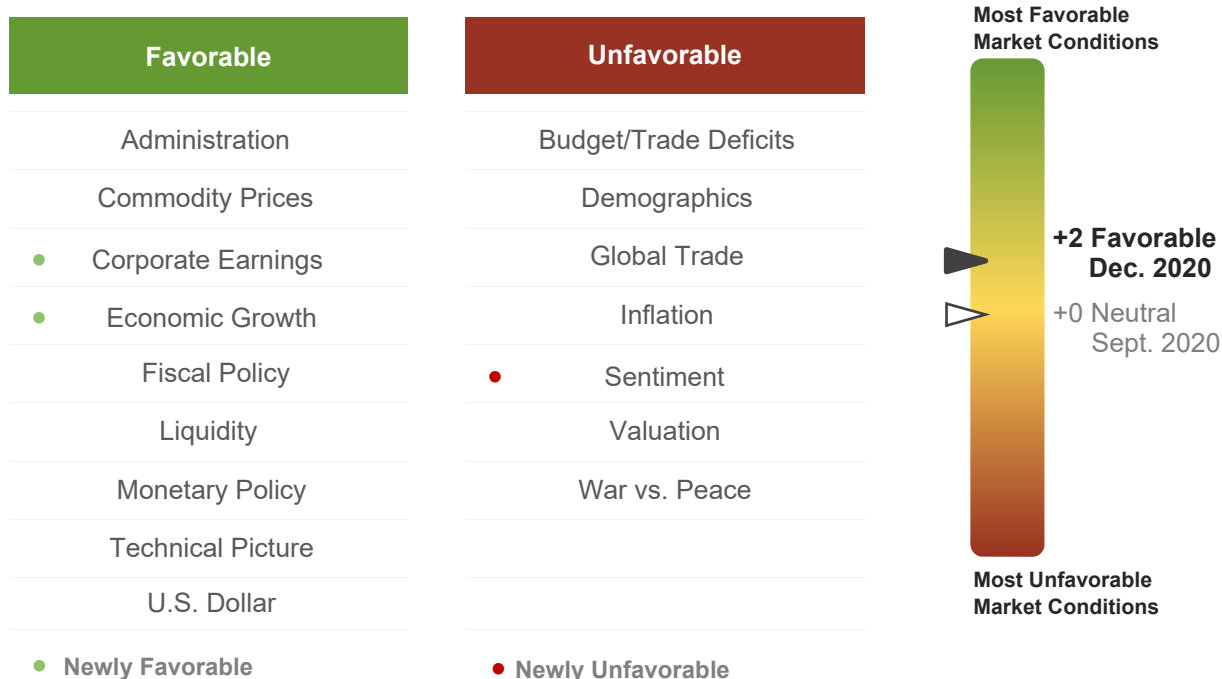


Market Gauge

December 2020

GAUGE SHIFTS TO FAVORABLE AS VACCINES ACCELERATE RECOVERY

Every quarter, we sort 16 building blocks of market strength into two categories: favorable to market conditions, or unfavorable. We use the difference between the two to gauge the overall environment for U.S. stocks. This most recent iteration shifted the weight from Neutral (+0) to Favorable (+2).



WHY FAVORABLE?

Bolstered by widespread vaccine distribution, we expect greater consumer and business confidence, a strong recovery in corporate profits, and a robust economic rebound in 2021. The fundamental picture should be further strengthened by the historic monetary and fiscal policy action (with perhaps more stimulus imminent) and the related flood of liquidity.

On the margins of the bull case, the technical setup is healthy, with strong momentum across large- and small-cap stocks, stable credit, and pro-cyclical sector leadership. A weaker US Dollar (likely, by our view) and resurgent commodity prices (particularly industrial metals) also bode well for a pro-cyclical, pro-growth environment.

However, sentiment and valuation both look stretched, and the inflation question looms large given the enormity of the stimulus described above. US fiscal health is also a concern given the soaring national debt, and geopolitical tensions (particularly involving China) remain pervasive. The evolution of the US-China relationship over the coming years will have ramifications across many items on our checklist. We'll be watching the new Administration closely.

The Strategas Market Gauge is meant to be a snapshot of a moment in time, and not a predictive tool. See page two for more on our 16 building blocks, and what we look for to label each one "favorable" or "unfavorable."

HOW DO WE DECIDE HOW TO CATEGORIZE EACH BUILDING BLOCK?

Administration: Are the White House priorities market-friendly? How do they view taxes, regulation, trade/tariffs, etc.?

Budget/Trade Deficits: Are deficits growing or shrinking? Are they projected to grow or shrink over coming years?

Commodity Prices: Do commodity prices (e.g., gold, copper, oil) reflect economic growth or contraction?

Corporate Earnings: Are the earnings of U.S. companies growing? Are profit margins expanding?

Demographics: Is the demographic trend (population growth, average citizen age, worker-to-retiree ratio) positive?

Economic Growth: Did GDP grow or drop in the previous quarter? Are leading indicators rising or falling?

Fiscal Policy: Are the major policy initiatives from the White House and Congress pro-growth and market-friendly?

Global Trade: Are current attitudes pro-globalization and free trade or pro-nationalism and protectionism?

Inflation: Is there price stability around the Federal Reserve's new target? Are we experiencing deflation or hyperinflation?

Liquidity: Is there more money or less money circulating in the financial system than there has been recently?

Monetary Policy: Are interest rates accommodative or tight? Are other central bank programs market-friendly?

Sentiment: Are investors broadly optimistic (a negative) or pessimistic (a positive) about the market?

Technical Picture: What is current price action telling us? What do market breadth, trend, and momentum look like?

U.S. Dollar: Is the dollar strengthening or weakening versus other world currencies? What are the factors causing the move?

Valuation: Do stocks look expensive or cheap vs. historical averages?

War vs. Peace: What do the world's geopolitical tensions look like? Are they inhibiting global economic growth?

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