MAIN MANAGEMENT, LLC

December 10, 2021 – 4 Legs of the Stool – Weekly Update Notes

Executive Summary:

- Market is 21x FTM P/E and 4Q21est GDP is 6+%, with GDPNow at 8.7%
- MidCap 15.7x FTM vs 22-11x past 10 years/Small 15x FTM vs 24-12x=opportunity
- Consumer Sentiment Dec preliminary uptick due in part to prospect of higher wages
- Skinner, <$1.5t Human Infrastructure predicted if any happens at all
- Virus: US 72% of adults vaccinated vs <1% YOY
- China 13 x FTM with 5+% GDP est for 2022=opportunity
- Digital Asset testimony in DC this week had very little interest=very early in regulatory risk

1) PRICE: The market is trading at 21x FTM, within the 20-23x since the pandemic started. With just over 2 weeks left in the 4Q21, the GDPNow estimate is 8.7% GDP. This high frequency data changes weekly, but indicates a very strong quarter. Our estimate is 6+%, which means that the street estimates for the 4Q21 are too low. During the 1Q22 when earnings season begins, there is a high likelihood that full year 2022 estimates will be raised. In addition, if we are transitioning from pandemic to endemic and we have global synchronized growth in 2022, the street estimate of $223 will rise towards our $235 estimate. The 10-year range for FTM multiples favor mid/small cap: Large is 21x vs 23-10x/Mid 15.7x vs 22-11x/Small 15x vs 24-12x. Our up/down forward price target is $4935/$4230=+5%/-10% The market closed at a new high, but the fear/greed is at 38 vs almost 90 last time we were at this level (this is because Omicron/inflation/risk assets like small and high beta that have been pummeled).

2) FED: The Fed has their last meeting of the year next week where the street expects an accelerated tapering: March 2022 from June 2022. Historically there is a 6 month pause from taper end to rate hike start, but given hot inflation, the street has 2 rate hikes estimated. Commodities have cooled, but Core CPE is 4.1% YOY, the highest since Jan 1991. Food/energy/rents are all accelerating. Wage estimates for next year are 3.9%, which is one reason that Consumer Sentiment is starting to tick up: higher wages to offset higher inflation. Job openings are 11m, with 60% of the increase in accommodation and food services. Powell has made 4 large policy shifts: 4Q18 when the market forced him to stop raising rates/Covid that forced him to cut further after 4Q19 he had said no more cuts/4Q20 he said that he would tolerate higher inflation/4Q21 “transitory” inflation has become a problem and accelerated taper is coming. Rates (50bp won't derail the economy, it's just the start of rate hikes causes the market to pause) and inflation are both risks for 2022, and are added reasons that a traditional peak-trough 13% correction is possible.

3) FISCAL: Next week is when Schumer has said he will deliver the Senates Human Infrastructure bill. The markets think there is a 91% chance that the bill, if it even happens, will be under $1.5t. Manchin this week would not commit to the bill, saying that with inflation hot, it is time to pause and breath regarding further spending. The Consumer Optimism Index for Nov was 88.5 vs 107 in June. With Delta/Inflation/Omicron it is no wonder that it's depressed. We think that number will rise in 2022 as we transition to an endemic/syn global growth/full employment/higher wages. 2022 will see mid-term elections and usually cause some "angst" for the market in the Summer.

4) VIRUS: It has been over 1 month since the 1st Omicron case in South Africa, and it has been mild, but highly transmissible (like the flu/cold). It's been 1 year since the vaccine became available and the numbers are staggering: 72% of US adults are vaccinated/86% of elderly/20m children. COVID death rates since the start of pandemic have been 0.0003% globally (population adjusted the 1918 flu killed 2.2m people). As people learn to live with the virus, their fear of the virus should abate and cause more "service" spend/higher job labor participation rates/headwind to supply chain issues.

PRICE/PROOF: China has had a bear market down 20+% this year/property market implosion led by Evergrande and an industry with $5t of debt=Japan's economy/-3.7% GDP=2 reserve requirement cuts 2H21/expectations of rate cuts in 2022 and targeted fiscal stimulus/market trading at 13x FTM. We like the healthcare and the disruptive technology space. Brazil just raised rates to 10%=inflation rate/63% of population is vaccinated/market trades at 7x FTM/will work if China economy delivers 5+% GDP growth in 2022. The best comparison for International is US Value 15x FTM P/E. With Brazil and China both at discounts, the risk/reward is interesting.

MOVING-ON: Maxine Waters had 6 digital asset CEOs testify: Circle Internet Financial (stablecoin issuer)/Coinbase (trading)/FTX (trading)/Bitfury (Mining)/Steller Development Foundation (payment system)/Palos (blockchain). Given that this is the hottest asset class with the highest projected growth rate over the next few decades, you would have expected standing room only: actually it was barely attended. Tells me that we are very early in this cycle, like AMZN in 1997 when it was $5 up from $1 (and from pennies as a private company) and nobody cared about a "book" seller that now trades at $3444 (that's a 69,000% increase in 24 years. In-Q-Tel is the CIA venture that has 500 investments and typically attracts $18 of private money for each $1 it invests. It's board includes venture capitalist/military brass/disruptive technologists. Their focus is: intelligence/infrastructure/robots/intelligent connectivity/data analytics/AI/machine learning/IT platforms. With China share of global tech R&D having risen from 5% in 2000 to 23% last year, the US needs to be sure that we stay focused on the future. Our Thematic strategy does just that, investing in the future. Thanks again for your partnership with Main Management and have a nice weekend.