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Sings of euphoria – But maybe we will only see a pullback in February

Markets behave since November according to their historical pattern. After a good November and December, we face a very good start in January. If we were to continue the script, we would expect a minor consolidation followed by higher markets and a volatile February. But ""Que será, será. Whatever will be, will be. The future's not ours to see..." which Doris Day sang in the Alfred Hitchcock film "The Man Who Knew Too Much".

The S&P 500 is hovering around the 3'800 level, while the RSI maintains at a high level. Meanwhile the sector rotation continues, The Russel 2000 is outperforming not only the broad US market but also the Nasdaq 100.

Fig. 1: S&P 500 trades sideways before the next lg up?



It is remarkable that the Russel has as well outpaced MSCI Emerging Market and MSCI Asia all countries by roughly 1%.

Meanwhile US treasuries sold off. Since the beginning of the year the 10-year US Treasury yield has risen from 0.9% to 1.185%. Remarkably this did not hinder US high yield bonds and equities to rally.

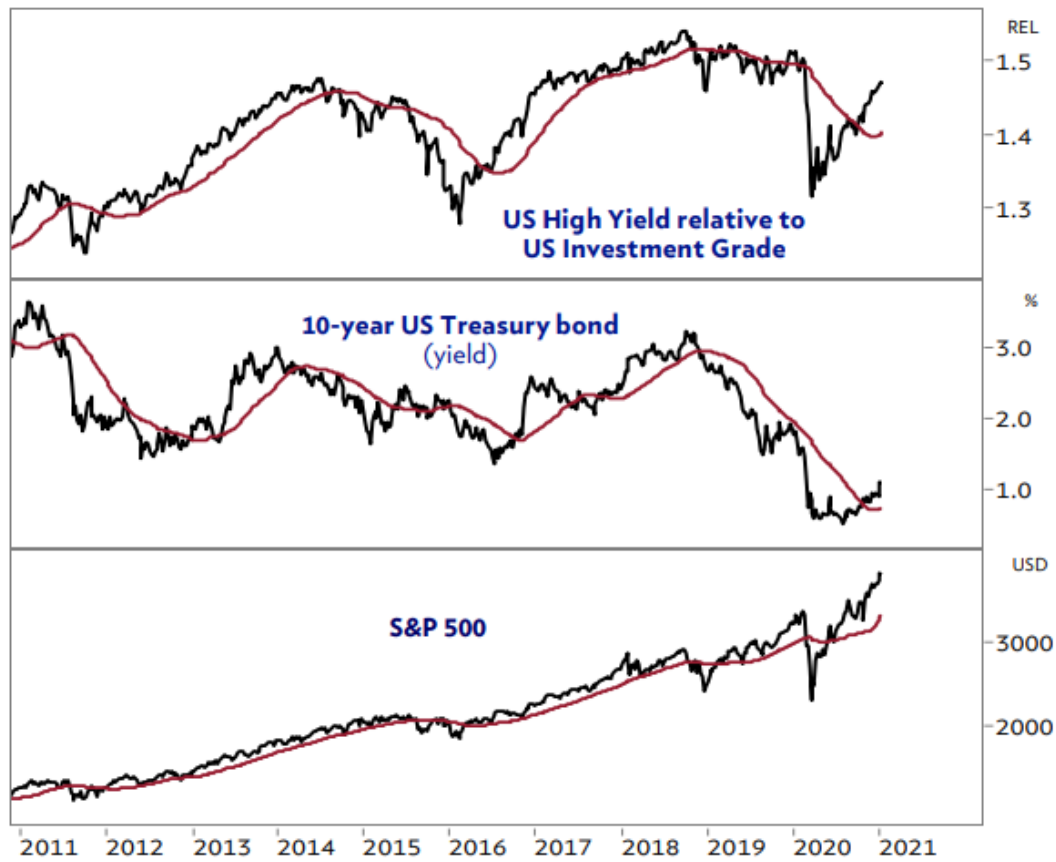
Fig. 2: Russel 2000 and Emerging Markets are the best performers so far in 2021



Fig. 3: 10-year Treasury yields have risen by more than 25% in 2021 from 0.90% to 1.185%



Fig. 4: Rising US Treasury yields do not hinder US High Yields and US equities to rally



Nevertheless, we see frothy prices in some market segments like clean energy. For instance, Plug Power has risen at most 100% since the beginning of the year after announcing tow cooperation's with traditional car makers. Penny stocks, which trade in the unregulated OTC market made up 20% of total US trading volume in 2021! There is a lot of complacency around. This will be corrected, but it might take a while as we see no sings of less trading volume.

Fig. 5: Hydrogen Shares are showing signs of euphoria

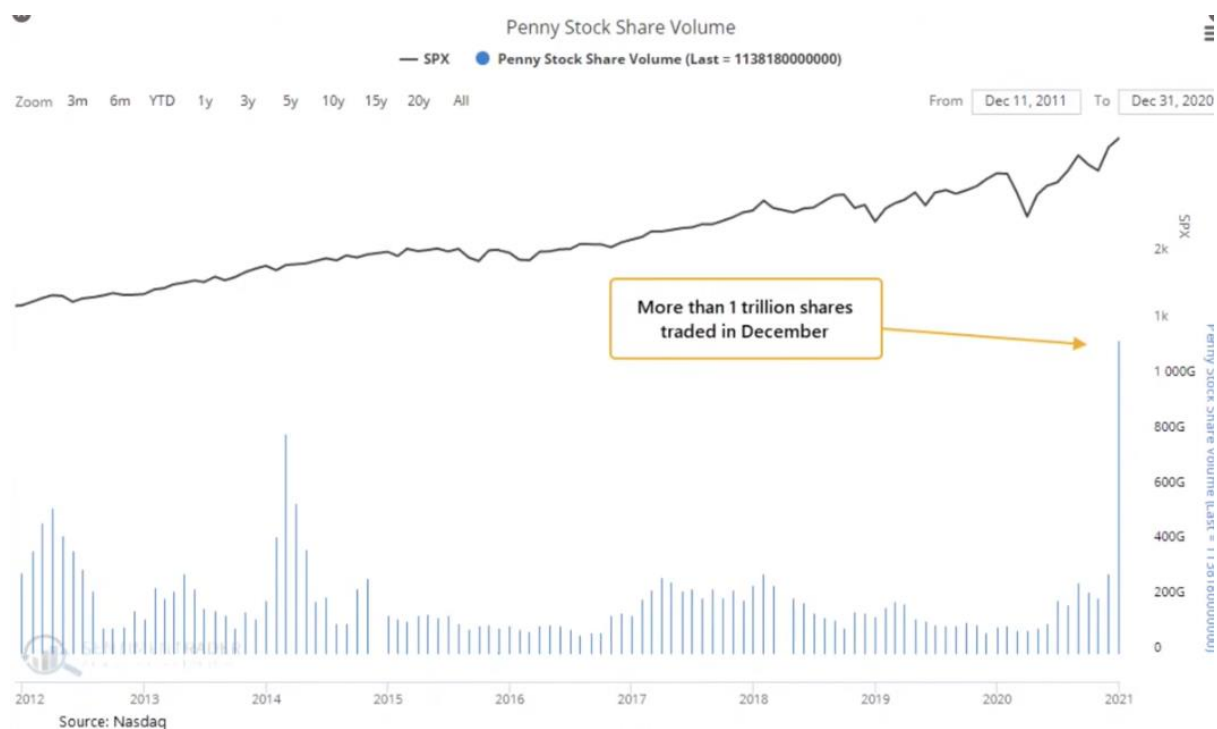
Company	Ticker	YTD	Y/Y
Plug Power	PLUG US	98%	1,541%
FuelCell Energy	FCEL US	75%	855%
ITM Power	ITM LN	19%	457%
Bloom Energy	BE US	23%	288%
NEL	NEL NO	15%	263%
Ballard Power	BLDP US	50%	258%
PowerCell	PCELL SS	25%	102%
Nikola	NKLA US	32%	95%
Average		42%	482%
S&P500 Index		1.3%	28.9%

Source: JPM

We stick to our constructive outlook for corporate bonds and equities, but after such a strong start into 2021 we must remind you that a correction will follow sooner or later after such strong price movements.

The question is when? Nobody knows, the party is ongoing and retail investors are getting more prominent and move some part of the market. Some similarity with 1999 can be seen. Although this time tech stocks are profitable, and the music plays mainly in penny stocks and bitcoins. WallStreetBets is one of the new players and pushes new retail investors into penny stocks. The trading volume in December is astonishing, but the January figures are even higher!

Fig. 6: Penny stock trading volume in December went through the roof



We continue to believe that this rally will end in euphoria, with a final melt-up of most asset prices. We can see now more sings of it in, for instance, the tech sector, in the clean energy space or in bitcoins, but not (yet) across the board.

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