1492 CAPITAL MANAGEMENT

DISCOVERING OPPORTUNITY

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IDENTIFY THEMES | FUNDAMENTAL ANALYSIS | TARGET VALUATION | GROWTH STRATEGY | VALUE STRATEGY | CORE ALPHA STRATEGY | VALUE INCOME STRATEGY

1492 Vantage Point Quarterly Newsletter

Welcome to 1492 Capital Management's newsletter for the fourth quarter of 2020. In each quarterly newsletter, we provide our perspective on the most recent quarter, preview what lies ahead, and offer a bit of market trivia.

Our corporate slogan is "Discovering Opportunity" which is our daily focus for our clients with our small cap strategies and our wealth management portfolios. Our investment professionals possess a tremendous amount of experience navigating through multiple market cycles. 1492's time-tested strategies are based on a three-step process of identifying investment themes from hundreds of meetings annually with company executives, extensive tire-kicking of the financial statements, and a rigorous valuation methodology.

Was 2020 Just a Bad Dream?

If you went to sleep on January 31 and took an 11 month nap, you might have thought you missed a fairly ordinary year. If you woke up and just looked at the year-end tally for the S&P 500 and Russell 2000, they were up a very "ordinary" +18.4% and +20%, respectively, and the tit-for-tat tariff war with China seems like a distant memory. However, for those of us who lived through 2020, we know that it was anything but an ordinary year. We experienced the first global pandemic in over 100 years, rioting in the streets of cities across America, the first woman elected Vice President, and multiple Covid-19 vaccines created in a matter of months. The stock market's gyrations were anything but normal as we endured the largest monthly drop in the history of the Russell 2000 Index (-39.6%). On the way to achieving that milestone, the index experienced its single worst day ever (-14.2%) and four of the seven worst days in its history. The March quarter was the single worst quarter on record (-30.9%). However, the market posted an amazing recovery that has most market observers scratching their heads. This snapback includes the best quarter ever (December = +31.4%) and two of the four best quarters in index history. On this road to recovery, the index recorded its best day in history (+9.4%) and three of the best seven days ever. So was 2020 and the dizzying market gyrations all just a bad dream? Unfortunately not. Despite nearly two million lives lost to the pandemic globally and lockdowns that brought industries to a screeching halt and forced companies into bankruptcy, the global markets, all things considered, had an amazing year.

The magic of fiscal and monetary stimulus from governments around the globe, which was applied like a liberal sprinkling of pixie dust, did the trick. 2020 is certainly a year that most would like to forget for a lot of reasons, but the outlook for 2021 looks brighter as a result. Key early hurdles for the market in 2021 include the Georgia senatorial elections which will likely have concluded by the time you read this letter and the broad distribution of Covid-19 vaccines. They will be a key lynchpin to end the pandemic and return the world to some level of normalcy. Whatever "normal" means remains to be seen, but we're quite certain that it won't be exactly like days past.

Please read on to see our unique views of what's on tap for 2021, what some of the key themes are that we're investing in here at 1492, what the key stock market drivers will be, and indulge in some stock market trivia. We will be providing our strategy webinars and detailed performance information on 1492's strategies in a separate email in the coming week. If you would like to discuss any of our strategies with us, please contact Tim Stracka at 414-238-3398.

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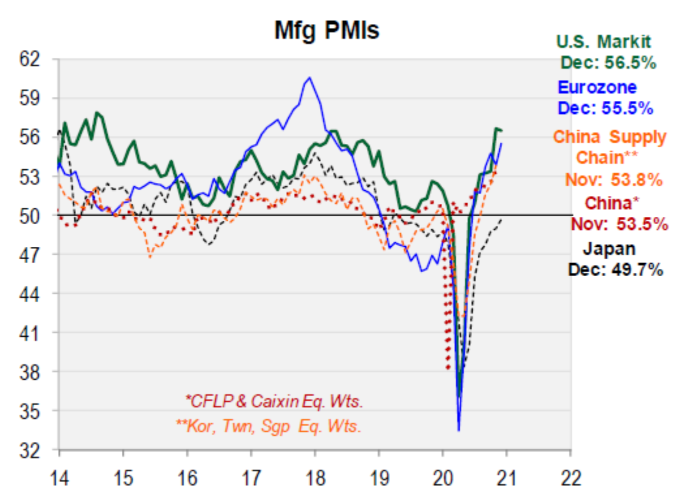
A Review of 2020: Was 2020 Just a Bad Dream?

If you went to sleep on January 31 and took an 11 month nap, you might have thought you missed a fairly ordinary year. If you woke up and just looked at the year-end tally for the S&P 500 and Russell 2000, they were up a very "ordinary" +18.4% and +20%, respectively, and the tit-for-tat tariff war with China seems like a distant memory. However, for those of us that lived through 2020 know it was anything but an ordinary year. We experienced the first global pandemic in over 100 years, rioting in the streets of cities across America, the first woman elected Vice President, and multiple Covid-19 vaccines created in a matter of months. The stock market's gyrations were anything but normal as we endured the largest monthly drop in the history of the Russell 2000 Index (-39.6%). On the way to achieving that milestone, the index experienced its single worst day ever (-14.2%) and four of the seven worst days in its history. The March quarter was the single worst quarter on record (-30.9%). However, the market posted an amazing recovery that has most market observers scratching their heads. This snapback includes the best quarter ever (December = +31.4%) and two of the four best quarters in index history. On this road to recovery, the index recorded its best day in history (+9.4%) and three of the best seven days ever. This topsy turvy market incented investors to open up a record, ten million new brokerage accounts, many at firms such as Robinhood, which is a haven for day-traders. So was 2020 and the dizzying market gyrations all just a bad dream? Unfortunately not. Despite nearly two million lost to the pandemic globally and lockdowns that brought industries to a screeching halt and forced companies into bankruptcy, the global markets, all things considered had an amazing year.

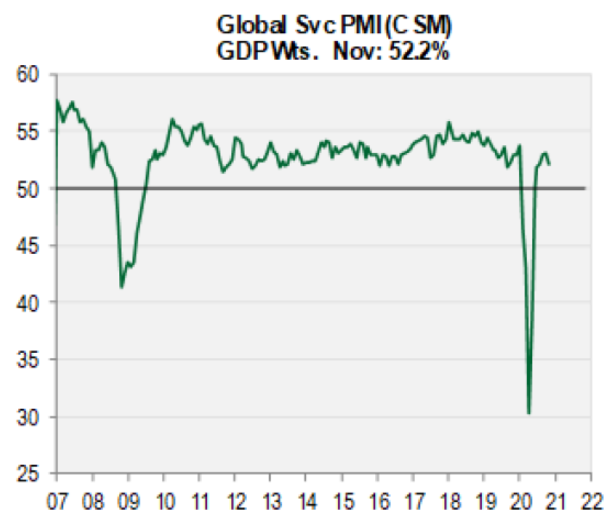
The magic of fiscal and monetary stimulus from governments around the globe, which was applied like a liberal sprinkling of pixie dust, did the trick. 2020 is certainly a year that most would like to forget for a lot of reasons, but the outlook for 2021 looks brighter as a result. Key early hurdles for the market in 2021 include the Georgia senatorial elections, which will likely have concluded by the time you read this letter and the broad distribution of Covid-19 vaccines. They will be a key lynchpin to end the pandemic and return the world to some level of normalcy. Whatever "normal" means remains to be seen, but we're quite certain that it won't be exactly like days past.

A Pandemic in Pictures

Nobody reading this letter was likely around for the last global pandemic - the Spanish Flu of 1918. We are truly breaking new ground here. With the benefit of hindsight, we're able to go back and show you what a pandemic looks like in pictures and what has stopped the global economy from plunging into the abyss. What's so different about a pandemic-induced recession when compared with your run-of-the-mill recession is the rapidity with which it happened due to the lockdowns. It's not every day that the global GDP drops 30% in less than a month. The chart below left shows the plummeting in PMI's (purchasing manager's index) which is a gauge of industrial activity for the major economic powers around the globe. Interesting to note that China's economy didn't dip like the others. Did they know something in advance?? On the right is a chart that depicts the Global Service PMI. Note the difference between the pandemic drop of 2020 and the financial crisis of 2008/2009. The service PMI is a gauge of the service side of the economy and includes such things as restaurants, airlines, hotels, etc. The quick response by governments around the globe is the key to the sharp rebound.

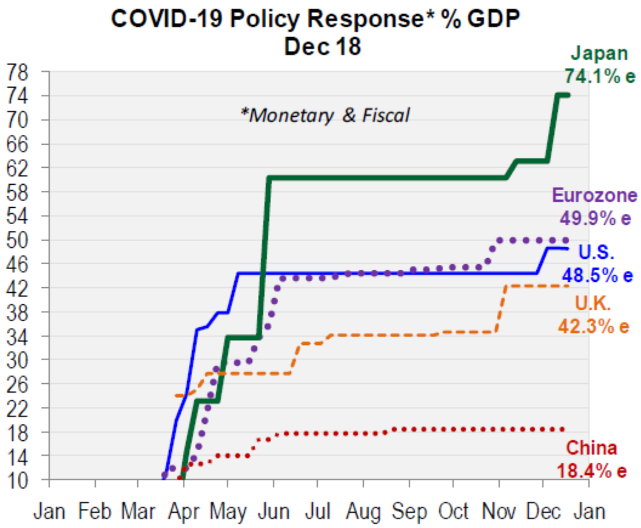


Source: Cornerstone Macro



As we said in our March newsletter, the U.S. government had the stimulus playbooks from the 2008/2009 recession and used that experience to shorten the downturn. The magnitude of the global response was massive and was something that was truly unprecedented. Below left is a chart that shows each country's policy response as a percent of their respective GDP.

Note that every country had more than one leg to its stimulus plan. The chart on the right shows the mix between monetary and fiscal stimulus measures and the total value of these plans. The punchline is that these plans are equal to nearly 33% of global GDP, a truly massive number. Including the pending $900 billion Coronavirus stimulus package, the U.S. package now equals $10.4 trillion or 48.5% of U.S. GDP.

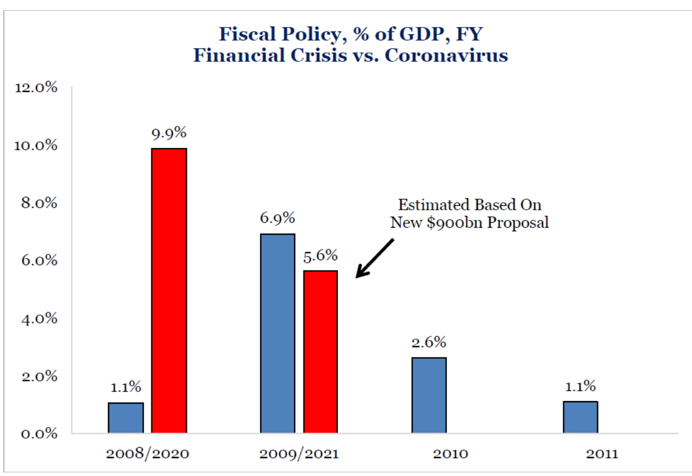


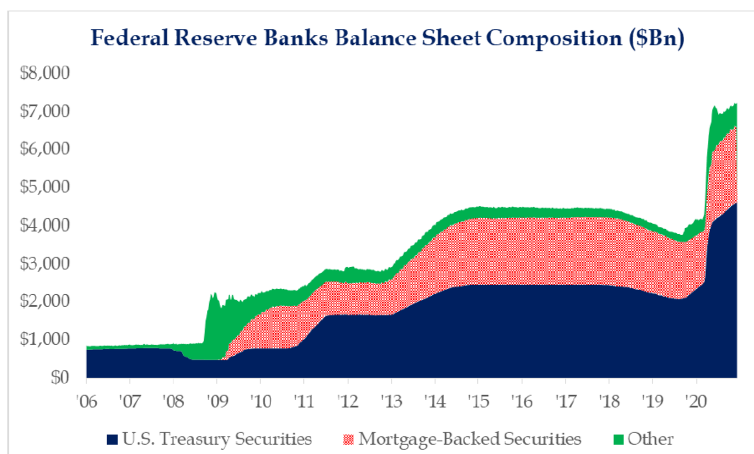
Source: Cornerstone Macro

Global Monetary And Fiscal Stimulus To Fight COVID-19 Impact 2020 Feb to Dec (CSM)

	Potential Central Bank Liquidity Injection		Potential Fiscal Stimulus		Central Bank Liquidity Injection and Fiscal Stimulus	
	$ Tln	% GDP	$ Tln	% GDP	$ Tln	% GDP
U.S.***	$6.21	29.0%	$4.19	19.6%	$10.40	48.5%
Eurozone	$2.38	17.9%	$4.27	32.0%	$6.65	49.9%
Japan**	$1.03	20.0%	$2.79	54.1%	$3.82	74.1%
U.K.	$0.57	20.7%	$0.59	21.6%	$1.16	42.3%
China****	$1.43	10.0%	$1.22	8.4%	$2.64	18.4%
Others*	$0.94		$2.85		$3.79	
Global	$12.56	14.5%	$15.91	18.4%	$28.47	32.9%

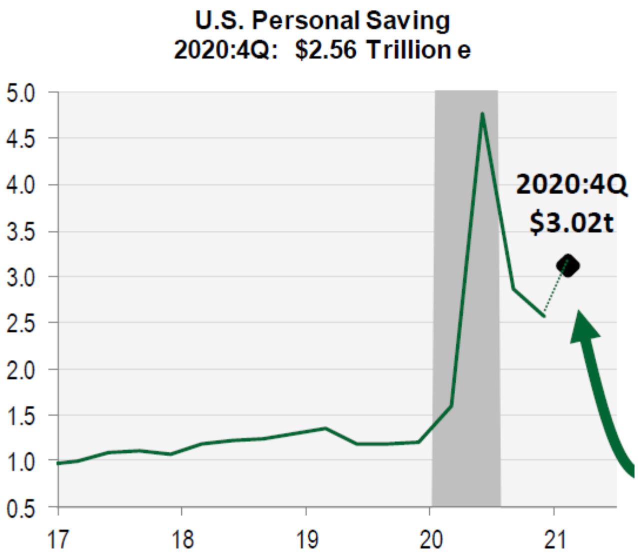
If you don't think that the government learned anything from the 2008/2009 financial crisis, I think the following charts could change your mind. The chart on the left shows how dramatic of an impact the current fiscal stimulus measures had on U.S. GDP when compared to the response of 2008/2009, which was slow to be enacted and not nearly as large as the pandemic response. The initial response resulted in a +9.9% boost to 2020's GDP growth with a subsequent boost to 2021's growth of +5.6%. The U.S. government brought out the bazooka without delay. The chart on the right shows the balance sheet of the Federal Reserve which saw an immediate spike earlier this year when they put in place monetary policy programs to add liquidity and stimulus to the economy. Once again it shows the size and immediacy of the programs launched versus 2008.

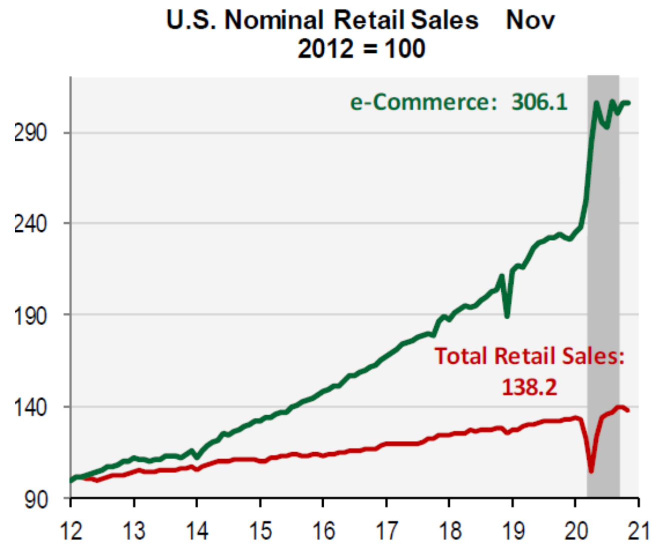




Source: Strategas Research

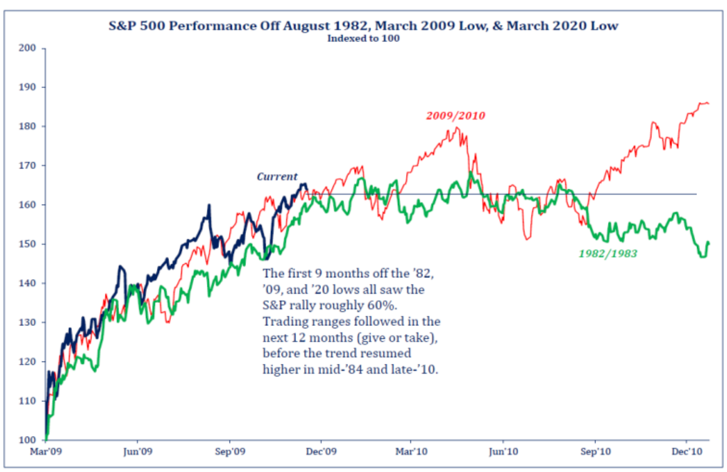
The pandemic coupled with the economic stimulus programs forced consumer behavior to change rapidly and in ways that we may not have predicted. As we all know, regional rolling lockdowns across the U.S. caused behavior to differ quite dramatically state to state. However, we all can agree that it pushed consumers to shift their habits and forced consumers to save, (partially due to injection of direct cash payments and to PPP loans), work from home, avoid mass transit, move to the suburbs, shop on ecommerce platforms, limit air travel, and invest. Below are a couple of examples of these changes. The chart on the left shows the enormous spike in U.S. personal saving. This increase was likely the result of stimulus payments from the government like direct cash payments and PPP loans and a forced retrenchment in spending due to closures of all things travel-and-leisure related. The way we spent our money clearly changed as well and likely accelerated the adoption of ecommerce spending by three to four years. The chart on the right highlights this phenomenon. Note that ecommerce growth had been outpacing total retail sales for years but the pandemic sent this trend to another level even while total retail sales initially slumped due to uncertainty around the virus.

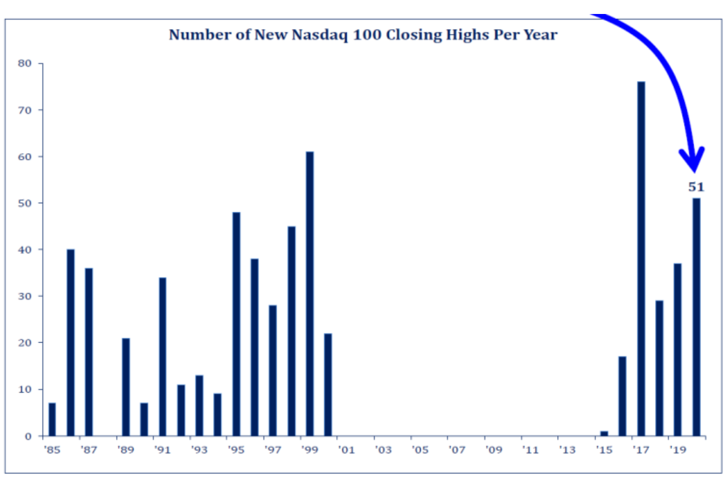




Source: Cornerstone Macro

Despite the ever-present pandemic lockdowns and spiking Covid-19 cases in the back half of the year, the government's actions and the corresponding impact on consumer behavior ultimately led to a stock market that you couldn't keep down. Many market commentators uncomfortably squirmed when trying to explain how the stock market could be acting so well despite the sharpest drops in economic growth in history. If we had a dollar for every time that CNBC had a market prognosticator on in March saying that it would take years for the economy and stock market to return to pre-pandemic levels, we'd be very rich. ***For those of us that use history as a guide, you would know that this market reaction isn't atypical at all.*** In fact, the stock market's returns off the March lows were on par with other recessionary recoveries as the chart on the left shows. In all three cases highlighted, the stock market advanced 60% off the lows in the first nine months and then returns flattened out in the next 12 months. We address our views of the coming year in the section below entitled 2021 Outlook-Conclusion of Covid is the Clear Catalyst but Tough Comps Lie Ahead. The other outcome that can't be ignored is the strength of the NASDAQ Composite. This index holds a disproportionate share in technology and biotech stocks that benefited from the acceleration of the digitization of our economy and from the efforts to discover vaccines to fight the Covid-19 virus, respectively. The chart below right shows the accelerating number of new highs the NASDAQ index made during the year. This event has led market commentators to conclude the market is overvalued. We address this topic later as well.





Source: Strategas Research

As we stated at the beginning of the newsletter, all in all it was a very good year for the stock market, especially considering the roller coaster ride we've been on in our daily lives and in the stock market. During the fourth quarter, the market soared following the conclusion of one of the most contentious elections in our nation's history and the announcement that not one, but several, vaccines had successfully met, or rather blown away, their targeted efficacy hurdles and would be available for immediate distribution. When we review this time period years from now, Operation Warp Speed may be singled out as the most successful public/private partnership in history due to the extraordinarily quick response and success of the efforts. This success fueled the Russell 2000's single best quarterly return on record of +31.4%. In a significant change in trend, the small cap Russell 2000 pushed past the S&P 500 in the fourth quarter to take the yearly crown. However, it was the NASDAQ Composite which stole the show with its gaudy +44.9% return on the year. All of the major indices made all-time highs as we closed out a very memorable year but one we'd all like to forget. The table below highlights the returns for both the fourth quarter and year-to-date 2020 for the popular indices.

Index Returns		
Index	Fourth Qtr. 2020 Return	2020 YTD Return
Russell 2000	+31.37%	+19.96%
Russell 2000 Growth	+29.61%	+34.62%
Russell 2000 Value	+33.36%	+4.63%
S&P 500	+11.69%	+18.4%
Dow Jones Industrials	+10.17%	+7.25%
NASDAQ Composite	+15.63%	+44.92%

Source: 1492 Capital Management, LLC and FactSet

From a style perspective, we'll declare it a no-contest. The Russell 2000 Growth Index (+34.6%) handily beat the languishing Russell 2000 Value Index (+4.6%) for the year despite a massive surge in the fourth quarter when some historical "value" sectors like Financials and Industrials began to perform better and provided hope to the "value" crowd that their difficult decade was about to turn for the better. However, despite the fourth quarter pop, the Russell 2000 Value Index only outpaced the Russell 2000 Growth Index +33.4% to +29.6%, respectively, for the three months. From a sector standpoint, Healthcare (+46.1%) and Technology (+38%) were the two leaders for the year and continued a trend that's been in place for a couple of years. Massive gains in biotech stocks that were fueled by Covid-19 vaccine success propelled Healthcare, and the Technology sector was strong on the heels of the work-from-home environment. The worst performing sector was Energy as collapsing demand for oil and gas plagued the sector early in the year and it was never able to recover. The two tables below highlight the performance of the Russell 2000 and style indices by sector for the fourth quarter and for year-to-date 2020.

Full Year 2020

	Russell 2000			Russell 2000 Growth			Russell 2000 Value		
GICS Sector	Absolute	Contrib	Relative	Absolute	Contrib	Relative	Absolute	Contrib	Relative
Com Serv	5.12	-0.02	-14.84	13.99	0.26	-20.64	-6.12	-0.32	-10.76
Discretionary	32.28	4.73	12.32	32.16	3.94	-2.47	31.34	5.53	26.70
Staples	26.25	1.19	6.29	18.05	0.67	-16.58	35.32	1.70	30.68
Energy	-36.76	-1.48	-56.72	-33.78	-0.39	-68.41	-37.08	-2.31	-41.72
Financials	-4.45	-4.23	-24.41	17.37	-0.04	-17.25	-8.96	-7.17	-13.60
Health Care	46.05	12.43	26.09	48.26	19.77	13.64	32.38	3.28	27.74
Industrials	24.63	2.82	4.67	35.55	1.48	0.92	11.56	3.91	6.93
Info Tech	38.00	6.36	18.04	44.42	9.70	9.80	27.56	2.24	22.92
Materials	16.55	0.96	-3.41	6.81	0.00	-27.82	20.49	2.18	15.85
Real Estate	-5.07	-2.31	-25.03	7.59	-0.90	-27.04	-10.02	-3.35	-14.66
Utilities	-1.23	-0.50	-21.19	8.42	0.12	-26.21	-3.99	-1.05	-8.63

Source: FactSet; FTSE Russell; Jefferies

	Fourth Quarter 2020								
	Russell 2000			Russell 2000 Growth			Russell 2000 Value		
GICS Sector	Absolute	Contrib	Relative	Absolute	Contrib	Relative	Absolute	Contrib	Relative
Com Serv	31.61	0.72	0.24	26.52	0.61	-3.09	37.27	0.84	3.91
Discretionary	26.28	3.61	-5.09	23.79	3.38	-5.81	29.17	3.86	-4.19
Staples	23.05	0.79	-8.32	16.76	0.56	-12.84	29.24	1.04	-4.12
Energy	45.18	0.84	13.81	37.73	0.06	8.13	45.49	1.65	12.14
Financials	35.18	5.50	3.81	22.36	1.00	-7.25	37.46	10.35	4.10
Health Care	30.53	6.31	-0.84	31.83	10.86	2.22	23.36	1.53	-10.00
Industrials	32.09	4.87	0.72	31.13	4.21	1.52	32.99	5.57	-0.37
Info Tech	37.54	4.88	6.17	35.98	7.13	6.38	43.45	2.48	10.09
Materials	39.60	1.61	8.23	23.11	0.64	-6.50	48.05	2.64	14.69
Real Estate	22.55	1.52	-8.82	20.48	0.76	-9.12	23.44	2.32	-9.92
Utilities	21.29	0.72	-10.08	22.74	0.40	-6.86	20.75	1.08	-12.61

Source: FactSet; FTSE Russell; Jefferies

The rebound that we witnessed in the U.S. markets wasn't replicated in international markets as Europe ended mixed on the year with better results in most Asian markets. As the year progressed, emerging markets did better than developed markets overseas as they began discounting a synchronized global recovery from the pandemic's expected end in 2021. Many European markets finished the year in the red, whereas South Korea (+30.8%), Japan (+16%) and India (+15.8%) led the Asian markets as Covid-19 impacted their economies less. Stimulus initiatives abroad should put wind in the sails for these markets as we enter 2021. On the commodity front, metals and lumber were the big winners as lumber exploded higher (+115%) on insatiable housing demand. Metals were surprisingly strong as inventory levels around the globe were rightsized despite lower demand from autos and other heavy metal industries. Copper was the clear beneficiary as it rose +26%.

Index	Fourth Qtr. 2020 Return	2020 YTD Return
France	+15.6%	-7.1%
Germany	+7.4%	+0.4%
Brazil	+25.8%	+2.9%
India	+25.4%	+15.8%
China- A Shares	+7.9%	+13.9%
China- Shenzhen A Shares	+8.4%	+35.2%
Japan	+18.4%	+16.0%
Long-Term Treasuries (TLO)	-3.4%	+16.1%
Investment Grade Corp Bonds	+3.2%	+9.7%
Gold	-0.0%	+24.4%
Volatility- VIX index	-13.7%	+65.1%
Oil	+20.6%	-20.5%
Natural Gas	-0.0%	+15.4%
Lumber	+42.6%	+115.4%

Source: 1492 Capital Management, LLC

A Look Back- Predictions and Prognostications for 2020: How Did We Do?

While we aren't in the business of making formal forecasts on the economy or on the stock market, we thought it would be interesting to review our 2020 outlook from a year ago and see where our prognostications hit and missed the mark. Our predictions/prognostications from our fourth quarter 2019 newsletter are in italics below.

> *"If you simply deconstruct the returns of the S&P 500 in 2019, the two heaviest hitters in the S&P 500 index, namely Apple and Microsoft, soared 89% and 58%, respectively, and accounted for nearly 20% of the S&P 500's returns for the year. These trillion dollar mega cap stocks are unlikely to repeat this feat in 2020. We're not predicting any major swoon for these stocks in 2020 as they are still very well positioned, but their returns are likely to be much more muted."*

Well we were clearly wrong on this one as Apple and Microsoft layered another spectacular year onto their 2019 returns with gains of +83% and +43%, respectively. Apple became the first U.S. based company with a market capitalization greater than $2 trillion. The acceleration in the digitization of the global economy due to Covid-19 was the catalyst behind these stocks moves.

> *"While we're not in the business of making predictions, we always present some directional views on where we think the market will trend over the next year. We expect 2020 will get off to a slow start from an economic standpoint due to an earlier Chinese New Year and remaining uncertainty about the go-forward rules around trade (although this should quickly be resolved with China). Another headwind is the uncertainty around Boeing and their production issues related to the ongoing 737-Max jet saga. While it is just a single company, Boeing's issues have a disproportionate impact on certain economic statistics and resonate through its huge supply chain. Based on the latest forecasts, Boeing should be back up and producing at more normalized rates late in the first or early second quarter of 2020. The GM strike, which was a headwind to the economy late in 2019, should turn to a tailwind in 2020 as production normalizes. We also face easy comparisons in the first half of 2020 in many industries due to the excessively wet weather that much of the country experienced in the first half of 2019. It's hard to imagine that the weather impact could be much worse in 2020 but it, as always, is a wild card. Lastly, we'll have to endure a year of intense political noise as we approach the November Presidential election. Election years can be very interesting from a stock market perspective, and I don't imagine 2020 will disappoint."*

While a couple of comments that we made in the preceding paragraph turned out to be correct, they were correct for all the wrong reasons as Covid-19 made any call for a slowing economy look prescient. The sluggish start to the year was due to the start of the pandemic and not an earlier Chinese New Year. Boeing's troubles only got worse as their 737-Max jet issues extended until nearly Thanksgiving before they were cleared to fly. Unfortunately for them, their customer base was basically incapacitated as Covid-19 restrictions pushed the airlines to the brink of bankruptcy. When we made our prediction that election years can be very interesting, what transpired in 2020 wasn't what we had in mind.

> *"the first half of the year may not be much to write home about, and we'll also need to digest the significant gains that were tallied in 2019. The earnings comparisons that we'll face in the second half of the year will be quite easy given the economic weakness that we've just experienced over the past several months. However, it's the rate of change that matters, and we should see nice year-over-year growth in the second half of 2020 as a result. Many of the things that have been supportive to the economy will remain in place like historically low interest rates, low unemployment, and accelerating wages with subpar inflation. This environment should be supportive of M&A activity given the low relative valuations of small caps as we mentioned above. The wild cards remain Trump, the election, and China. Therefore, our prediction is that the market in the first half of the year will likely digest gains and assess the trajectory of the second half recovery before putting in another strong upside move in the second half. If our assessment is right, we should see accelerating earnings growth that approaches the high single digits in the second half of the year. This acceleration will lead the market higher as we move toward the end of the year and as the Presidential election is behind us.* ***The bottom line is that there is a larger gap between small and large cap valuations that we haven't seen in almost 20 years. This gap leads to small cap outperforming large caps and an advance approaching 10% for the broader market and potentially more for small caps****."*

As we predicted, the wild cards of Trump, the election, and China were certainly that - wild cards. Trump held form by simply being Trump. The election was a wild card as we elected a President who barely made it out of the New Hampshire primary, and we elected the first woman to the post of Vice President. Lastly, China was the source of the virus that ravaged the world as we now know. Our correct prediction that the second half of the year would be better than the first was simply a function of having one of the worst first six months of the year on record due to the pandemic and not from our keen insight. Our call for small caps to outperform the large caps' market advance of 10% for the year was darn close. However, we'd be the first to admit that this isn't at all how we envisioned getting here.

2021 Outlook: SPACs are the Flavor of the Day but We Think They're Here to Stay

SPACs or Special Purpose Acquisition Companies, are the hottest thing on Wall Street since the Dotcom era. Opinions on the legitimacy or efficacy of this type of stock offering are mixed, but before we offer our thoughts, let me explain what they are and why they exist. SPACs are companies that raise money through a public offering of stock with the purpose of using the proceeds to make a future acquisition. They are also called "blank-check" companies. A sponsor entity leads the SPAC that issues the shares into the market (usually management teams that have a strong reputation from a prior successful business or Investment Banks). Each SPAC targets a capital raise that they believe will be of sufficient size to make an acquisition in their target industry. Many SPACs target a specific industry that the sponsor team has experience in to give them credibility, but there are some entities that are looking to buy a target in any industry and are just searching for a strong target candidate. The shares are almost always issued at $10 per share and usually contain a fraction of a warrant per share (.25-1 warrant per share is the norm) with an exercise price which is at a premium to the offer price of $10. The combination of the stock and warrant are called a unit, which may trade separately after issue. Warrants are usually struck at $11.50 and give the holder the right to buy a share of the target company at $11.50 for a period of five years, for example. The proceeds of the initial SPAC offering are put into a trust where they are held in ultra-safe investments like short-term treasury securities for safekeeping until a target is identified. The SPAC has a two year term in which to identify a target and execute a transaction. If the SPAC doesn't complete an acquisition transaction within the two year term, the trust returns the $10 back to investors. The SPAC typically has a management structure similar to a normal corporation with a board of directors and management team. The sponsor group usually receives up to 20% of the shares of the post-IPO SPAC as compensation for doing the work on the transaction. However, this percentage has been shrinking of late as investors have become increasingly savvy and won't give up as much of the company anymore as the market has become increasingly more competitive. Similarly, the number of warrants granted to SPAC investors has been falling over time. Years ago when SPACs first debuted, investors, in many cases, received one warrant for every share they purchased. Now many SPACs are being issued with only 1/4 to 1/3 of a warrant per share to reduce future dilution. Once a target is identified and the valuation is agreed to by all parties involved, the sponsor usually raises additional capital in the form of a PIPE (private investment in a public equity) transaction which is used to fill the gap between the capital raised in the initial offering and the value for the target company. Once this process is complete, the De-SPACing phase takes place in which the original SPAC investors elect to go along with the transaction or receive their $10 back from the trust. If it's viewed as a strong deal, all or most initial investors will elect to go along with the announced transaction and become shareholders in the new entity.

For a time, SPACs had a bad reputation as many viewed this form as a get-rich-quick scheme that benefitted the sponsors. Many hedge funds invested in these vehicles at the inception of SPACs because they would have a low volatility investment of $10 that sat in trust earning a very low interest rate, and once a target was identified, they could choose to approve the target or get their $10 back if they disapproved. If they approved the target transaction, many would sell their shares into the market and keep the warrant for their own account and play for the upside that may come with the success of the target company in the future. This process minimized the capital that they had invested while still allowing for participation in the upside of the company over time. The reason that SPACs have now become very popular is that it is the public market's answer to the surge in Private Equity assets over the past 15 years. Essentially, SPACs are a publicly traded vehicle that allow an investment in a company that may not have gone public for a variety of reasons.

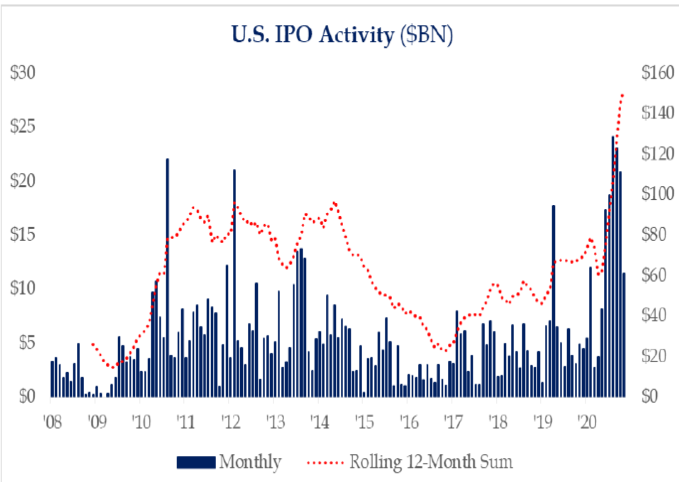
Key benefits of SPACs are the following:

- Lower regulatory costs to the target company as the target doesn't need to file all of the documentation that a normal IPO would require.
- Once the target is identified, the target management team can provide forecasts about their future to prospective investors. This process provides a clearer picture to prospective investors of the company and allows the target company to talk more openly about their future prospects. This disclosure was never allowed in a normal IPO.
- It is a better outcome in many instances for the target because they don't have to sell the entire company to a private equity firm that usually assumes management control of the firm and drives cost cutting measures, etc. The target can choose to take some money off the table at the closing of the deal, yet keep a controlling stake in the ongoing publicly traded company which has liquidity and a readily identifiable market value.
- SPACs have an advantage with respect to Section 11 liability under the 1933 securities act. Under this provision, a normal IPO company can face lawsuits for not disclosing certain risks or misstatement of key issues.
- Investors in a SPAC know the value of the company in advance of the transaction. This disclosure doesn't mean that the SPAC shares can't appreciate as speculation and enthusiasm build for a target company prior to the closing of the

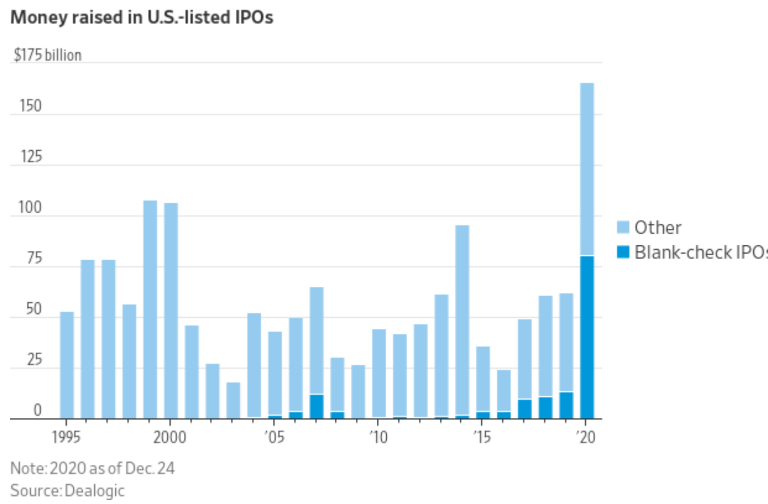
deal. In contrast an IPO prices the day before the offering and either you take it or leave it without much certainty around valuation.

- Underwriting fees for an IPO are usually between 5-7%, whereas SPAC fees are generally below this level now as they've become more competitive.

At 1492, we've participated in SPACs as an upfront investor and as an investor once the target is identified. There isn't a right or wrong answer, but you're clearly making a bet on the sponsor if you invest upfront. This upfront bet is a low risk one as you can get your initial $10 investment back with interest if you don't like the target company. SPACs have really taken off in 2020 as capital has been plentiful and cheap due to the low interest rates. However, like anything, too much of a good thing is bad, and we're starting to see certain sponsors who were successful in doing their first SPAC come back for a second or third bite of the apple. As the chart below left shows, SPACs have become a key driver of the surging volume of the IPO market this year. The chart on the right shows how significant of an impact SPACs had on the entire IPO market. It's the most active IPO market since the 1999/2000 tech bubble. We know how that ended, so buyer beware.



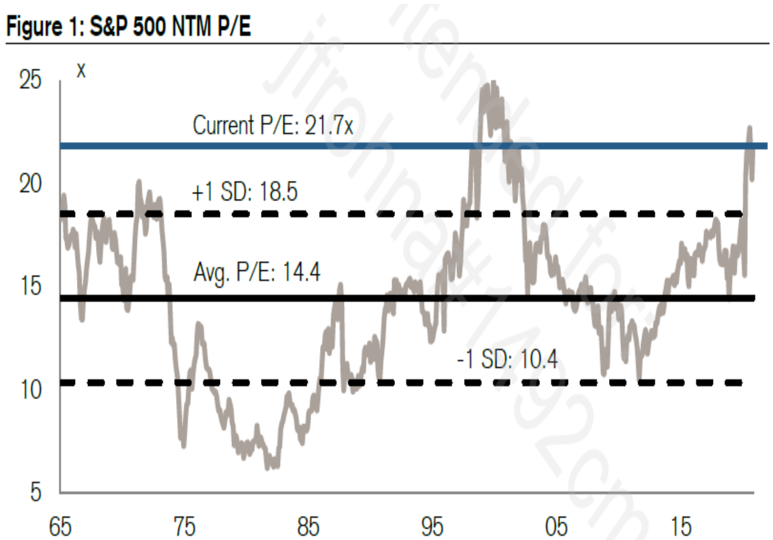
Source: Strategas Research



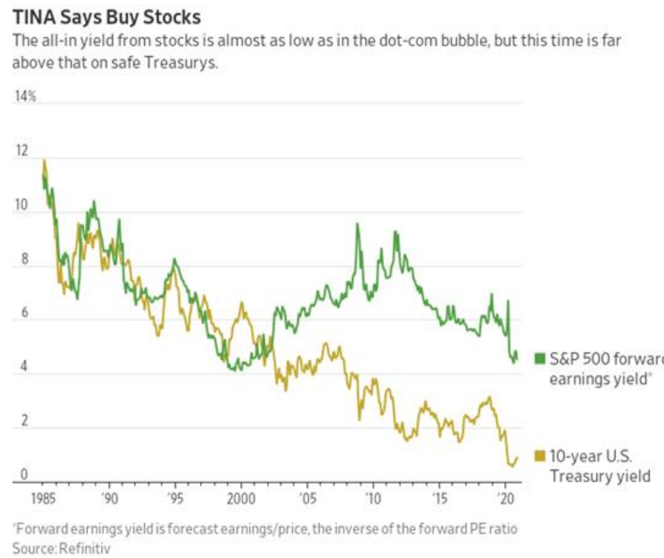
2021 Outlook: Not Quite 1999/2000, but Signs of Excess are Building in Several Sectors

When a stock market rises relentlessly as we've seen since the market bottom in March, the inevitable calls of "bubbles" or irrational exuberance surface, which is what has happened in the last few months as every U.S. index has hit new all-time highs. While these calls seem to come out every time the market has a nice run, in my opinion, this time there is some creditability to it. To illustrate this point, there are 410 publicly traded companies that are currently trading with an enterprise value to sales ratio greater than ten times (excluding the REIT sector). This level is incredibly high, and in "normal" market periods this number typically hovers around 100 companies. What this valuation metric means in layman's terms is that if a company was trading at 12 times revenue and had 100% margins, which no company does, it would take 12 years to get your investment back. There are many examples of software companies with recurring revenue streams that are currently trading with valuations north of 30 times revenue. Keep in mind that most of these companies have operating margins that are at best 30% with many of them losing money on an operating basis. Growth at any price has certainly become a reality in today's stock market. The 10 million new brokerage accounts that have come online this year, which includes the now-infamous Robinhood investors that pile into the same investments regardless of valuation, were a key driver of this rally. Irrational exuberance has returned in the form of some recent IPO's that defy logic. For example, Snowflake, a cloud storage company which recently came public a few months ago and is forecast to have about $1 billion in revenue in 2021, traded as high as 110 times revenue. This level is absurd even for a company growing 100% per year. Two other recent IPO's demonstrate the disregard for valuation. The first company is Doordash which delivers food from restaurants to consumers across the U.S. Just Eats acquired Grubhub, Doordash's nearest competitor, for about 3.3 times revenue this year. On its IPO, Doordash more than doubled the first day and trades at a dizzying 14.5 times revenue. How is it possible that two companies which address the same end market should trade at such wildly different multiples? Lastly is the example of Airbnb, the popular home rental service. It recently came public, and after the offering price range was increased a couple of times prior to the IPO, it still traded up over 100% on its first day of trading. It is currently valued at a revenue multiple of 25 and has a market value of $115 billion. Pretty heady stuff.

The comparisons to the 1999/2000 tech bubble are used all too frequently. However, as I mentioned above, there are clearly pockets of the market that are overvalued, but the current market valuation metrics are much more deserved than in 2000. For example the current valuation of the S&P 500 is shown graphically in the chart below left. As you can see, the current forward P/E ratio is 21.7 times earnings, which is well below the peak of the 1999/2000 bubble. Today's equity market should trade at a higher multiple than in prior periods. This opinion is due to one simple valuation input, and that's interest rates. The 10 year U.S. Treasury rate was 6% in 1999 compared with just 0.9% today. As interest rates drive the calculation used to discount future earnings streams, today's tremendously lower rates justify a much higher earnings multiple. This concept can be seen in the chart below right. Earnings yields and interest rates have historically been closely tied but have widened out of late, which provides equities with more headroom to appreciate.

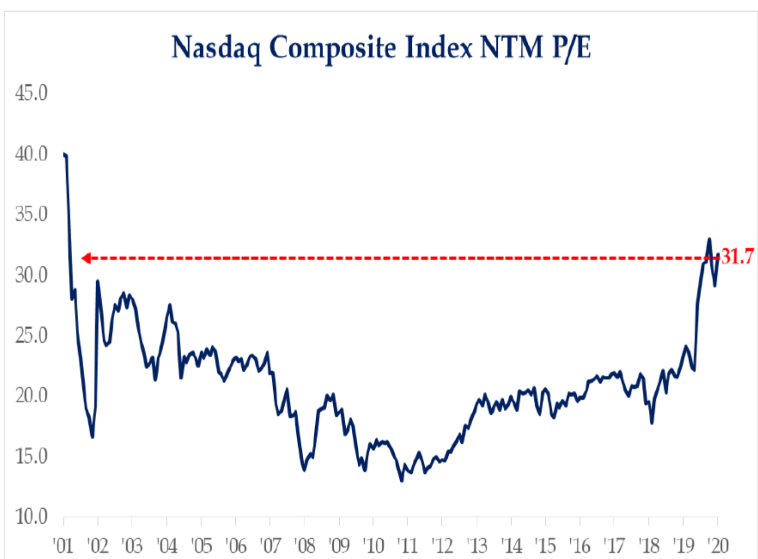


Source: Credit Suisse



Source: Wall Street Journal

In addition, today's largest companies that are driving the stock market are the likes of Microsoft, Apple, and Google, all of which trade at reasonable P/E ratios of 25-30 times. These valuations are justifiable due to their organic growth rates and strong margin profiles. The chart below shows that the NASDAQ currently trades at its highest level since 1999/2000 but again, when relative interest rates are accounted for, today's stock market valuations are much more justified due, in part, to the lack of compelling investment alternatives.



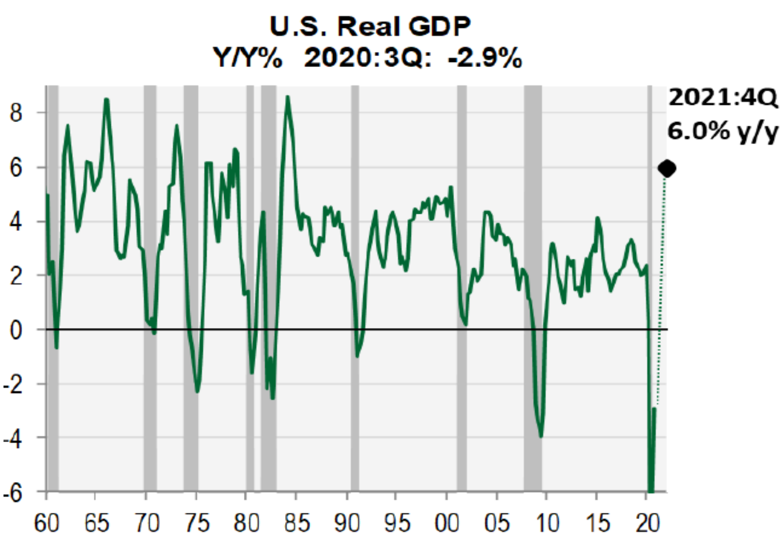
Source: Strategas Research

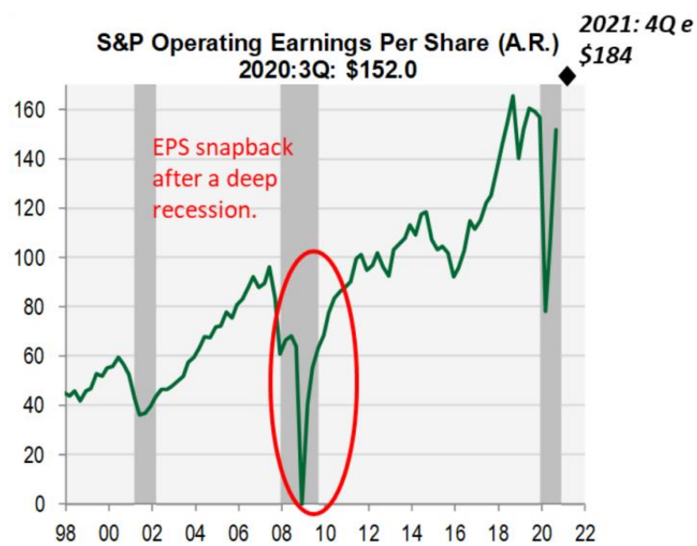
2021 Outlook: Covid-19 Conclusion is the Clear Catalyst but Tough Comps Ahead

Undoubtedly, the largest catalyst ahead for the U.S. economy is the conclusion of the Covid-19 pandemic. Assuming the vaccination rates that are projected in the U.S. are correct, we should achieve herd immunity in the May/June timeframe. Presumably this event will allow a level of normalized economic activity to resume. The real question is what does normal look like and how quickly do we get there?

The Economic Outlook

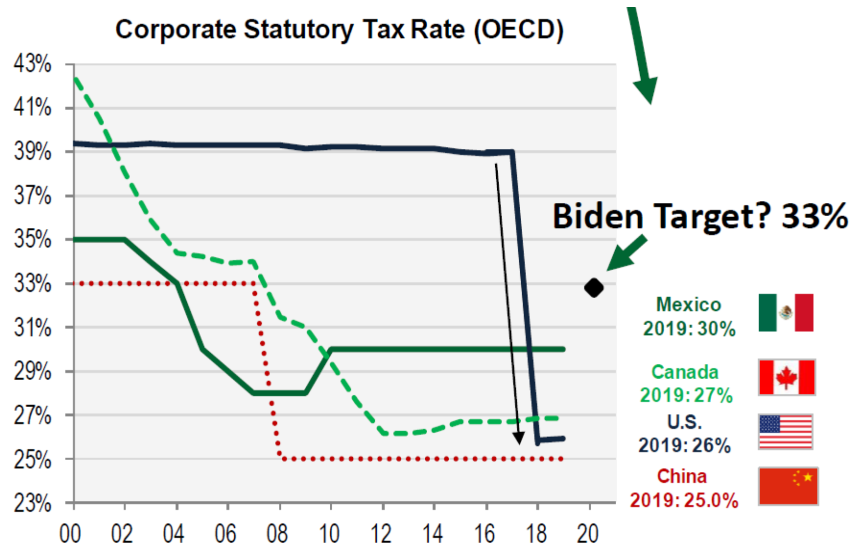
The economic stimulus programs that we referred to earlier in the newsletter are, and will be, the key drivers of the economy. They're expected to add nearly 6% to GDP growth in 2021. Amazingly, despite the global lockdowns, the U.S. economy is projected to grow dramatically into 2021 off of easy comparisons, but even as we approach the fourth quarter of 2021, the economy should be advancing at a 6% year-over-year rate. As a reference point, GDP growth for much of the past 10 years has been sub-3%. Obviously much of this growth is predicated on ongoing stimulus measures and a return to a normal economy that is free of lockdowns. The substantial expected rebound in GDP growth can be seen in the chart below left. Amazingly, the annualized 2021 earnings for the S&P 500 are projected to be nicely above the pre-Covid-19 levels of 2019 despite all of the global lockdowns. This earnings level is stunning when you consider the pandemic's impact on the global economy. As an investor, I've been amazed at the level of profitability that most companies were able to deliver this year despite the pandemic headwinds. Productivity has been off the charts. Corporate management teams have to be asking themselves if they need all the office space and global travel in order to be successful going forward. Given what transpired in 2020, I bet many conclude that they don't.





Source: Cornerstone Macro

As 2021 opens we'll be ushering in a new governmental administration. The agenda set by Biden early on may be a tone-setter for the market. Will the new policies be reminiscent of the low growth/high regulation era of the Obama/Biden administration, or something more economically friendly? Unfortunately, the only real details that we've seen emerging from the new administration are related to taxes, which are forecast to increase for both corporations and individuals. This news isn't a great start as Trump successfully pushed U.S. corporate taxes down to a level that is comparable and competitive with most other countries around the globe. In my opinion, this change is how unemployment levels hit record low levels prior to the pandemic. When companies have a bigger bottom line, whether it's from lower taxes or some other driver, they tend to spend it on hiring and R&D in the unending quest to gain market share in their respective industry. Unfortunately, Biden has already indicated that he plans to raise taxes to a level that would be much higher than those of our three largest trading partners as shown in the chart below. It's projected that this decision would lower earnings of the S&P 500 by 7-10% as a result. One potential offset that is being bandied about is a large infrastructure package. However, by the time something of significance is agreed upon and passed it will likely be too late to impact 2021.



Source: Cornerstone Macro

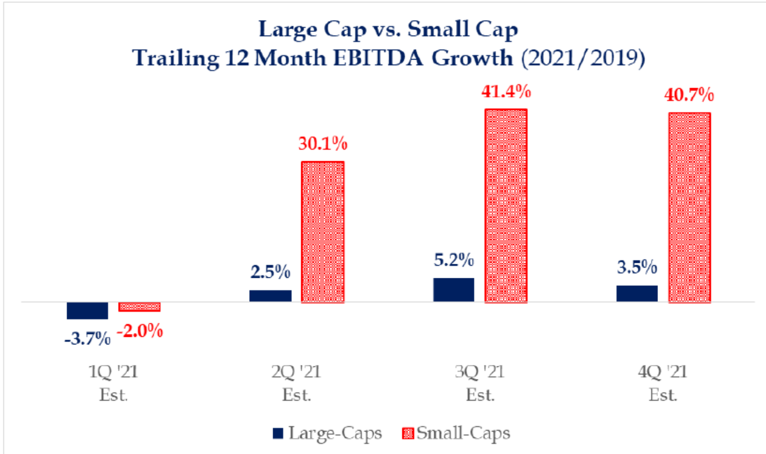
Our Fearless Forecast for 2021 - Setup for Stock Market Appears Challenging Given What's Priced In

While we're not in the business of making predictions, we always present some directional views on where we think the market will trend over the next year. Assuming a successful and timely rollout of the Covid-19 vaccines, there will undoubtedly be many green shoots that investors will be able to point to in the global economy as businesses and borders reopen around the globe. The question in our mind is what's already priced in, and in our view, it is quite a bit. However, this thought doesn't mean that the market can't advance from here. It's just going to depend on how quickly economies turn back on after pandemic lockdowns. The first major hurdle for the market will arrive in the first week of the year when the Georgia Senatorial elections take place. If Republicans do not come away with at least a split of the two seats up for grabs, we would expect the market to pause for a time to see what the new administration proposes as Democrats would take control of Congress. The stock market likes a split government and as we write this newsletter it appears that's what is priced into the market. Absent this turmoil, we expect equities to tread water early in the year. We will be busy digesting the massive fourth quarter 2020 gains, gauging what's an appropriate expectation for the rollout of vaccinations, and determining how the Biden administration will deal with the far left wing of the Democratic Party. If the far left drives his policies, the stock market may retreat as there is concern over higher spending and inflation. Inflation is still the one bogey man that most investors fear due to the massive stimulus measures launched around the globe. It's clearly low now, but any significant increase is likely to spook the market. The Federal Reserve has stated that they have no intention of raising interest rates until after 2022 and if this view changes, then watch out below. Their interest rate policy coupled with stimulus have been the two key drivers of the current stock market bounce.

As we progress through 2021, the inevitable question has to be how does the global economy look without stimulus? This question is likely to come into focus sometime in the second half of the year as all major global players conclude their stimulus efforts, and economies are left to fend for themselves. Even though this issue may be more of a 2022 event as stimulus likely impacts much of 2021, the stock market is a discounting mechanism, and the market will begin to digest what that may look like. The first half of 2021 will have very easy comparisons as the pandemic's impact began in March outside of China. The second half comparisons will become increasingly difficult but still relatively easy from an historical perspective, all things considered.

With interest rates remaining historically low, they will be a key determinative factor for the economy and the stock market. To see how important rates are, just look how robust the homebuilding and home sales numbers were in 2020 despite the pandemic. If rates move too high too quickly, we could see homebuilding slow just like in 2018. Homebuilding is always a key cog in the U.S. economy. Low interest rates are also important for determining equity valuations as discussed earlier. We predict that the low interest rates and increasing business confidence will set off an epic wave of mergers and acquisitions, which follows the record capital raising year of 2020.

Bringing it back to small caps, the growth expectations for this asset class in 2021 look compelling but too high in our opinion, as the economy recovers post-pandemic. Regardless of how overstated the expectations may be, in our opinion, small caps will still show outsized growth compared to large caps as long as the economy continues to normalize as Covid-19 recedes. The chart below shows the expected growth for both small and large caps by quarter in 2021. This growth is the likely reason that small caps have outperformed large caps late in 2020 as the market is sniffing out the growth disparity ahead. Small cap outperformance cycles typically last eight years so there may be much more ahead for small caps.



Source: Strategas Research

Therefore, our prediction is that the stock market will likely digest gains in the first half of the year as it looks for any setbacks in Covid-19 vaccine deployments and Biden administration surprises. As we move through the second half, inflation expectations will be key as we may begin to see a “Roaring 20’s” effect. The Roaring 20’s came at the conclusion of the Spanish Flu Pandemic of 1918 and there was a tremendous amount of pent up demand for going out and having fun once the pandemic subsided. We see a high likelihood of this effect taking shape in the second half of the year which could send the sectors that were heavily impacted by Covid-19 (travel and leisure to name a few) skyrocketing. This event will be a nice offset to those sectors of our economy that were beneficiaries of the pandemic like the “work from home” industries of software and all things involved with the accelerated digitization of our economy. We expect the stock market to grind higher in the second half of the year as uncertainties dissipate. The small cap valuation gap versus large caps has been narrowed somewhat due to small cap’s late 2020 outperformance, but it was the largest differential that we’ve seen in almost 20 years and we expect that to continue to narrow. This position leaves advances for large caps approaching mid-to-high single digits as valuation levels are unlikely to expand significantly from here with interest rates poised to move higher, and small caps will outperform and yield returns in the low double digits. The best guide as usual is history. The table below shows that performance in the nine months following the first nine months off of the lows of the market, yield an average return of +8.1% with an average intermediate decline of -9.7%.

S&P Performance +9 Months Off Low & Next 9 Months

S&P Low Date	+9 Months Off Low	Next +9 Months	Max Drawdown Months 10 to 18
10/22/1957	19.1%	24.4%	-4.4%
6/26/1962	26.9%	11.9%	-6.5%
10/7/1966	25.3%	1.7%	-10.1%
5/26/1970	39.6%	-5.3%	-13.9%
10/3/1974	51.5%	8.4%	-14.1%
8/12/1982	60.4%	-4.8%	-10.1%
12/4/1987	18.1%	23.1%	-7.4%
10/11/1990	27.6%	7.2%	-6.8%
10/9/2002	29.0%	13.7%	-6.6%
3/9/2009	62.0%	0.8%	-17.1%
3/23/2020	65.8%	?	?
	Average	8.1%	-9.7%

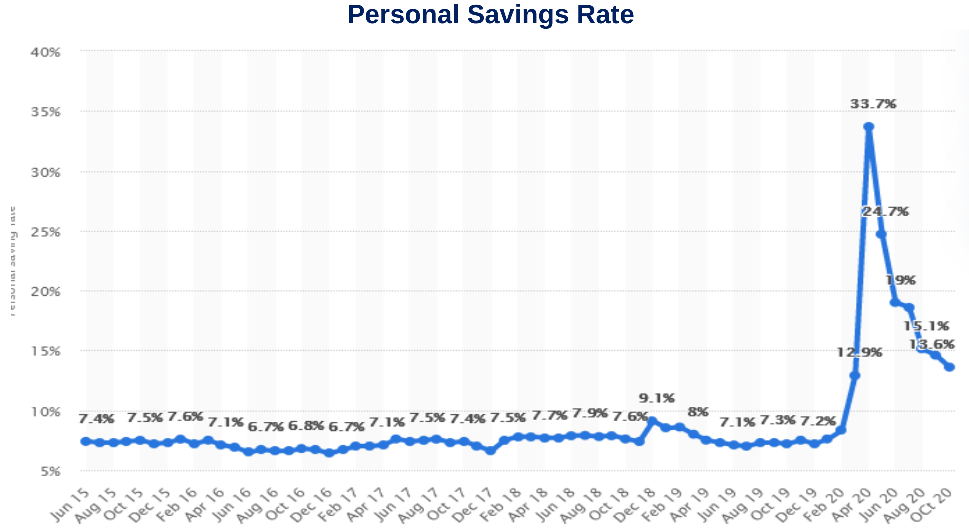
Source: Strategas Research

Thematic Investing: Unleash the Hounds - Consumers Shift Their Spending in 2021

With COVID-19 likely to create nearly a full year of consumer spending that is focused on nesting items for the home/home office or on sporting goods for acceptable socially distant outdoor activities, we believe that the spread of the Coronavirus vaccines in the U.S. will create a strong shift back to normal social activities like going out to dinner in 2021. In the TV show the Simpsons, evil billionaire tycoon Monty Burns would rid people from his mansion by directing his associate to "unleash the hounds" to chase the unwanted guests off of his property. With people growing weary of takeout and excessive "quality" family time, we believe that the vaccines are the hounds to drive this strong consumer share of wallet shift back to services versus things in the New Year.

According to the Bureau of Economic Analysis, consumer spending on foodservices and accommodations has declined 20.7%, year over year, through the first nine months of 2020. With rising quarantine restrictions announced for several major cities, the fourth quarter comparison will be miserable as well. According to research from Stifel, it is estimated that the casual dining segments same store sales will plummet 25% in 2020. As the vaccine rollout accelerates, we believe, however, that one of the key beneficiaries of this spending shift will be full service restaurants. The well-financed, well run operators that quickly launched an effective takeout program to combat the Coronavirus and that executed permanent cost cutting will benefit from moving their brand loyal customers back into the restaurant. Here an immediate benefit will be the return of high margin alcohol sales to drive an improved check average over a newly reduced cost profile. As you can imagine, very few takeout customers are ordering beer and wine to go when you can just get it out of your own refrigerator. In an industry that was consistently overbuilt, the reduction of new restaurant unit growth as well as the loss of some poorly financed competitors due to the virus will also help same store sales and existing unit level economics.

Personal Savings Rate



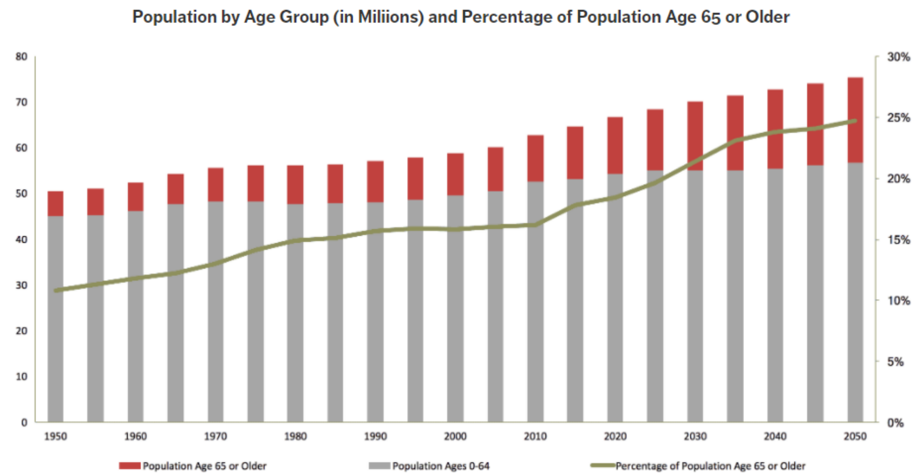
Source: Statista 2020

As seen in the chart above, COVID-19 has created a massive spike in the personal savings rate in 2020, and the rate still remains well above the normal levels in the mid 7% area that we witnessed from June of 2015 to February 2020. This spike has effectively created the potential for extra spending or another set of hounds to drive us out to normal activities. Goldman Sachs estimates that a return to a still elevated savings rate of 10.6% in 2021 will boost adjusted discretionary cash flow growth 8% year over year and that does not include the release of their estimated $1.3 trillion in savings that consumers socked away this year. To quote an article from the The Atlantic by Yascha Mounk, "the human desire to socialize will survive the pandemic." In this article the author pontificates that the Spanish Flu of 1918 created bottled up consumer demand that initiated the Roaring Twenties and that we could see a similar "manic flight into sociability." With an improved employment picture that should precipitate with the spread of the vaccine, the full service restaurant industry is well positioned on multiple fronts for heightened sociability in 2021. The hounds of improving employment, extra savings, the vaccines, and even perhaps history are unleashed to drive us from our dwellings to spend on services in the New Year. As we have commented in previous newsletters on "skating to where the puck is going" for investment ideas, we believe that the additional COVID closures that are impacting the restaurant stocks in the fourth quarter and likely into early next year will provide an attractive entry point to be deployed as part of a consumer spending wallet shift theme in 2021.

<u>Thematic Investing: Healthcare Spending a Key Driver Behind the Economy</u>

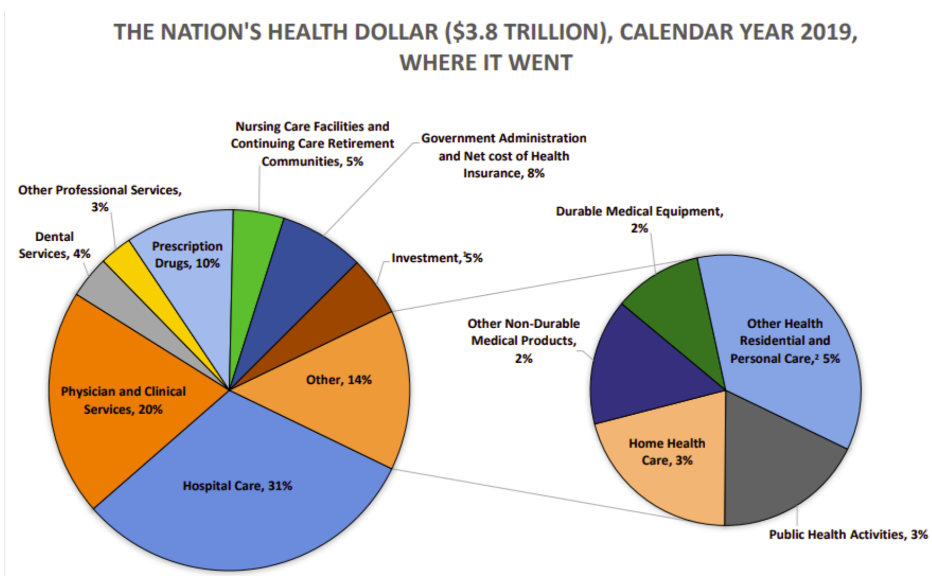
Healthcare is the largest sector in the Russell 2000 Index and is represented by over 480 companies according to a report by Furey Research Partners titled A Deeper Look into Small-cap Health Care. These companies comprise roughly 21% of the benchmark weight, or about three percentage points more than health care spending as a percent of our GDP at 18%. Total health care spending grew 4.6% to $3.8 trillion in 2019 or $11,582 per person based on data from Centers for Medicare & Medicaid Services (CMS). Suffice it to say, outside of government spending at 19.5%, health care expenditures are the single largest component of the demand side of our economy.

10,000 baby-boomers turned 65 today in the United States. This daily phenomena will only accelerate over the next decade as the "graying of America" trend will have broad implications on the economy and health care industry. By 2050 over 20% of the American population will be over 65 according to the U.N. Population Division.



Source: UN Population Division

As Americans age the acuity of disease conditions such as cancer, cardiovascular disease, diabetes, renal failure and dementia will expand exponentially. Health care expenditures as a percentage of our economic output cannot continue to rise. The need to implement a multi-pronged approach to health care cost containment has never been more urgent. Hospital care accounted for 31% of health care spending last year.



[1] Includes Noncommercial Research and Structures and Equipment.

[2] Includes expenditures for residential care facilities, ambulance providers, medical care delivered in non-traditional settings (such as community centers, senior citizens centers, schools, and military field stations), and expenditures for Home and Community Waiver programs under Medicaid.

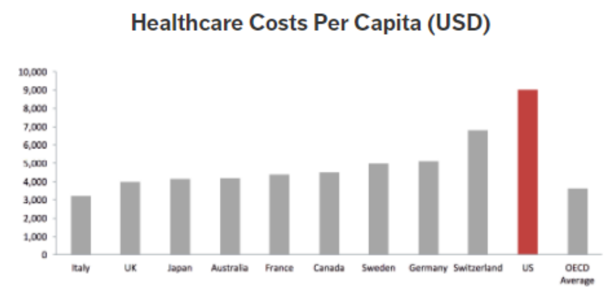
Note: Sum of pieces may not equal 100% due to rounding.

SOURCE: Centers for Medicare & Medicaid Services, Office of the Actuary, National Health Statistics Group.

The most common sense approach to reducing health care costs would be to help patients avoid admittance to an expensive acute care facility. There are many ways to tackle this problem including practicing better wellness, providing similar services in less expensive non-hospital facilities, early intervention with better screening and diagnostics, and effective use and compliance with drug therapy. While there have been a number of headline grabbing articles over the past several years on the outrageous pricing of prescription drugs, multiple pharmacoeconomic studies have shown that drug therapy remains one of the most clinically effective and cost efficient approaches to disease management. Of the 480+ stocks in the Russell 2000 universe, 286 are biopharma companies. In general biopharma stocks have been strong performers over the past three years, but there are a few categories that have driven exceptional contribution to return (CTR). In particular, these are the five top CTR health care industries within the Russell 2000 Index during this period: Oncology; Clinical Diagnostics; Neurology; Specialized Medical Devices; and, Long-Term Care Facilities. One category that didn't make the top-five list is Health Care Information Technology (HIT).

The HIT industry went through a growth spurt a decade ago when the federal government provided a multi-billion grant to health care payors and providers to implement electronic health records (EHR's). Since that time, however, some of the largest publicly traded stocks in this industry have languished. We believe that there is still an enormous role for HIT companies to play in the battle for health care spending containment. Despite America's outsized spending on health care compared to other OECD countries, we have just average mortality rates and life expectancy.

*U.S. per capita **healthcare spending is the highest in the world, more than twice the average** of other developed countries. Yet, Americans have **lower life expectancies** and **higher rates of chronic illnesses** than OECD counterparts.*



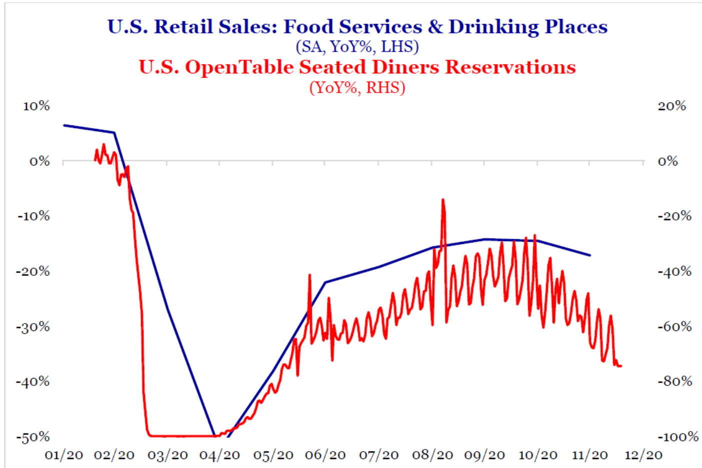
Source: OECD Statistics, 2016

Exciting progress has been made in the world of technology over the past few years in the area of data analytics, machine learning, A.I., edge computing, and IOT. The confluence of low-cost/high-powered computing is enabling the rapid penetration of technology across all sectors of the economy. The health care industry has historically been a slow adopter of technology due to its conservative nature. However, we believe that there is a new generation of HIT companies emerging that will transform areas such as clinical diagnostics, drug development, revenue cycle management, population health management, telemedicine, alternative site care, and prescription drug compliance. We've written in recent publications for instance on biopharma companies using A.I. to identify and develop promising drug targets faster and cheaper than ever imagined.
Based on the demographic trend we've outlined in this section, we expect demand will remain high for health care products and services for decades to come. We also believe that the relative outperformance of health care sector stocks will continue for the foreseeable future.

2021 Outlook: A Picture is Worth a Thousand Words

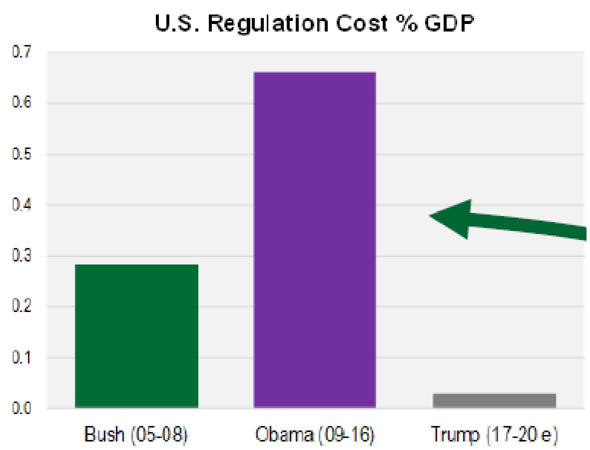
Above we articulated our 2021 outlook and the key issues and drivers for the stock market. Yet, we believe that there are other topics that we haven't spent a great deal of time on that deserve some mention. In order to provide you with a shorter read, as everyone's time is valuable, we decided to express it in pictures. As they say, a picture is worth a thousand words, and we'll let you interpret what we view as some compelling charts. We'll provide a bullet point or two of explanation as to why we think the chart or graphic is important.

The ebb and flow of pandemic cases is wreaking havoc on the bar and restaurant industry. As Covid-19 infections have risen, the number of people showing up at bars and restaurants is dropping like a rock.



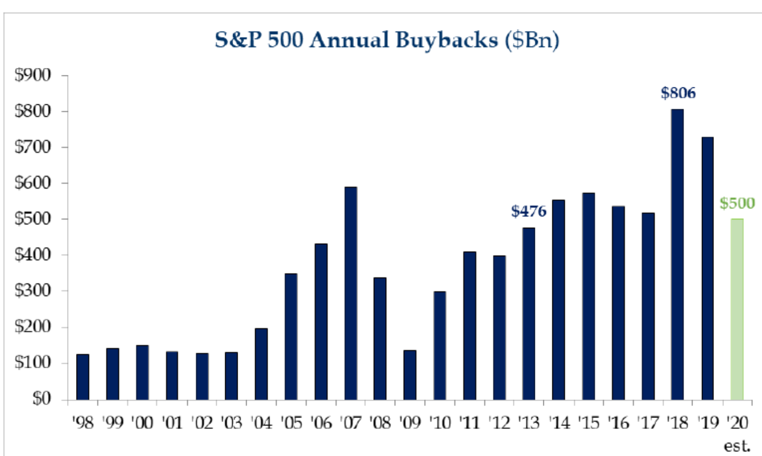
Source: Strategas Research

Whether you loved him or hated him, Trump was very good at deregulation and at keeping the costs of regulation at a bare minimum compared with either of the prior two administrations. Let's hope that the Biden administration doesn't revert to their old ways.



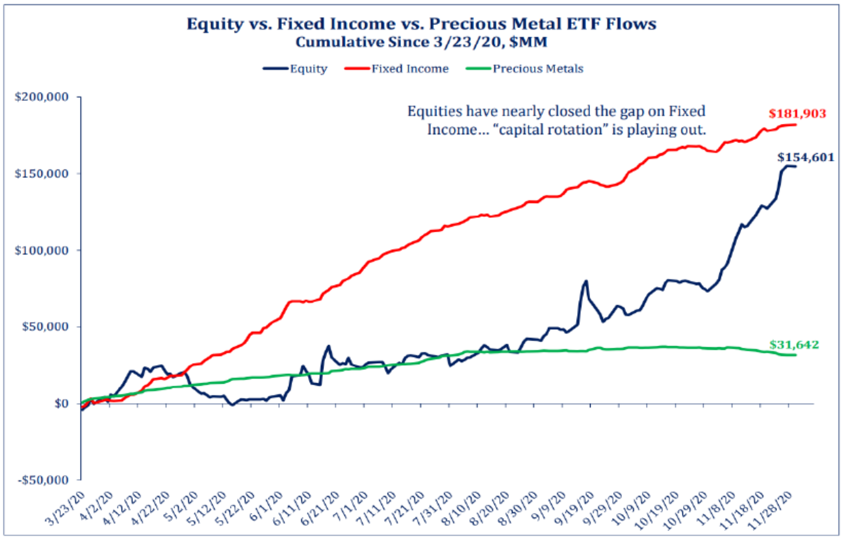
Source: Cornerstone Macro

Stock buybacks never take place at the most opportune time. Don't you think that someone would look at history and say, "shouldn't we be buying back our stock when everyone else is selling it?" Hmmm – a novel thought. Buybacks are expected to accelerate in 2021 as banks can return to buying their stock back now that their capital levels look reasonable.



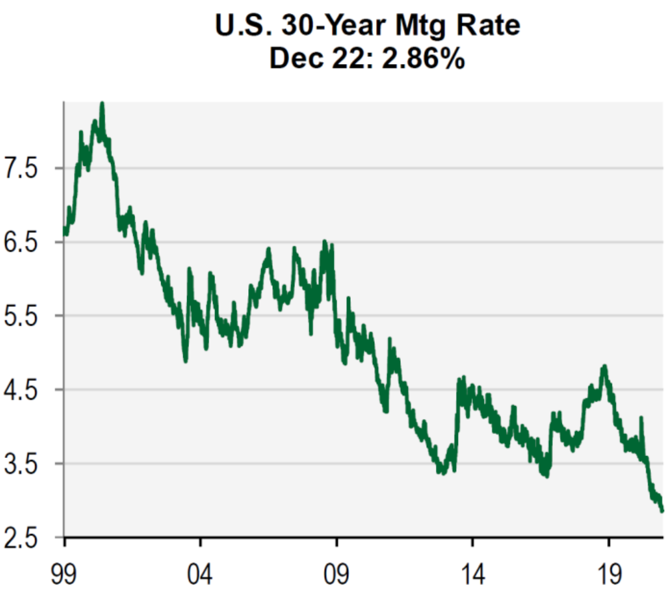
Source: Strategas Research

Money flows since the start of the pandemic have disproportionately gone into fixed income securities, despite an epic bounce off of the bottom since March. With the 10 Year Treasury yielding 90 basis points, I don't understand the allocation of more money to fixed income investments.

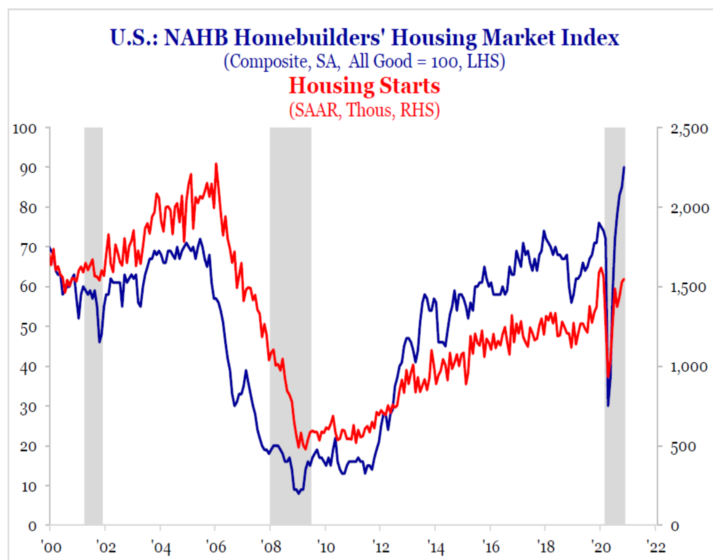


Source: Strategas Research

The chart below left shows that the 30-year mortgage rate is at an all-time low which is providing fuel to the housing market (below right) despite all the concern over the economy due to Covid. Housing is a key driver for our economic growth.



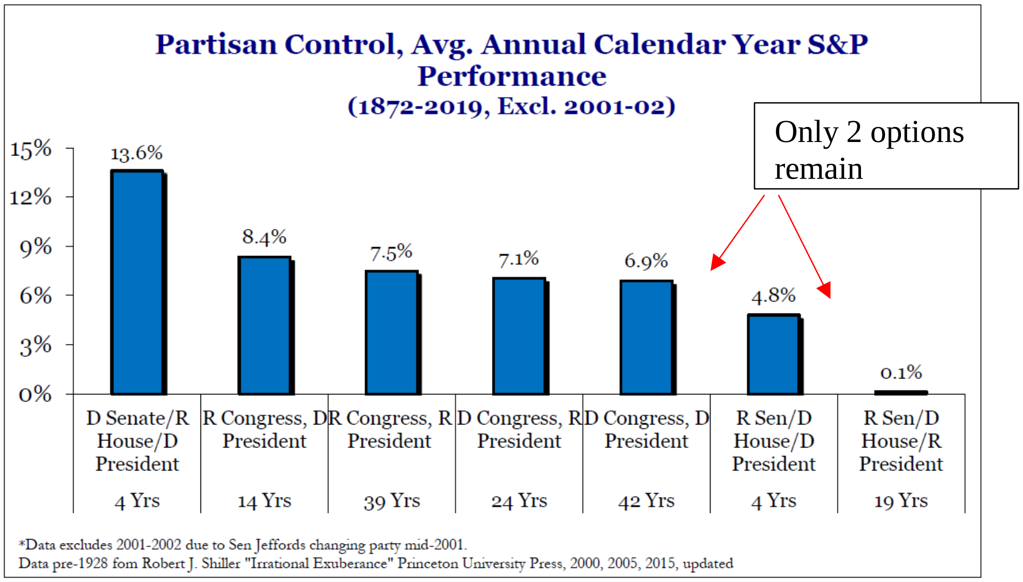
Source: Cornerstone Macro



Source: Strategas Research

Stock Market Trivia

Each quarter we offer a piece of market trivia that we believe is interesting or timely, or both. While most are probably sick of elections, they do have consequences as we all know. As we sit here today, there are only two options in terms of how the control of Congress ends up for at least the next two years. The chart below highlights the stock market performance based on the different combinations of partisan control in Congress. Unfortunately, the two remaining options haven't been the best for the stock market. However, in light of what has happened in 2020, we can hope for better returns and a better year in 2021.



Source: Strategas Research

We hope that you found our fourth quarter 2020 review and 2021 outlook newsletter to be insightful and interesting. Stay safe and healthy in the New Year!! Should you have any questions about anything discussed herein or would like more information about 1492 Capital Management, please call us at 414-276-1492.

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