WELLS TRECASO
FINANCIAL GROUP

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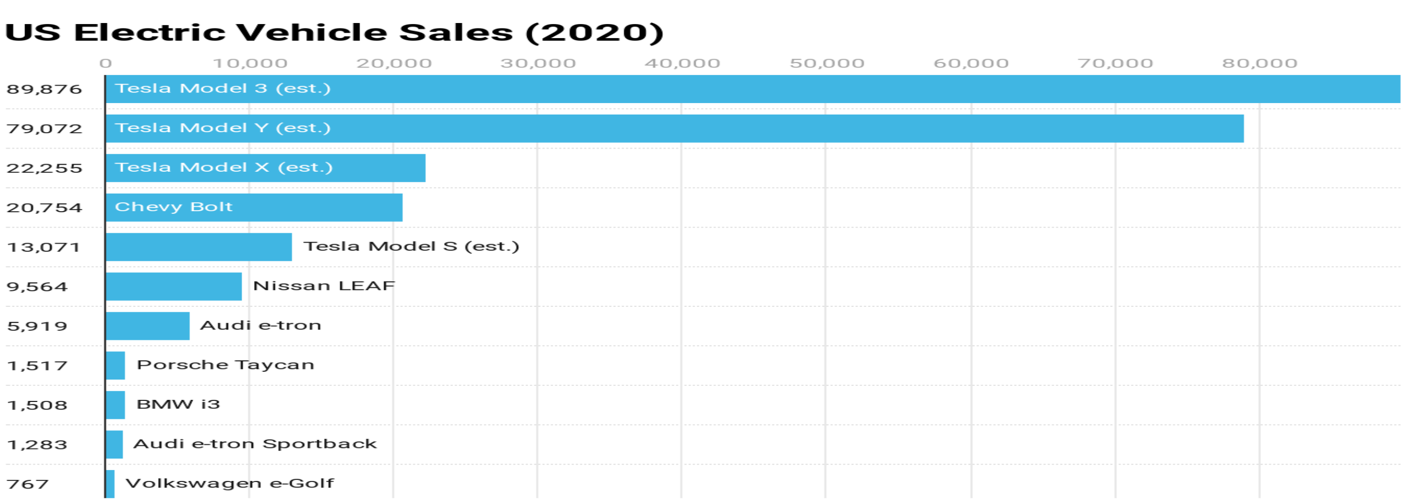
Portfolio Talk

Market Update 2/12/2021

Since this has been the week for automobile companies reporting their financial results for the last quarter and year, I thought it might be interesting to add a little color to their comments about the transformation to electric vehicles (EV). While vehicle sales were down for all of 2020 due to the shutting down of the economy in March and April (17 million in 2019 vs. 14.7 million in 2020) the interesting part of the data being released is how the breakdown of types of vehicles being sold is changing. Pickup trucks and sport utility vehicles (SUV's) are still leading the way, but the compact and luxury vehicle sales are leaning more toward EV vs. combustion engines. Tesla (TSLA) is the leader right now delivering close to 500,000 vehicles in 2020, 140,000 vehicles in the first half and 320,000 in the second. TSLA continues to ramp up production and its "bigger than life" CEO, Elon Musk, is promising delivery of as many as one million vehicles in 2021. Some in the analysts' community feel this is more of a dream than reality given the constraints put on TSLA in building several factories around the globe. However, I would not bet against Elon, he's a visionary and has the capital to see it through. But competition is ramping up and while the demand is growing so is the supply. Volvo was one of the first to announce that they would only manufacture EV Volvo's starting in 2025. Volkswagen has also made similar comments alongside BMW, Mercedes, and several Asian car manufacturers, Toyota being the last stating Wednesday how they plan to emphasize EV in the coming years. Then comes along Mary Barra of GM announcing GM's intent to be EV exclusive by 2035 and Jim Farley of Ford stating they will invest $22 billion by 2025 in EV. The chart below illustrates just how much of a lead Tesla has and how far behind the rest are!



Several electric vehicle models not included here. Tesla sales figures are informed estimates.
Chart: CleanTechnica • Source: Automakers, EV Volumes, Troy Teslike, CleanTechnica • Created with Datawrapper

Another important component that adds to the EV's momentum is the Biden Presidency. The President has pledged to build charging stations across the nation and to continue giving tax credits to those who purchase EV's. Having the infrastructure and financial incentives should continue to increase demand. Companies such as ChargePoint, EVBox, ABB, and Royal Dutch Shell have put resources into building charging stations and offer those that can be installed at home. Other obstacles that have been a deterrent to EV's are being conquered, such as being able to find a charging station. Technology like "Plug In America" shows you where you can charge your vehicle while on road trips. The momentum is strong and the move to clean energy continues (climate change) to be one of the top 10 most important issues for voters.

The question other than the obvious one of can and/or will it be done, is what will be the effect on the world economy? There was an old saying stated by Charles Wilson, former CEO of GM, "As goes GM so goes the Nation"! What he meant was that for every GM employee, 9 other individuals were employed to support those working in the auto industry; restaurants, machine shops, tool and die companies and the list goes on. Those estimates, as released by the Center for Automotive Research, have changed over the years. The 1.7 million employed by the automobile companies now employ 8 million in supporting jobs according to their research. Still significant even though it's less meaningful. While I believe the automobile workers will be retrained to learn how to function in an EV world, the supporting jobs may not be as lucky. For example, the tool and die shops and machine companies that made parts for the combustion engine will no longer be needed to the same degree. Can they transform themselves into making and supplying EV parts? Electric engines may require less servicing so will we need as many auto mechanics? And the big question is, what will happen to the fossil fuel industry? The Department of Energy estimates that 40% of oil goes into refining to produce gas to be used in our vehicles. What happens if our gas consumption goes down by half in the next decade, can the Exxon's, Chevron's and Phillips Petroleum survive? Highly doubtful unless they change their energy production portfolios to cleaner, green initiatives that reduce their carbon footprint. As we talked last week about the dropping of a pebble in still waters, the ripple effect could cause a reshuffling of job skills in the near future creating new opportunities in employment, but potentially leaving another generation behind the curve. Another "Who Moved My Cheese" as we discussed a couple of weeks ago. Making oneself more marketable through training and education appears to be accelerating as we continue to move into the technological phase of our development.

So, who bares the responsibility of retraining and educating those in our society that could become dependent on social programs if nothings done? Could it be a community effort that is not only government, but also corporations, schools, technical training facilities and universities? Let's hope that we as a nation start to look at these issues now as opposed to just getting caught up in the exciting EV frontier and the benefits derived from reducing our carbon footprint. As always, there's more to the story!

Economic News

- Monday:
  - None
- Tuesday:
  - NFIB Small Business Index for Jan., 95.0 vs. 96.5 expected and 95.9 previously…holding.
  - Job Openings for Dec., 6.6 million vs. 6.5 million expected and 6.6 million previously…holding.
- Wednesday:
  - Consumer Price Index for Jan., 0.3% vs. 0.3% expected and 0.2% previously…holding.
  - Core CPI for Jan., 0.0% vs. 0.1% expected and 0.0% previously…holding.

    - Wholesale Inventory for Dec., 0.3% vs. 0.1% expected and 0.0% previously…holding.
    - Business Formation for Jan., 43% vs. -12% previously…great as displaced workers start businesses.
    - Federal Budget for Jan., -$163 billion vs. -$150 billion expected and -$33 billion previously…relief has its price!
- Thursday:
    - Initial Jobless Claims (state, SA) for Feb. 6th, 793,000 vs. 760,000 expected and 812,000 previously…holding.
    - Continuing Jobless Claims (state, SA) for Jan. 30th, 4.55 million vs. 4.69 million previously…holding.
- Friday:
    - Consumer Sentiment for Feb., 79.0 vs. 80.7 expected and 99.8 previously…slowing.

While GameStop has become yesterdays news after falling back to earth (trading at approximately $48 after hitting a high of $488) the thundering horde focused on the cannabis companies; Tilray, Canopy Growth, Aurora, Etc.… It appears that these companies are having shorter lifecycles from trough to peak and back again. However, those who chase these moves are subjecting themselves to the same risks. The area that is of some concern is the growth of what's known as the "SPAC", Special Purpose Acquisition Corporations. These are pools of cash that are created by going to the markets as an IPO with a stated goal to buy companies later that provides certain services and/or product. Examples would be a SPAC that acquires entities that own hotels and leisure, or fintech solutions, green energy, healthcare tech, etc. They then aggregate these entities into a later company to sell later at a profit. The largest players in this space seems to be celebrities in the world of business and government whose names enable them to raise cash even though their ability to run a company may be questionable. Names such as Wilbur Ross (former Commerce Secretary under President Trump), Paul Ryan (former Leader of the House), Larry Kudlow (former Economic Advisor under President Trump), Shaquille O'Neal (famous retired NBA star) and the list goes on. Could this be the Dot.com bubble in 1999? Back then we had businesses that went public with a business plan and "no" business. SPAC's kind of remind me of that. This should be expected due to the amount of liquidity pumped into the economy.

I still believe we could most likely have some runway left in this bull market given the pent-up demand, but we will watch closely for signs of froth in the market (excessive risk) and inflation that could contract multiples. Earnings continue to be better than expected in a lot of cases. Disney reported last night and continues to surprise given Disney+, over 140 million paying subscribers. They also are viewed as one of the main beneficiaries of the "opening trade", reaping rewards once the vaccine is distributed and people go back to living full lives again.

Johnson and Johnson (JNJ) applied for Emergency Use Authorization (EUA) for their COVID vaccine and the FDA has scheduled a hearing for Feb. 26th. It is believed that JNJ will get approval. JNJ said they will provide up to 100 million doses by the end of June. This projection has led Dr. Scott Gottlieb, former Commissioner of the FDA, to forecast a glut of vaccine by the end of April. For those who have tried to get vaccinated, this seems to be a pipe dream. Let's hope he's right!!

Each week we end with the hope and prayer that you all stay safe. This week we lost a couple of beloved friends that contracted this invisible enemy. Our hearts are heavy and again, we end with, Stay Safe….

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IMPORTANT DISCLOSURES