Das Kapital

Prologue

We think the upside for equities is now limited as two major risks become reality: higher interest rates or, as we named it, "The Art of Tragedy"; and higher US corporate taxes, our new thematic dumbed "Das Kapital". The current market reversal is already confirming the double whammy. While ultra-accommodative central bank policy has helped support stocks near record highs, these levels looked precarious as (1) equity sentiment was extremely stretched and (2) given implications of higher taxes against the potential spillover benefits of spending on infrastructure. We reiterate our forecast of a negative year for US equities. A *possible* last spike to 4,350 (see our Trading plan at the end of the letter) could be followed by an even stronger correction in the last 4 months of the year. We have adjusted our quantamental long & short stock portfolios by taking both thematics into consideration. As for the first whammy, our regular readers can find the appropriate long and short stock selections in our previous letter "The Art of Tragedy" (click here).

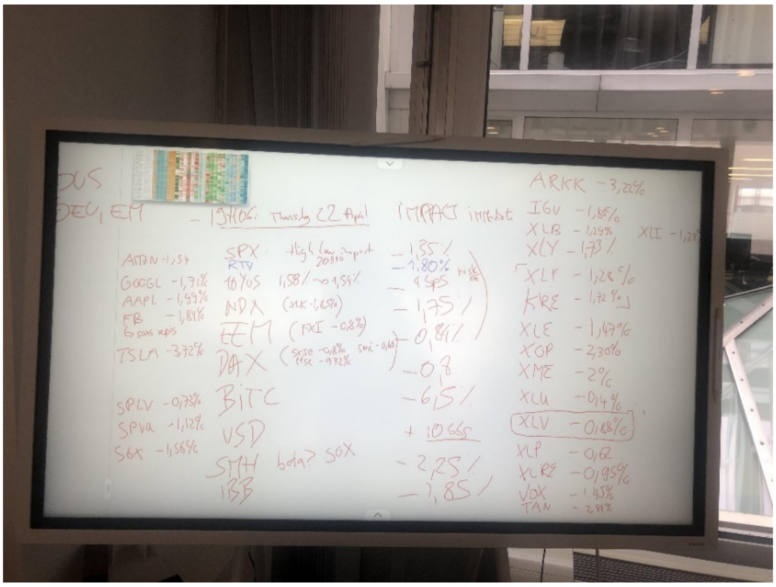
The second whammy, "Das Kapital", has yet to have a real lasting impact, however we expect that the fractal on the 22nd of April will grow in a meaningful trend. Indeed, on April 22, The Biden administration announced its intention to double the federal long-term capital gains tax rate for very-high earners and increase the statutory corporate tax rate from 21 to 28%. After passing the American Rescue Act last month, the Biden Administration has passed to an 8-year infrastructure spending plan funded over 15 years through tax policy changes. The corporate tax increase proposal minus infrastructure benefit could result in a -5% negative impact to S&P 500 EPS. Furthermore, GILTI, the tax for US multinationals, should specifically hurt the high P/E Tech names, which are already suffering from the higher rates headwinds.

Parodos

There are two impacts from the Biden Tax proposals: one on the statutory tax rate and one on the GILTI tax rate for US multinationals.
(1) If the higher statutory tax rate were to increase to 28%, it would reduce 2022 EPS by 5. *As a rule of thumb, every 1% increase in the statutory tax rate is -0.5% for the S&P 500 EPS*. By refining the impact per sector, **domestic** Energy, Financials, and Discretionary are among the largest beneficiaries (see table 1).
(2) If the Foreign tax rate GILTI for US multinationals were to increase from an average 10.5% to 21%, it would reduce 2022 EPS by -3%. GILTI tax is a tax on foreign income in excess of a "standard" (10%) return on tangible assets (e.g., plant and equipment). GILTI/AMT/Global Minimum Tax would target asset-light Multinationals with large intellectual property, low tangible assets, high foreign revenues and low effective tax rates. Sectors like Communications, Technology (Software, **Semis**, Tech Hardware, Communication Equipment, Internet Services, Media) and Healthcare (Tools/**Biotech**) sectors would bear a substantial portion of the earnings hit given their international exposure and significant intellectual property portfolios. As a reminder, the largest multinationals saw their taxes decline from 16% in 2017 to 8% (see annex 1).
There are also some relative winners of this new round of policies: (1) companies with current high tax or whose tax has not increased so much under Trump TJCA, (2) **Value** companies benefitted from the new infrastructure spending in the Energy, Materials, & Industrials (Construction/Engineering) sectors, (3) Pass-through entities such as regulated Utilities and REITs, and last, but not least, (4) growth companies reinvesting pre-tax income (Apple just announced a 5-year $bn500 R&D investment). **In terms of factors, our quantamental portfolios take into consideration this new headwind, "Das Kapital" by increasing their global weight in the Value factor, and (2) staying underweight or net short of Low Vol/Quality firms with high Tax rates** (in sectors such as Staples, Healthcare, and Telecom). Small caps in emerging growth stage with lower pre-tax income should be relative outperformers given infrastructure spending favors domestic, cyclicals, and heavy industries.

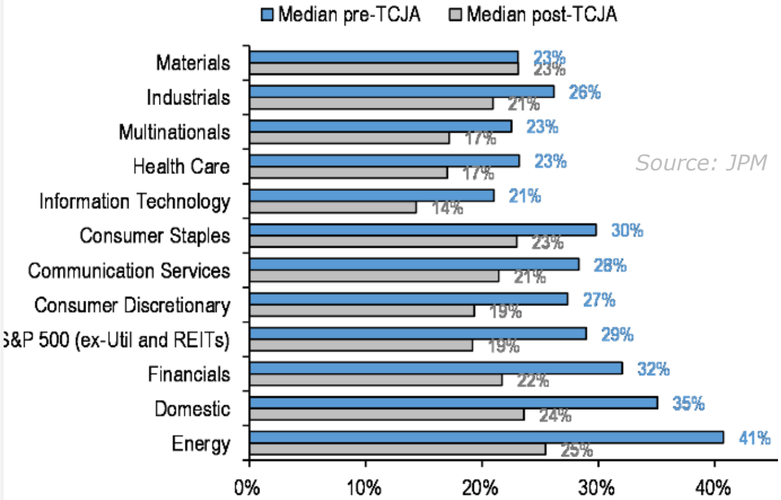
Tax Fractal

When we are expecting a possible emerging trend, we analyze on a tiny timeframe the intraday impact of the news on all assets, sectors, regions and single stocks. On the right-hand image, we handily wrote the impact of Biden' tax announcement on the 22nd of April, in terms of intraday returns: (1) the most impacted region is logically US with a minus -1.35%, the less impacted Europe and EEM with -0.8%. 10-year interest rates are down 4bps to 1.54%, while the dollar is up 10 bps. Bitcoin is down -6.5%. In terms of factors, low vol is down -0.73%, value down-1.12% versus -1.35% for the S&P500. These primal impacts or the initial fractal (see annex 4) are used to construct coming trades and portfolio, supposing its replication on a larger time frame (up to 6 months).



In terms of sectors and themes, the most impacted are Ark Innovation ETF (-3.22%), Solar (-2.88%), Semiconductors (-2.25%), Software (-1.8%), **Oil exploration** (-2.3%), Technology (-2%), Biotech (-1.85%), Discretionary (-1.73%), **energy companies** (-1.47%), regional Banks (-1.47%) while Financials, Industrials and Materials are in line with the S&P 500 and Real estate (-0.95%), Health-care (-0.88%), Staples (-0.62%) and Utilities (-0.4%) are the clear outperformers.

TABLE 1: Trump TJCA's impact to effective tax rate per sector



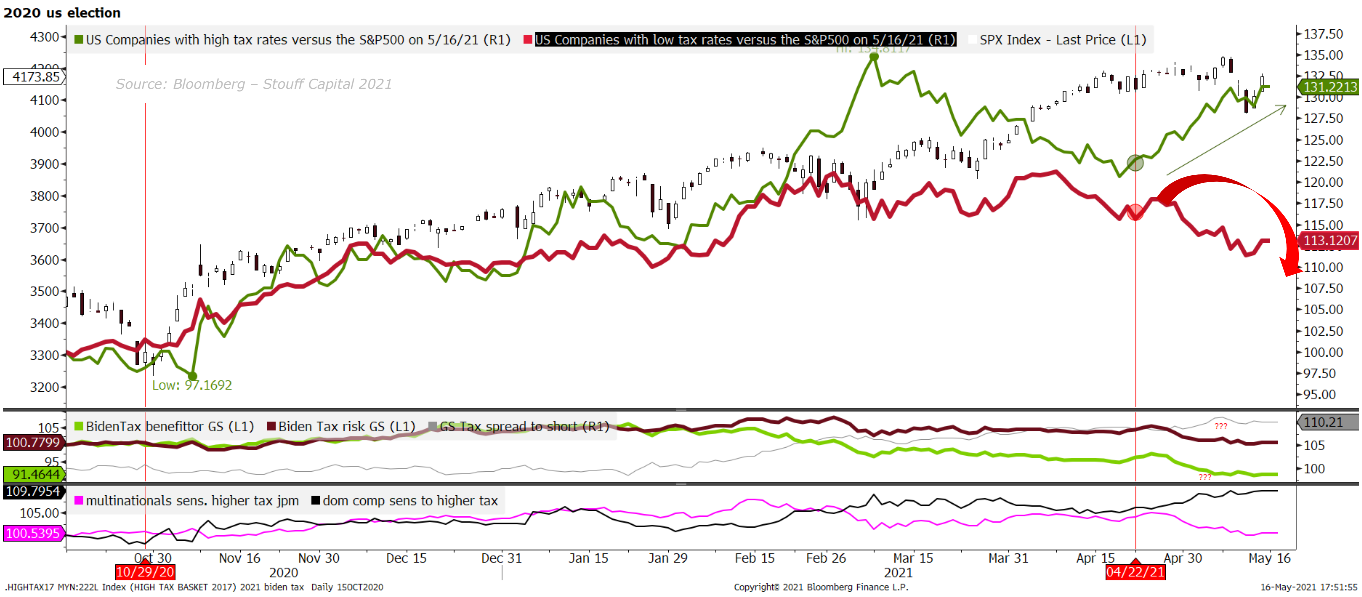
It looks like a high versus low beta impact or a classic risk-off day, but the specificity relies in the damage to the low taxed multinationals: the Fa*t*ang have been specifically hit with Facebook (-1.8%), Apple (-2%), Tesla (-3.7%), Amazon with a -1.5% intraday impact, and Google (-1.7%).

Table 1 shows the impact of Trump TJCA to all effective tax rate per sector. Technology has the lowest one, which explains why "Das Kapital" represents a major headwind for this sector. To the contrary, Consumer staples have the highest tax rate and the Biden Tax increase should only add 2% to the average, thus creating a minor impact for this defensive sector.

By using our machine learning tools, which can be found in annex 2, we observe that the intraday impact of the Tax announcement on US sectors is not always correlated with the percentage of underperformance of its members. For instance, while the Technology sector is a clear loser, only half of its members underperform (the FAANG underperforms with semiconductors, while non-profitable firms like Splunk outperform => no profit = no tax!). This strengthens the fact that this fractal "Das Kapital" is not a pure risk-off/risk-on market phenomenon, but a more complex function reaction for each single stock. In annex 3, our machine learning graph lets you visualize clusters based on stocks' quantitative grades and shows which single stock outperforms.

Our updated quantamental stock selection adds the new "Das Kapital" fractal in the construction of its US Long & Short portfolios.

CHART 1: red line basket firms hurt by higher tax, green line basket of high taxed firms possibly benefitting from Biden new tax, from Nov 2020

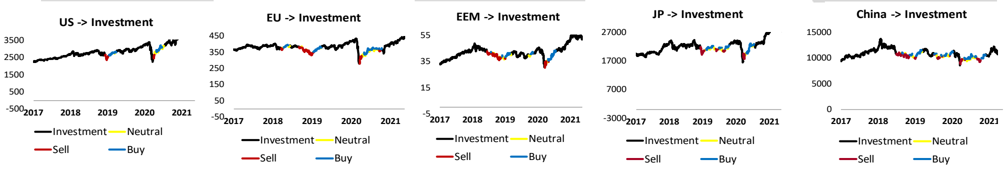


We have created two tax baskets, one with high tax in green, benefitting relatively from "Das Kapital" and a low tax in red. The baskets were composed by gathering the first and last decile of the last effective tax rate, excluding REITS (not impacted by the Biden tax increase), the biggest Tax Decrease from 2017 to 2020, the relative return on April 22nd. Tables 2 & 3 list the firms of the high and low tax basket. Chart 1 shows the relative performance of both baskets since May 2020. Up to the 22nd of April, the low tax basket moved in line with the high tax basket. On the 22nd of April, the red basket underperformed by -1.27%, the green one outperformed by +0.88%. Since the 22nd of April, the green basket has outperformed by 10% while the red underperformed by another -2%. Let's now switch to the current analysis of our regional matrix to know what we should expect for the coming weeks.

TABLE 4: Equity Regional Grades, Global Equities Matrix 14.05.21

EQUITY REGIONAL GRADES	Weight CPD	Weight	U.S.A.	Europe	Emerging equities	JAPAN	China
		100%	from -25% to -10%	from 10 to 30%	from -10% to +10%	above 30%	from -25% to -10%
Three month outlook Neutral	0%		Bearish	Bullish	Neutral	Very bullish	Bearish
One month outlook Neutral	-7%		Bearish	Bullish	Bearish	Neutral	Bearish
16.05.2021			UNDERWEIGHT	OVERWEIGHT	OVERWEIGHT	OVERWEIGHT	UNDERWEIGHT
Matrix recommended net exposure			-18% -18%	27% 27%	-19% 9%	5% 61%	-17% -13%
Trend (one month outlook in blue)	0%	40%	60% 100%	100% 100%	-70% 0%	-100% 40%	0% 12%
Contrarian trend (OB / OS)			-4%	-7%	6%	10%	-9%
Relative valuation since 1995 (Exp. / Cheap)		20%	-97%	-77%	-82%	34%	-74%
Liquidity delta (Low / High)		10%	100%	50%	43%	100%	8%
Economics delta		10%	Growing Faster 0% 67%	Growing Faster 0% 100%	Growing Slower 0% 50%	Growing From contracting 50% 100%	Growing Slower 0% 0%
Contrarian Sentiment (Neg. / Pos.)	60%	20%	42% -25%	46%	70%	20% 73%	0%
Investing Phases with Trend Charts			Downside Inflexion CPD INVESTMENT	Upside Inflexion CPD INVESTMENT	INVESTMENT	INVESTMENT	INVESTMENT

This matrix ranks from -100% to +100% the 5 regions (US, Europe, EM, China and Japan) with respect to 5 factors (Trend/Valuation/Liquidity/Economics/Sentiment). It suggests which region to overweight or underweight for a long only investor or a trader.



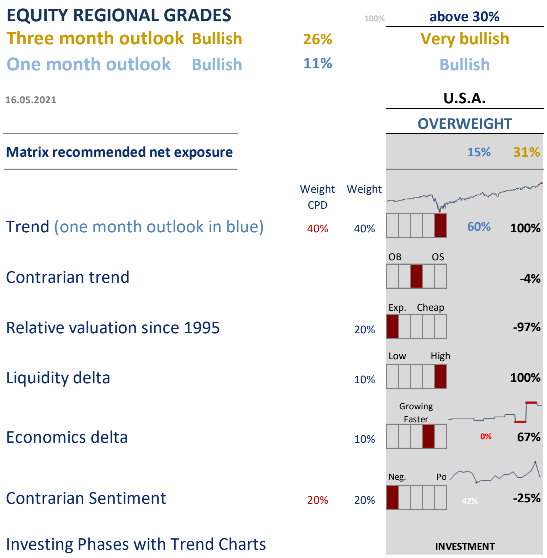
MODEL LONG ONLY EQUITIES		UNDERWEIGHT		OVERWEIGHT		OVERWEIGHT		OVERWEIGHT		UNDERWEIGHT	
Our Universe Weight per region	100%	U.S.A.	55%	EUROPE	20.0%	EM EX CHINA	10%	JAPAN	7%	CHINA	8%
Model LONG ONLY Regional Allocation	100%		45% ↑		25.4% ↑		11% ↑		11% ↑		7%
Model Absolute Return Regional Allocation	2%	-8%	-8% ↓	5.4%	5.4% ↑	-2%	1% ↑	1%	4% ↑	-1%	-1%

The Regional Matrix is neutral in the short term and slightly bearish for the next 3 months. Regionally, Europe, Emerging Markets ex China and Japan are Overweight with outright bullish outlooks for Europe and Japan (Japan has been bearish for a few months – we closed our short Nikkei hedges to reflect the upgrade). **US is bearish as long as it does not recoup its all-time high**: this is in line with our cautious view on Technology, which has a disproportionate weight in US indexes. On the right, we show how the US grade will rise from a bearish -18% to a bullish +31% if the CPD (change point detection) were to disappear; China stays bearish, but technical signals coupled with a neutral sentiment let us envision a possible reversal of fortune.

If one digs into details, amongst the five factors of the matrix, Liquidity stays the most supportive: it is specifically very bullish for US and Japan. However, it has been a drag in China since the start of the year, justifying our UW exposure: chart 2 shows that the growth rate of China money supply (black line) has fallen from +11% to +8%. In Europe, the Liquidity grade is good at +50% with increased bond-buying pace after March meeting (table 6). However, European Money supply growth (blue line in chart 2) has fallen from +12.5% to +10%. Furthermore, ECB policy makers must decide at the next monetary policy meeting in June whether to start slowing their emergency bond-buying program. Some members are ready to argue that the pandemic emergency purchase program should start being scaled back in the third quarter as the economy is likely to stage a strong recovery from the pandemic in the second half of the year. That would keep the total size of bond-buying within the 1.85 trillion euros currently envisaged.

All in all, Liquidity stays strong, but its support should fade over time, as argued in our [“Art of Tragedy” letter](#).

TABLE 5: Matrix simulation for US

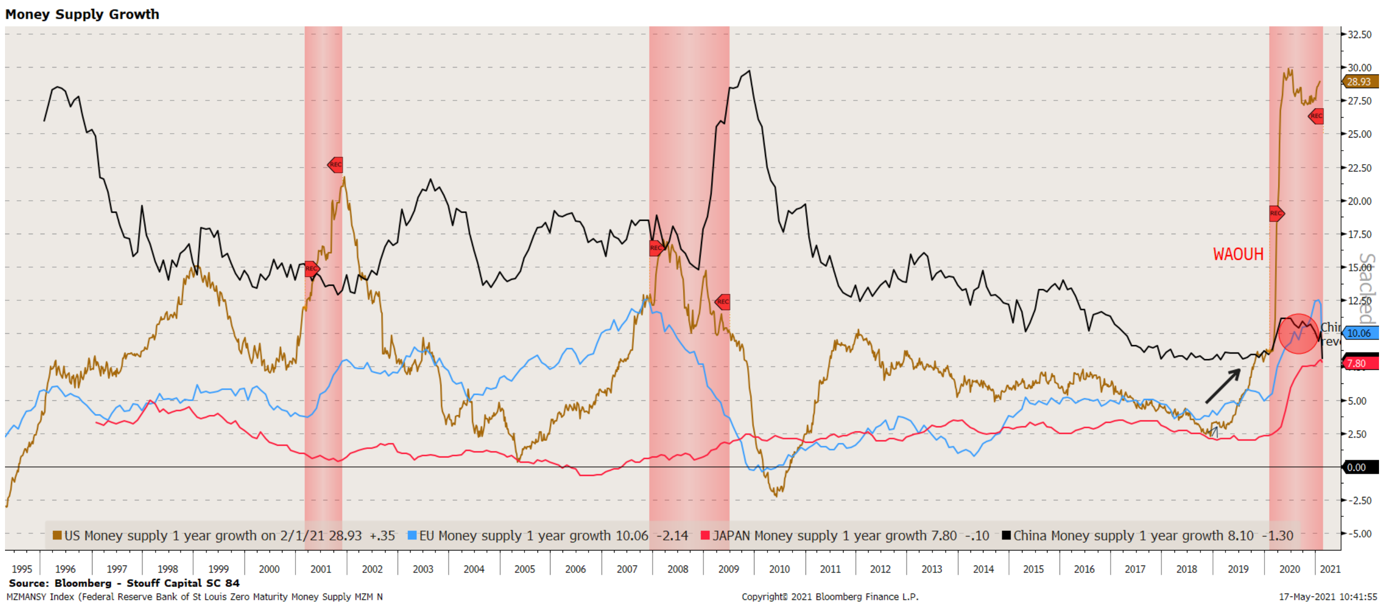


Source: Bloomberg – Stouff Capital 2021

TABLE 6: ECB stimulus

Source: ECB – Stouff Capital 2021

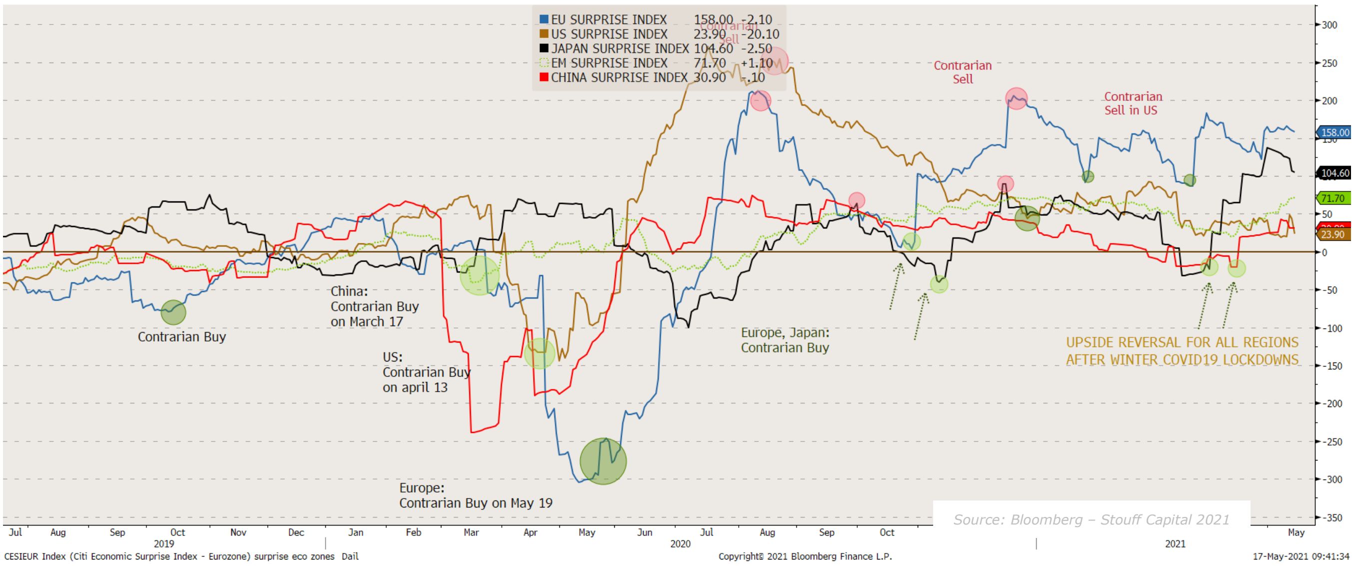
CHART 2: Money Supply Growth - 17.05.21

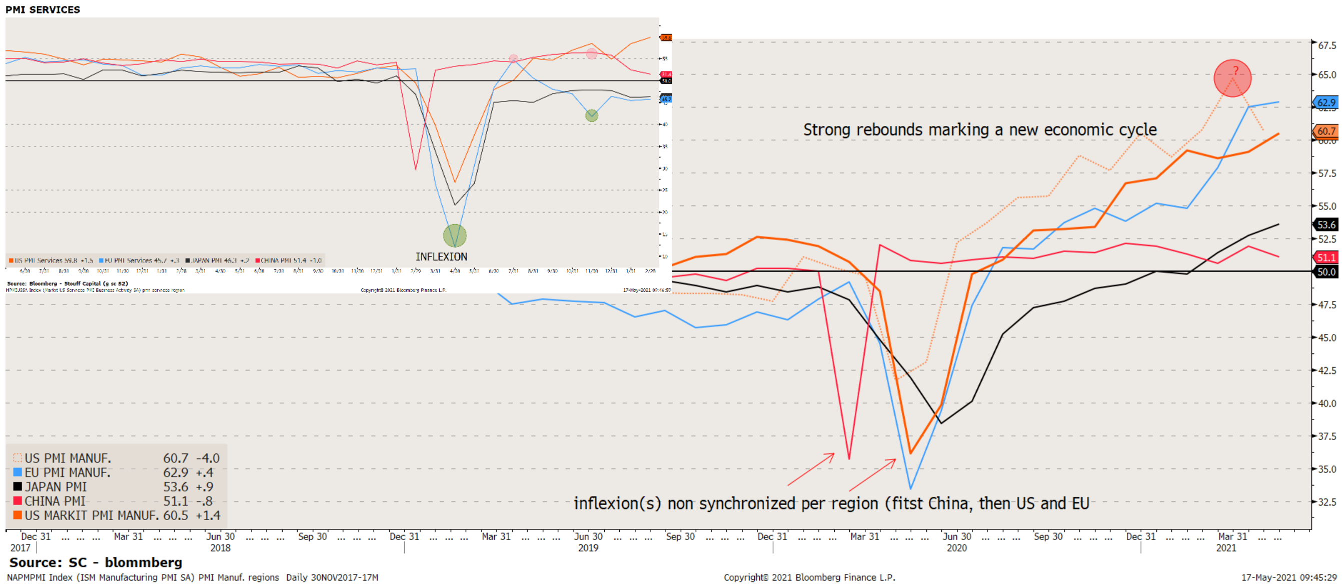


Source: Bloomberg – Stouff Capital 2021

CHART 3: Economics Grade – CITI surprises & PMI (Manuf. & Services) - 13.05.21

Citigroup Surprise Index

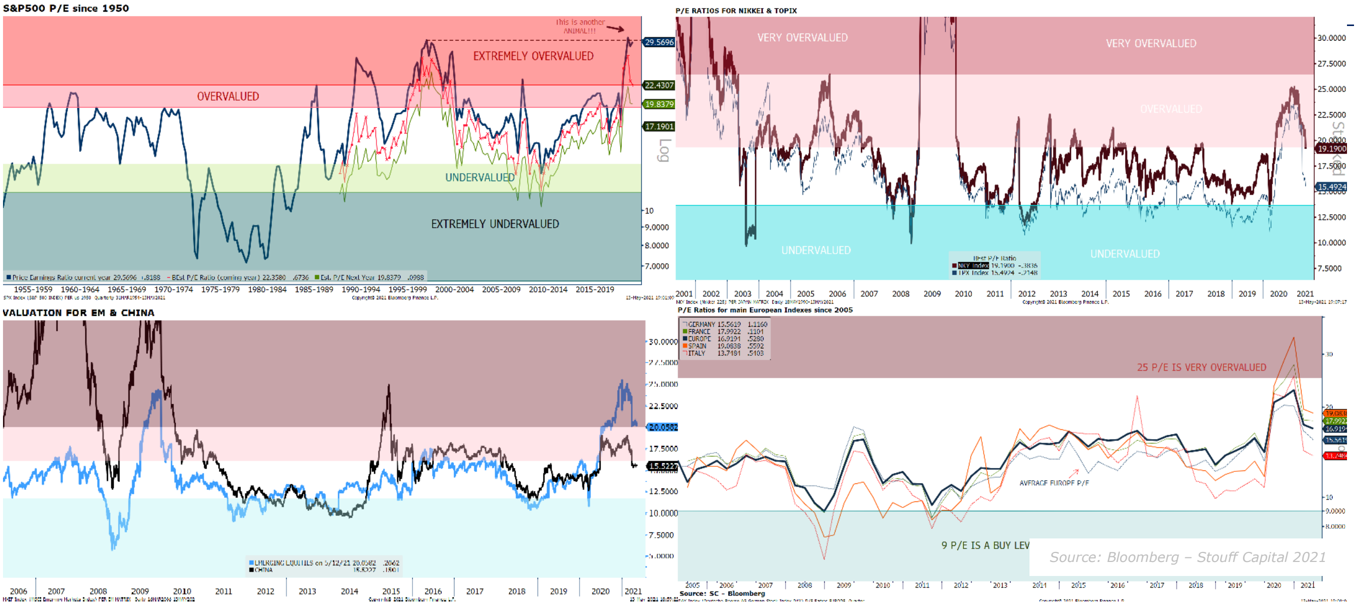




Our Economics grades are strong in all regions, with Europe and Japan with a maximum score as economies reopen after the winter lockdown. Only China has a negative reading, but even there, it is coming back after many months of tightening credit and fiscal policy weigh on housing and investment spending. Surging exports to re-opening US and Europe should strengthen a Chinese economic rebound. In US, the grade is very strong at +67% despite mixed readings in April (lower than expected employment and retail sales). The tug-of-war between a strengthening economy and inflation concerns, even creates a "peak macro" concern. Inflation comes from a base effect (remember one year ago we were in the lockdown of global economies), but also from extreme shortages in Semiconductors. The combination of sustained policy accommodation and above-trend growth are consistent with an underlying reflationary tilt.

FACTORS INVESTING READ-THROUGH The "Art of Tragedy" theme is playing out beneath the surface with forecast of global CPI approaching 4%. In terms of invested factors, **Value is still the place to hide**, **but beware of all cyclicals,** as US is showing first signs of peak macro (*chart 3 bottom graph:* US PMI Manufacturing is reversing all time high). We already observe a gap of performance between Semiconductors (in the bad cyclical camp) and Industrials (benefitting from the Biden infrastructure plan) in US and Europe, a one-month +10% outperformance of Banks versus Autos. All cyclicals have not any more good Value grades. For instance, European Automobiles trade in the top 10-year percentile versus the first decile for Banks. The conclusion from the evolution of the Matrix Economics grade is to overweigh Value in the composition of factors to select our quantamental portfolios, and simultaneously get rid/short expensive cyclical names.

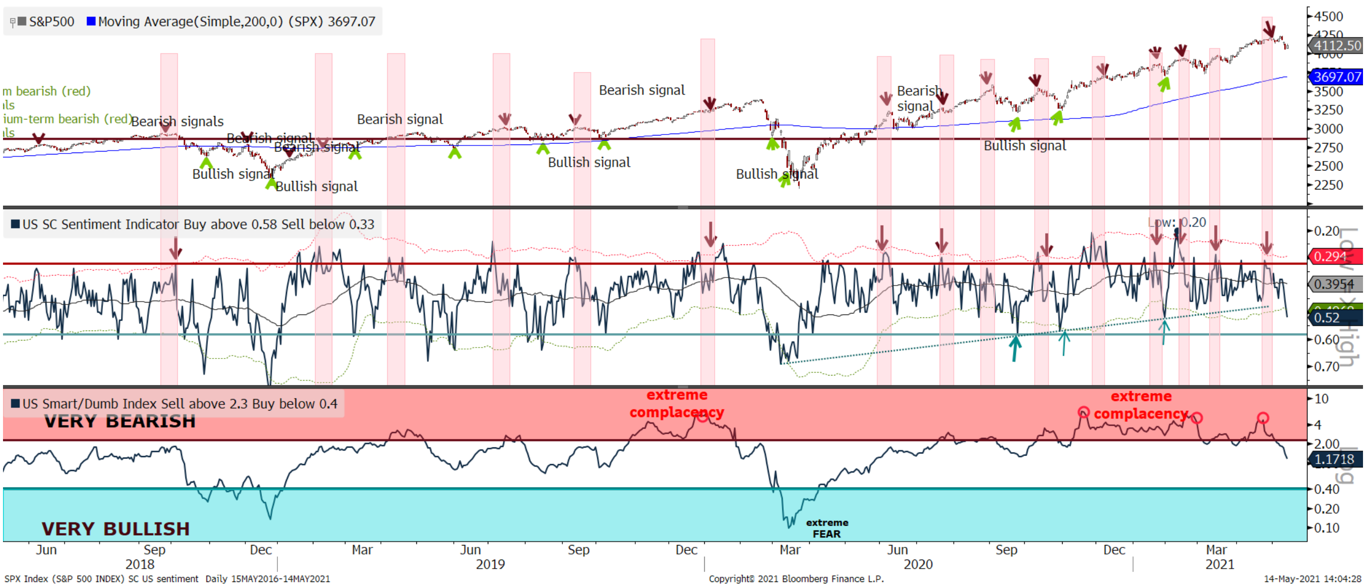
CHART 4: PE in US, Japan, EM & China, Europe - 12.05.22



Talking about valuation, a little word on our Matrix Valuation grade. Thanks to exceptional earnings in US and Europe with Earnings per share 20% above expectations, Price to Earnings ratios are derating in Europe and US (red line versus blue line in chart 4), but stay extreme. Europe has moved from Very overvalued to Overvalued. Japan is back to an attractive zone and the most compelling region. **We expect P/E to continue de-rating with a mix of strong earnings growth and lower valuation owing to higher yields' impact on the most expensive stocks in Technology, Communications and Discretionary**.

In the coming months, **Sentiment should be the main pilar for timing the market as Liquidity, Economics and Valuation are well anchored and thus predictable**. This justifies a tactical approach, knowing when to sell the Rip if Sentiment is too exuberant, like at the end of April (*see chart 5: middle graph for the US short-term sentiment indicator; bottom graph for medium-term signals*), and buy the dips as Sentiment is back to neutral or at contrarian bullish levels, like last week. As a reminder for our new readers, we use our Sentiment grades as a contrarian tool: when investors are greedy, we reduce our long or go short if a CPD condition is enacted; when investors are too pessimistic, we add some longs or even pass net long in a bearish market. Practically, let's show how it helped generating our trades for 2021.

CHART 5: SC US sentiment – 14.05.22



Source: Bloomberg – Stouff Capital 2021

TRADING PLAN

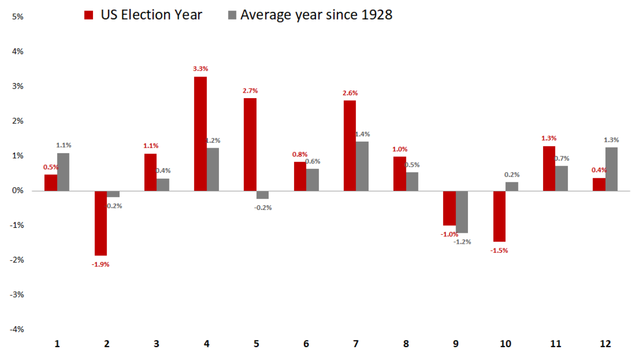
CHART 6: trading plan for the S&P 500: rebound before big sell-off - 14.05.21

Source: Bloomberg – Stouff Capital 2021

Chart 6 shows what we expect for the coming weeks in terms of price action. After the fourth >-4% correction of 2021, the S&P500 has fallen to its 38.2% Fibonacci retracement of its wave 5 around 4,050, and just above its 50 days moving average. The violence of the downside move has scared a lot of investors as our Sentiment indicators have given short term contrarian bullish signals. This is positive and create some ammunition for an extended wave V target at 4350, before a real correction starts.

Seasonality is also still bullish after May (table 7), and specifically the 1st year of a Democratic president. From May to the end of the summer, the S&P500 has risen on average another 5%. We think this is the last bullish wave for the index. After the summer and the September FOMC meeting, we expect a correction all the way down from 4,350 to 3,850 and then 3,600.

TABLE 7: US seasonality per month for the 1st year of a Democratic President in red, versus all years in grey – Bullish until the end of the summer, then bearish



Source: Bloomberg – Stouff Capital 2021

TABLE 8: US seasonality since 1927 – Statistics 1ST year of a Democratic President (in red)

spx Index	Ytd	Monthly Statistics for spx Index from 1927 to 2021											
% Positives	66.3%	61.7%	53.2%	60.6%	66.0%	58.1%	57.0%	59.1%	58.1%	45.2%	59.1%	61.3%	74.2%
Average Positives	16.3%	4.1%	2.8%	3.3%	4.0%	3.2%	3.7%	4.7%	3.8%	3.1%	3.9%	3.9%	2.8%
Average Negatives	-16.3%	-3.7%	-3.6%	-4.1%	-4.1%	-5.0%	-3.4%	-3.3%	-3.9%	-4.9%	-5.0%	-4.3%	-3.3%
Maximum	37.2%	12.4%	10.8%	11.1%	29.2%	20.8%	22.1%	30.8%	33.0%	13.5%	15.1%	11.3%	10.6%
Minimum	-63.6%	-9.0%	-20.4%	-28.8%	-22.6%	-27.4%	-18.0%	-12.2%	-15.8%	-35.6%	-24.5%	-14.4%	-15.7%
average NAV	100.00	**101.09**	**100.92**	**101.27**	**102.50**	**102.28**	**102.91**	**104.33**	**104.86**	**103.64**	**103.89**	**104.60**	**105.85**
Mtd cumul. Return		1.09%	0.92%	1.27%	2.50%	2.28%	2.91%	4.33%	4.86%	3.64%	3.89%	4.60%	5.85%
Average Mtd Return	5.48%	1.09%	-0.17%	0.36%	1.23%	-0.22%	0.64%	1.41%	0.53%	-1.22%	0.24%	0.71%	1.25%
standard dev	19.14%	4.68%	4.35%	5.39%	5.83%	6.09%	5.05%	5.46%	5.74%	6.17%	6.28%	5.16%	3.71%
US Election Year	**Party**	**0.5%**	**-1.9%**	**1.1%**	**3.3%**	**2.7%**	**0.8%**	**2.6%**	**1.0%**	**-1.0%**	**-1.5%**	**1.3%**	**0.4%**
1	**D**	**100.5**	**98.6**	**99.6**	**102.9**	**105.7**	**106.5**	**109.3**	**110.4**	**109.3**	**107.7**	**109.1**	**109.5**

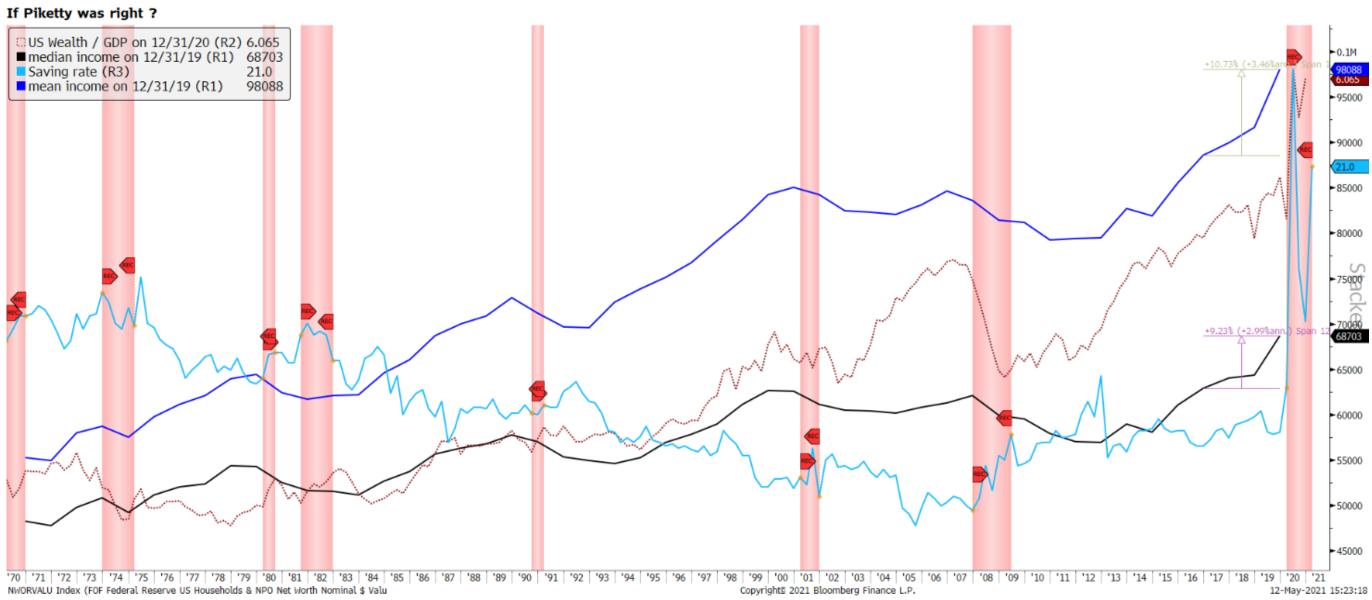
Source: Bloomberg – Stouff Capital 2021

Epilogue

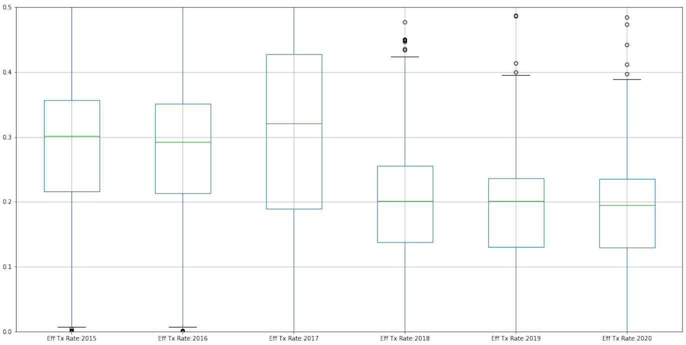
Tactically, our regional matrix and both the art of tragedy and our new thematic Das Kapital call for a consolidation phase with economic, liquidity and valuation peaking. A possible last bullish leg could be fueled by the recent correction which has reduced the exuberant sentiment. But we expect the upside for equities to be limited as two major risks become reality: higher interest rates, or as we named it "The Art of Tragedy"; and higher US corporate taxes, our new thematic dumbed "Das Kapital". As a result of these two headwinds, we continue to strategically favor Financials (Banks) and resources companies, but become cautious on all other cyclicals which have become too expensive. For Tech, we expect neutral/bearish trajectory and thus prefer owning covered call or short put exposures rather than outright longs, as implied volatilities are too rich versus realized ones. We keep an OW in small caps thanks to their low sensitivity to tax increase.

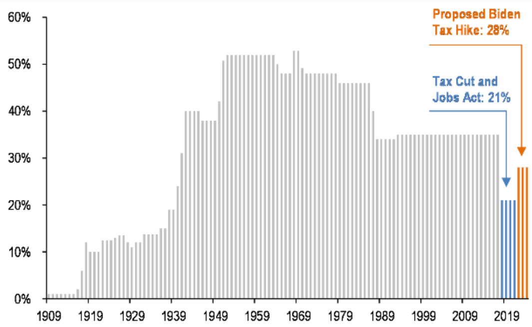
In Das Kapital, Kritik der politischen Ökonomie, Karl Marx argued that Capitalism would ultimately destroy itself because profit-hungry corporations would consume wages in a way that nobody would be able to buy their goods – leading to their own destruction. Tax has been one response to re-allocate between corporations and the middle-class over the last 150 years. But after four decades of declining effective tax rates, inequality, and the gap between the richest and the middle class have ballooned. It seems logical that the massive fiscal policies born out of the worst pandemics since 1918 should reverse the trend for lower tax. The below chart 7 is striking. The black line corresponds to the U.S. Household Median Income and the blue line to the mean. The difference between the two is explained by the fact that ultra-high net worth individuals are tilting by 20,000 USD the median to the mean: indeed, the top decile of households earns more than 50% of the US's total income. At the same time, the savings rate (light blue line) and the US wealth (dotted red line) normalized by the GDP (this ratio aims to show the amplitude of which the US wealth diverge from the real economy) are at an all-time high. The French economist Thomas Piketty in his bestseller "Capital in the Twenty-First Century" analyses the evolution of inequality since the beginning of the industrial revolution, using tax statistics. Like now, just before the 1918 Spanish pandemic, the concentration of capital lied in the hands of a few private European families. Then, wars, depressions, and the pandemic reduced inequality until 1950. But the capital-income ratio then began to climb again and is almost back to nineteenth-century levels. **The current cycle looks like the 1918 one** (1) Spanish flu + World War 1 / COVID-19 were exogenous shock, (2) governments/ central bankers responded aggressively, (3) **declining share of wages in GDP, rising income inequality, urgent governments financing of fiscal deficits**, result in an **inclusive and more egalitarian** growth environment framed by both expansionary monetary and fiscal policy. "Das Kapital" is not only a new thematic for us as it implies a stronger equity correction in the last quarter of 2021 as investors sell stocks to avoid tax, it may also be a major inflexion in structural trends with more regulation, more government and less inequality. The good news is that the recovery could be durable with a new cycle for Capex/ global investment and probably a much higher plateau for inflation.

CHART 7: If Piketty was right?



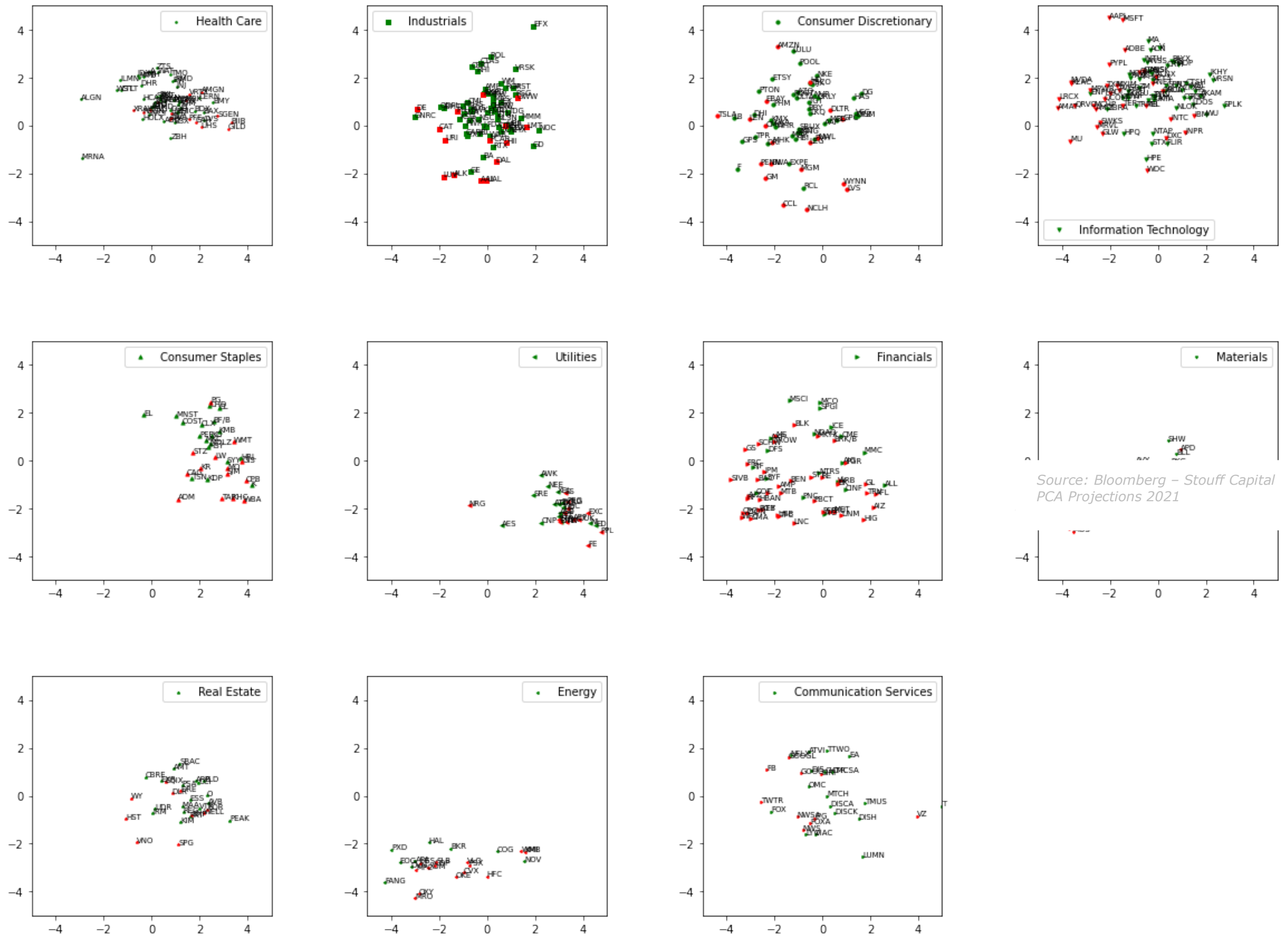
Annex 1: Effective tax rates over 6 years of our US universe





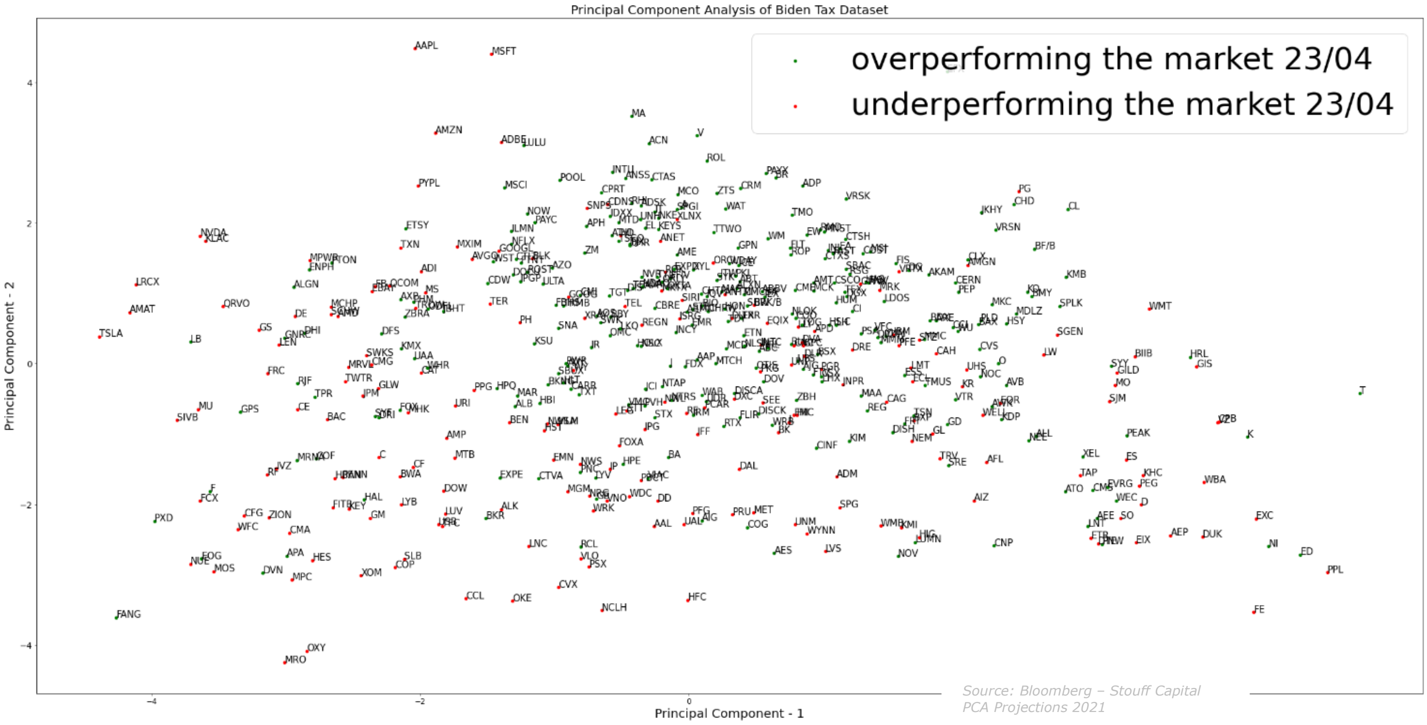
Annex 2: Fractal April 22nd, impact on various sectors

For every sector, the PCA subset distinguishes outperformers (green) and underperformers (red) and shows clusters of companies with similar quantitative grades. Visualization gives a more nuanced message on the performance of companies within the sector than the performance on the sector after Biden Tax announcement. The number of outperformers in Industrials is specifically high, confirming the positive impact of the infrastructure plan. Health-care companies are only half outperforming as a lot of multinationals could be impacted by the GILTI tax increase. To the contrary, while XLY is down more than the S&P 500, its members are more green than red (a lot of domestic names with already the highest tax rates and hurt by the pandemic). Technology & Communications have also a big discrepancy between their intraday returns and the important number of outperformers. To the contrary, Health-care, Staples, Materials, Financial and Utilities outperform as sector indexes, but their share of outperformers are the lowest.



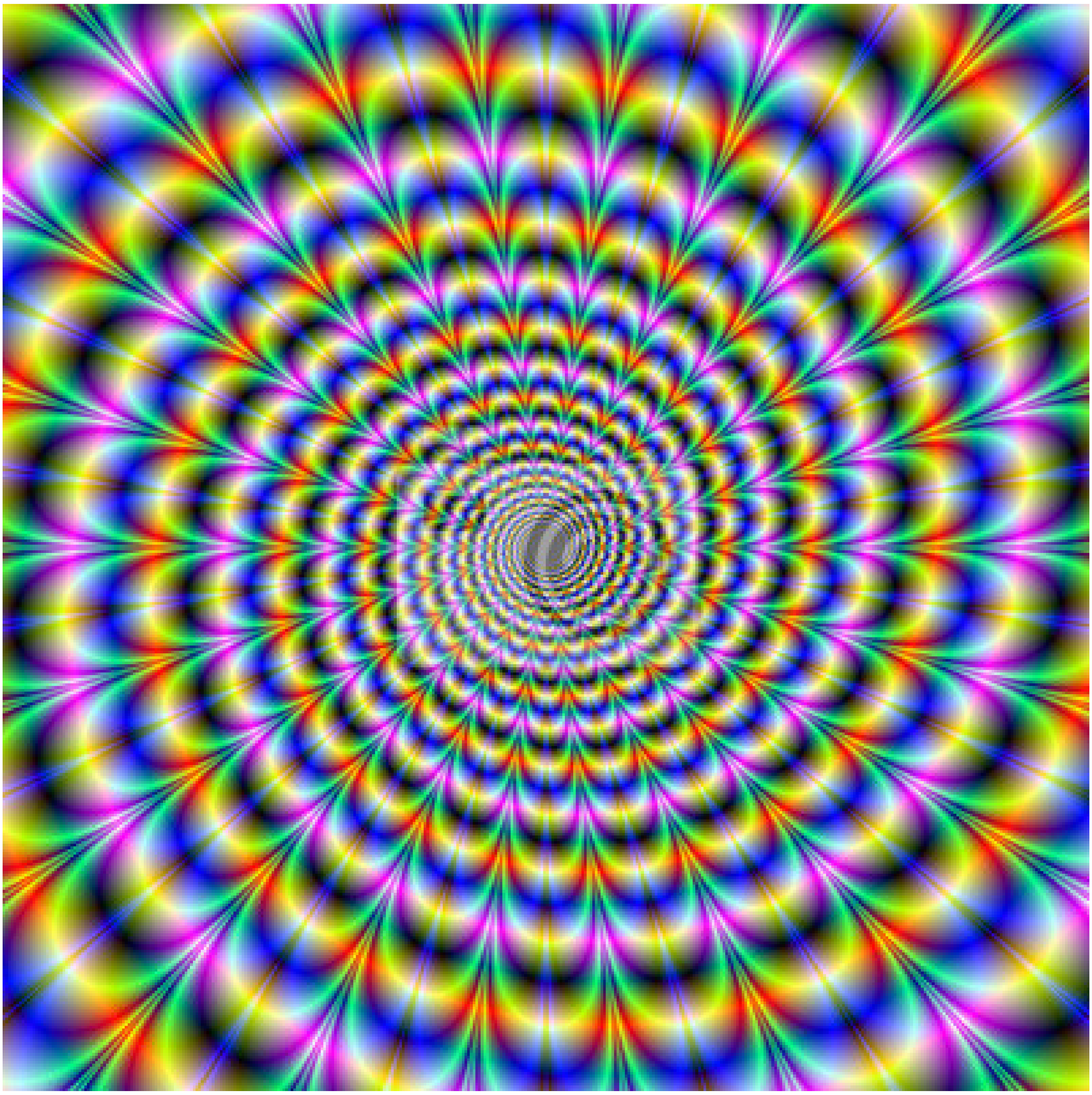
Annex 3: Fractal April 22nd, impact on various stocks

For all US single stocks, the PCA subset distinguishes outperformers (green) and underperformers (red) and shows clusters of companies with similar quantitative grades.



asset.GICS_SECTOR_NAME	Eff Tx Rate:2015	Eff Tx Rate:2016	Eff Tx Rate:2017	Eff Tx Rate:2018	Eff Tx Rate:2019	Eff Tx Rate:2020
Communication Services	0.33045	0.28340	0.32270	0.19020	0.21010	0.19295
Consumer Discretionary	0.34470	0.33820	0.36080	0.22100	0.22640	0.22680
Consumer Staples	0.32200	0.31120	0.31700	0.23065	0.21750	0.21930
Energy	0.27680	0.24040	0.18490	0.22310	0.24250	0.16840
Financials	0.30515	0.30055	0.33150	0.19780	0.20395	0.19835
Health Care	0.23610	0.25845	0.38600	0.18760	0.17650	0.18195
Industrials	0.32960	0.32915	0.30465	0.21800	0.22030	0.21470
Information Technology	0.25690	0.25480	0.31520	0.21420	0.17220	0.16740
Materials	0.27860	0.25570	0.30670	0.20520	0.19450	0.20210
Real Estate	0.00825	0.01360	0.02150	0.01290	0.01760	0.01240
Utilities	0.34050	0.32355	0.34430	0.19290	0.17910	0.15030

Annex 4: What is a fractal?



Classical geometry is based on the study of smooth, continuous curves and shapes. Fractals are irregular and complex patterns that represent the way the world really is. Mandelbrot created fractal geometry to deal with these real-world patterns. There is a hard way and an easy way to describe what a fractal is. Mandelbrot defined them this way: "A fractal is by definition a set for which the Hausdorff-Besicovitch dimension strictly exceeds the topological dimension". The easy way is this: "A fractal pattern is made up of smaller patterns identical to the large one that are in turn made up of even smaller identical patterns." Fractal patterns are self-similar in all time frames. The smaller components have the same basic shape and pattern as the larger components. Fractals are common in nature: in trees, snowflakes, rivers, and shells.

Financial markets are fractal. An unlabeled price chart looks the same whether it is a monthly, weekly, daily, hourly, or even a five-minute chart of the trading action. They all look the same. If a market trended perfectly over a time period – every price change exactly equal – it would have a fractal dimension of 0. If a market was completely chaotic over that same time period, with no relationship from one price to the next, the fractal dimension would be 100.

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The Equity quantitative grades
EPS Growth Grade: The EPS Growth Grade is a proprietary formula made up of earnings revisions momentum, past earnings growth, earnings stability, and current and long-term earnings growth. A grade above 55 is considered bullish on a 3-month basis, bearish below 45 and neutral between 55 and 45.
Sales Grade: The Sales Grade is a proprietary formula made up of current and next year's sales momentum, past sales growth, sales stability, and current and long-term sales growth. A grade above 55 is considered bullish on a 3-month basis, bearish below 45, and neutral between 55 and 45.
Relative Value Grade: The Relative Value Grade is a proprietary formula made up of estimated P/E, P/B, P/S and P/CF ratios. 40% of the grade is based on historical values and 60% on current market data. A grade above 55 suggests a stock is cheap, below 45 expensive, and neutral between 55 and 45.
Quality Grade: The quality rating is a proprietary formula that focuses on the balance sheet (i.e. change in accruals, change in free cash flows and profitability). A grade above 55 suggests a stock with a good balance sheet.
Volume Flow Grade: The Volume Flow Grade is a proprietary formula that gives the accumulation/distribution based on the volume flows of a stock. A grade above 55 indicates good money flow and a grade below 45 suggests weak money flow.
Global Grade: The Global Grade is a weighted average of the Growth, Value, Berkshire, Quality and Money Flow Grades.
Relative Strength (RS) Grade: The RS grade measures the price momentum of a stock over its 1-year price performance.
Smart Sentiment Grade: Sometimes referred to as "Smart Sentiment," the Sentiment Grade ranks the sentiment of the smart money. The first digit of the figure goes to the level of bullishness, and the second digit goes to predictability. For example, a sentiment grade of 97 indicates 90% bullishness and 70% predictability.

The Regional MATRIX grades
The Regional Matrix grades range from -100% to +100%. We consider a grade above 30% to be very bullish, a grade above 10% to be bullish, and a grade between -10% and 10% to be neutral. A grade between -10% and -25% we consider bearish and a grade below -25% very bearish. This Regional Grade is a benchmark for the net exposure of the Urizen Fund.
Regional Grade: The Regional Grade (-100 to +100) is an indicator of a structural bull market or not. It is calculated by combining and applying weight to each of the other grades that make up the Regional Matrix (Trend, Contrarian Trend, Relative Valuation, Liquidity delta, Economics delta, and Contrarian Sentiment). If we believe equities to be in a structural bull market, we use 15 years of data to assess Valuation.
Trend Grade: The Trend Grade (-100% to +100%) is based on a moving averages model adjusted according to the overbought/oversold conditions of the region's main indices.
Relative Valuation Grade: The Valuation Grade (-100% to 100%) is based on the percentile rank of the regional Index stocks' P/E ratios since 1995 (current year estimated).
Economics delta Grade: The Economics delta Grade (-100% to 100%) is based on a combination of manufacturing and non-manufacturing PMIs and the Citigroup Surprise Indices. The Citigroup Economic Surprise Indices are an objective and quantitative measure of economic news and are defined as weighted historical standard deviations of data surprises (actual releases vs. Bloomberg survey median). A positive reading of the Economic Surprise Index suggests that economic releases have on balance beaten the consensus.
Contrarian Sentiment Grade: The Contrarian Sentiment Grade (-100% to 100%) is based on various contrarian and non-contrarian indicators.

The SC quantamental portfolios
The SC quantamental portfolios refer to our regional single stocks portfolios which are constructed through a mixed process of algos and fundamental analysis