

Strategy – Let This Sink In

*October 31, 2022**Jason H. Kolbert*

Two Additional Markers: A Tech Collapse & Twitter Takeover

Senior Analyst & Managing Director
jkolbert@dawsonjames.com

We follow up last week's report "Will we see a red wave?" 10.21.2022 with a few key updates as we head into the midterms that we believe further bolster the case for a red wave. 1. Elon Musk Takes Over Twitter – Let that sink in; 2. Tech giants have been reporting weak quarters – Facebook's power appears to be waning; 3. Debate performances have been striking – Dr. Oz versus Federman for a senate seat in Pennsylvania where Federman is still suffering from the effects of his stroke and in New York the governor's race where Hochul and Zeldin sparred with Chul asking Zeldin – "Why are you so focused on crime being a key issue?", becoming the tag line of the night.

Strategy Highlights

Change Comes to Twitter (TWTR- Not Rated) and Facebook – Meta (META – Not Rated) reports a weak quarter. Last Friday, clips were all over social media of Elon Musk carrying a sink through the lobby of Twitter's headquarters with the message – "Let this sink in". Since the acquisition closed, we have seen President Biden fact-checked! We see Musk's take-over of Twitter as positive for the market as it's likely to help even the social media playing field where conservative voices have been silenced. Twitter famously squashed reports of Hunter Biden's laptop and banned President Trump while allowing Iranian leaders to make online threats. At the same time, Facebook-Meta had a weak quarter suggesting its power is waning.

How do you score recent debates? Key senate races such as Dr. Oz versus Federman in Pennsylvania, Nevada, Georgia, and Arizona have been volatile as each candidate pushes views left and right. Key issues remain inflation, the border, crime, bail reform and student loan forgiveness. Races that were thought to be safe and blue have now tightened. As we previously wrote: **The market likes gridlock.** A red wave, control of Congress and possibly the senate translates into a lame-duck presidency for Biden. The market tends to like gridlock, which means radical policies get blocked, and change is minimized. So in this column, we score a red wave as likely, and that's a positive for the market.

Inflation and Its Source. Government spending is certainly a source of inflation. Supply chain disruptions as a result of Covid related shutdowns are too. Corporate America is adapting to these disruptions, and covid itself is abating. As a result, we do believe that inflation today is different than the energy shock inflation of the 70s and can be worked out over time. The issue then becomes how much higher rates might go. A red wave that pulls back on excessive government spending should be an additional factor to put inflation into check. As a result, we may see rates peak in 1H 2023.

Russian and Ukraine. The war in Ukraine has shed a lot of light on the state of Russia. We grieve for the loss of life. Shocking to all has been the enigma that the Russian army (which is more of a group of thugs) appears ill-equipped with outdated weapons. Reports of World War II era equipment and lack of supply of basics such as fuel and food have shed light that Russia appears to be more of a paper tiger, albeit a nuclear one, than a modernized army. There seems to be no letup in support of Ukraine from the west in supplying modern weaponry. This is a dangerous situation and is beyond our ability to predict an outcome; suffice to say, we hope for regime change in Russia. If that were to happen, it would be a significant structural positive factor for global markets. The use of a nuclear option is unthinkable.

What about China? China has been positioned as the new global threat, with Taiwan in the crosshairs. We note that China has never invaded another country, but this time may be different. What we do know is that China has other problems, from its own “zero Covid” policy to trillions of dollars in failed real estate that the country and its people face today. The effect is slowing economic growth, which impacts not only China but the world. We believe, at least in the short term (next five years), that China is more focused on restoring economic growth than on a war with Taiwan. Especially in the wake of the Russian invasion of Ukraine and the impact it's having on Russia. We conclude that Washington is now more tuned into the China threat, but we see few reasons for the threat to escalate in the near term. No news is good news for the market regarding China.

Back in November 2020, we wrote: “I’m concerned as fiscal stimulus, the government printing money, must at some point trigger inflation, which suggests a lower market. Structural changes in how we do business will need to be resolved, and that ultimately sets the stage for future growth. So even in a republican win, I’m concerned about the market outlook in 2021. In a Democratic sweep, we should expect Congress will try to print its way out of the economic chaos. That is sure to trigger inflation, and I fear could fail to address the structural changes needed for the country to prosper”.

Dawson James Securities, Inc. (the “Firm”) is a member of the Financial Industry Regulatory Authority (“FINRA”) and the Securities Investor Protection Corporation (“SIPC”).

The Firm does not make a market in the securities of the subject company(s). The Firm has NOT engaged in investment banking relationships with any companies mentioned in the prior twelve months, as a manager or co-manager of a public offering and has NOT received compensation resulting from those relationships. The Firm may seek compensation for investment banking services in the future from the subject company(s). The Firm has NOT received other compensation from the subject company(s) in the last 12 months for services unrelated to managing or co-managing of a public offering.

Neither the research analyst(s) whose name appears on this report nor any member of his (their) household is an officer, director, or advisory board member of these companies. The Firm and/or its directors and employees may own securities of the company(s) in this report and may increase or decrease holdings in the future. As of October 19, 2022, the Firm as a whole did not beneficially own 1% or more of any class of common equity securities of the subject company(s) of this report. The Firm, its officers, directors, analysts or employees may affect transactions in and have long or short positions in the securities (or options or warrants related to those securities) of the company(s) subject to this report. The Firm may affect transactions as principal or agent in those securities.

Analysts receive no direct compensation in connection with the Firm's investment banking business. All Firm employees, including the analyst(s) responsible for preparing this report, may be eligible to receive non-product or service-specific monetary bonus compensation that is based upon various factors, including total revenues of the Firm and its affiliates as well as a portion of the proceeds from a broad pool of investment vehicles consisting of components of the compensation generated by investment banking activities, including but not limited to shares of stock and/or warrants, which may or may not include the securities referenced in this report.

Although the statements in this report have been obtained from and are based upon recognized statistical services, issuer reports or communications, or other sources that the Firm believes to be reliable, we cannot guarantee their accuracy. All opinions and estimates included in this report constitute the analyst's judgment as of the date of this report and are subject to change without notice.

Information about valuation methods and risks can be found in the “VALUATION” and “RISK ANALYSIS” sections of this report.

The securities of the company discussed in this report may be unsuitable for investors depending on their specific investment objectives and financial position. This report is offered for informational purposes only and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such would be prohibited. Additional information is available upon request.

Ratings Definitions:

- 1) **Buy:** The analyst believes the price of the stock will appreciate and produce a total return of at least 20% over the next 12-18 months;
- 2) **Neutral:** The analyst believes the price of the stock is fairly valued for the next 12-18 months;
- 3) **Sell:** The analyst believes the price of the stock will decline by at least 20% over the next 12-18 months and should be sold.

The following chart reflects the range of current research report ratings for all companies followed by the analysts of the Firm. The chart also reflects the research report ratings relating to those companies for which the Firm has performed investment banking services.

Current as of 28-Oct-22

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	24	80%	3	13%
Market Perform (Neutral)	5	17%	1	20%
Market Underperform (Sell)	1	3%	0	0%
Total	30	100%	4	13%

Analyst Certification:

The analyst(s) whose name appears on this research report certifies that 1) all of the views expressed in this report accurately reflect his (their) personal views about any and all of the subject securities or issuers discussed; and 2) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst in this research report; and 3) all Dawson James employees, including the analyst(s) responsible for preparing this research report, may be eligible to receive non-product or service specific monetary bonus compensation that is based upon various factors, including total revenues of Dawson James and its affiliates as well as a portion of the proceeds from a broad pool of investment vehicles consisting of components of the compensation generated by investment banking activities, including but not limited to shares of stock and/or warrants, which may or may not include the securities referenced in this report.