WASATCH
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"YOU REALIZE YOU REALLY WEREN'T SUPPOSED TO TRY TO KEEP UP WITH THE KARDASHIANS?"

JANUARY 2021

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Manna from Heaven? -Article by Mark Lazar

***A billion here, a billion there, pretty soon, you're talking real money*. Everett Dirksen**

The election is officially behind us. President Elect, Biden, will be inaugurated January 20th and, in addition to retaining control of the House, Democrats gained a slim majority in the Senate. Since November 3 (through 1/8/21), the stock market has increased 14.64% and the benchmark 10-year Treasury yield jumped 26.87%, from .871% to 1.11%.

Item	YTD Change
Dow Jones Ind Avg	1.61%
S&P 500 Index	1.83%
EAFE Foreign Index	3.15%
US Dollar 2020 Change in Value	-7.49%
2021 Federal Budget Deficit Forecast	$2.3 Trillion
US 2020 GDP Growth by Quarter	-5%, -31.4%, 33.4%, 8.7%*
Unemployment Rate	6.7%

**Market data as of 1/9/2021*
**4th quarter GDP estimate of 8.7%*

A lot of folks are scratching their heads as to why the stock market rallied in spite of proposed tax hikes and increased regulation—both of which are antithetical to supply side economics—by the incoming Administration. They are similarly perplexed at the jump in Treasury yields, which tends to signal faster economic growth. Let's see if we can explain both.

The national policy response to the Coronavirus resulted in the slowing or closure of large swaths of the U.S. (and global) economy. The hardest hit were the airlines, cruise lines, hospitality, casinos, sports and concert venues, movie theaters, bars & restaurants, and performing arts. After falling 5% (annualized) in the first quarter, U.S. GDP experienced an elevator-like drop of -31% in Q2. However, Q3 rebounded 33%, and Q4 is estimated to have recovered ~8%. But even with the faster-than-anticipated economic recovery, corporate earnings still fell 15% YOY in 2020.

Those who read my monthly commentary know that earnings (specifically, *expectations* of) drive the market. The 2021 S&P 500 earnings estimate is $175/share. if correct, that would translate into YOY earnings growth of 21.9%, or 15% above the 60-year average. Which begs the question; *why*? How is it possible corporate earnings could hit a record high If the economy is still hobbled due to COVID? While the market is clearly discounting the rollout of several vaccines, and corresponding reduction in the restrictions, more importantly, it's the expectation of greater fiscal stimulus (demand-side economics) that's pushing stock prices higher.

The money supply, as measured by M2, historically grows at roughly the same pace as nominal GDP, between 5–6%. However, over the past nine months the Federal Reserve created (i.e., printed) $3 trillion in new/additional money, inflating the money supply by 25%; the fastest, most aggressive monetary stimulus in U.S. history. In addition to Herculean monetary stimulus, the federal government spent $3.1 trillion more in 2020 than was collected in tax receipts (AKA deficit spending). U.S. GDP was ~$21T last year, which means the total amount of (additional) combined monetary and fiscal stimulus was roughly $4 trillion (additional $2T each) or 20% of GDP. Whoa!

The market correctly forecast this unprecedented stimulus package beginning in April, which propelled stock prices in 2020. You see, the stock market doesn't distinguish where a dollar (of earnings) comes from. It doesn't know, or care, whether the dollar comes from pro-growth, economic policies that lead to increased output and productivity, lower costs, and wealth creation—or from the Federal Reserve's "printing press." Apple, Microsoft, Amazon, Google, Facebook, and handful of other companies were winners of the COVID lottery, receiving a disproportionate share of stimulus booty. In fact, the aforementioned companies comprise 21% of the S&P 500.

The market is clearly expecting the government to keep the party going. The 2021 federal budget deficit is currently forecast at $2.3 trillion, and the market—stock, bond, currency, gold, bitcoin, etc.—believes the actual number will be much higher. Besides stocks trading well above long-term average forward PE multiples, swiftly rising Treasury yields indicates expectations of both greater federal debt issuance, and corresponding future higher inflation. Similarly, the USD, as measured against a basket of six other currencies (DXY), recently dropped to near its 7-year low.

According to the *Book of Exodus*, when the Israelites fled Egypt, they spent 40 years wandering through the wilderness before they arrived at the Promised Land. During that time, God provided daily sustenance for them in the form of manna. Hence the term, *manna from Heaven*.

Short-term stimulus can goose the economy, but is not a replacement for healthy, pro-growth economic policies combined with sensible fiscal management. How much longer can the government provide manna for the markets is hard to say. But for the time being, stocks likely continue to benefit, whereas bonds will potentially provide both negative nominal and real returns should interest rates continue to move higher.

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Wasatch Team Updates

Wasatch Capital Management is growing. Last month, Stan Goodell joined us, coming from Wells Fargo where he was Managing Director in the Wealth Management Group. Stan's niche is working with complexity. He's spent his entire 23 year career working to integrate investment strategy, tax planning, estate planning, philanthropy, multi-generational wealth, family dynamics, asset protection, business succession, etc., into a comprehensive plan for clients. I've known Stan for over 20 years and couldn't be more excited to welcome him to our team.

Mark

Mark & Savina skiing last month

Stan

Stan and his wife, Ronda celebrating their 25th Anniversary of their first date on the slopes!

John

John having a little lunch with friends after a morning of skiing at Solitude

Beth

Beth organized the Office holiday toy drive for the homeless shelter

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