



**WASATCH**  
CAPITAL MANAGEMENT OF  
**RAYMOND JAMES®**



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

**JANUARY 2021**

-----

**INSIDE THIS NEWSLETTER**

- ❖ **JANUARY COMMENTARY:  
MANNA FROM HEAVEN?**
- ❖ **WASATCH TEAM UPDATE**

**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 20<sup>th</sup> 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	<a href="#">1.61%</a>
S&P 500 Index	<a href="#">1.83%</a>
EAFE Foreign Index	<a href="#">3.15%</a>
US Dollar 2020 Change in Value	<a href="#">-7.49%</a>
2021 Federal Budget Deficit Forecast	<a href="#">\$2.3 Trillion</a>
US 2020 GDP Growth by Quarter	<a href="#">-5%</a> , <a href="#">-31.4%</a> , <a href="#">33.4%</a> , <a href="#">8.7%*</a>
Unemployment Rate	<a href="#">6.7%</a>

\*Market data as of 1/9/2021

\*4<sup>th</sup> 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.

**Mark Lazar, MBA**  
 Certified Financial Planner™  
[Pathwaytoprosperity.com](http://Pathwaytoprosperity.com)

## 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 25<sup>th</sup> 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



Mark Lazar, CFP<sup>®</sup>, MBA, Vice President - Investments | 385-275-3609

Stan Goodell, CFP<sup>®</sup>, Vice President- Investments | 385-275-3792

John Bergerson, CFA<sup>®</sup>, MBA, Investment Portfolio Associate | 385-275-3608

Beth Winter, Client Service Associate | 385-275-3593

2750 E Cottonwood Parkway, Suite 520, Cottonwood Heights, UT 84121

1389 Center Drive, Suite 200, Park City, UT 84098

Raymond James & Associates, Inc. member New York Stock Exchange/SIPC

Views expressed in this newsletter are the current opinion of the author, but not necessarily those of Raymond James & Associates. The author's opinions are subject to change without notice. Information contained in this report was received from sources believed to be reliable, but accuracy is not guaranteed. Past performance is not indicative of future results. There is no assurance these trends will continue or that forecasts mentioned will occur. Investing always involves risk and you may incur a profit or loss. No investment strategy can guarantee success. The S&P 500 is an unmanaged index of 500 widely held stocks. The Dow Jones Industrial Average is an unmanaged index of 30 widely held securities. It is not possible to invest directly in an index. Companies engaged in business related to a specific sector are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification. Gross Domestic Product (GDP) is the annual market value of all goods and services produced domestically by the US. The information in this article is general in nature, is not a complete statement of all information necessary for making an investment decision, and is not a recommendation or a solicitation to buy or sell any security. Investments and strategies mentioned may not be suitable for all investors. The MSCI EAFE (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The MSCI Emerging Markets is designed to measure equity market performance in 25 emerging market indices. The index's three largest industries are materials, energy, and banks. The Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. International investing involves special risks, including currency fluctuations, differing financial accounting standards, and possible political and economic volatility. Links are being provided for information purposes only. Raymond James is not affiliated with and does not endorse, authorize or sponsor any of the listed websites or their respective sponsors. Raymond James is not responsible for the content of any website or the collection or use of information regarding any website's users and/or members. Raymond James is not affiliated with any of the organizations listed above. Neither Raymond James Financial Services nor any Raymond James Financial Advisor renders advice on tax issues, these matters should be discussed with the appropriate professional. Sector investments are companies engaged in business related to a specific sector. They are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification.