2020 – The Year of the Bear, The New Bull, Tesla, Zoom, Bitcoin – and the MASK!

Greetings from Goldenstone!

The year 2020 will go down in history as the year where a global pandemic shocked the world – for a brief moment everything came to a full halt: businesses, cities, countries, governments, schools, travel, and people rushed to discover what would happen next. Thankfully, the world did not come to an end. Moreover, a decade worth of groundbreaking research, innovation, and technology was packed into just a few months – everything from genome and vaccine research (Pfizer, Moderna, AstraZeneca), online shopping (Amazon, Shopify, Etsy), education (Google Classroom, Zoom), entertainment (Netflix, Disney+, Hulu, Roku, Prime Video), food delivery and dining (UberEats, DoorDash, GrubHub), exercising (Peloton, Apple), investing (Robinhood), travel (or lack thereof), to work from home (Microsoft Teams, Slack, Dropbox, Zoom) had to rapidly adapt. In a blink of an eye, we went from a Great Depression forecast, to one of the shortest recessions on record, followed by a 32% Q3 recovery in US GDP, which unleashed a new era and a new bull market.

As we predicted, the US economy demonstrated resilience by swiftly bouncing in a “V” shaped recovery in the second half of the year. The stock market has already trounced previous all-time record highs, and continues to defy gravity and naysayers by rallying 68% from its March lows. In 2020, consumer spending declined 3% because services declined 7%. Nonetheless, we all bought more of certain goods, including toilet paper, hand sanitizer, and snack bars. It is clear that winners and losers will emerge from this economic wreck and the underlying optimism on anything relating to cloud, cyber security, digital payments, e-commerce, and the trendy “stay at home” stocks is palpable. Bitcoin soared 340%, and oil tumbled with its price briefly going negative. Tesla rose 743%, was added to the S&P 500, and now has a market cap that exceeds the next 10 automakers combined.

A 29% rise in the S&P 500 in 2019 was followed by a 16.2% rise in 2020. A 35% rise in NASDAQ in 2019 was followed by 44% increase in 2020 (a 94% increase in two years). The Dow rose only 7.2%. It almost felt like 1998-1999. After 48 years, BREXIT actually happened marking the end of an era of European harmony. Driven by historic low mortgage rates and low inventories, house prices went up 8.4% nationally, and are now 25% higher than the peak from 2006.

The vaccines (not one but multiple) are here! The year 2021 will bring the world a new normalcy that will continue to feel different. And oh! We also elected a new President amidst all the turmoil. As history has taught us, election years are good for the stock market. The Federal Reserve, European Central Bank, and Bank of Japan expanded their balance sheets by $8 trillion. At striking speed, over $11 trillion of stimulus was put on the table through fiscal and monetary policy in the USA. This is several times larger than the stimulus we last saw in 2008-09.

Thus far, Sacramento has enjoyed a robust housing market that is up 10.9% in the last 12 months mainly due to Bay Area residents seeking affordability and better quality of life in a pandemic world encouraging work from home. Along with our housing market, the construction and financial sectors have been major beneficiaries recently, while the IT sector has been the biggest loser. Locally, our small businesses continue to struggle, consumer confidence lags the rest of the nation, artificial intelligence job prospects (the future of our new world) rank at the bottom in our region, and policy makers continue to drive businesses out of the state (HP, Oracle, Tesla, Schwab all announced departures to Texas). Moreover, the state/county/city budgets appear dire for 2021/22. Can the Golden State keep its shine in Sacramento?

The year 2021 is shaping up to continue its path to a strong recovery with growth catalyzed by pent up demand from consumers that are still largely unaffected by the pandemic. While in many ways we will never feel normal again, the new normal will bring a sense of relief that the worst is behind us. Strong growth will return, not only to the United States which shrank its GDP in 2020 (while China actually grew 2%), but also to emerging markets especially south-east Asia. A new bull market has already emerged, a new economic expansion cycle has begun, and it is time the bears go into hibernation for a while.

Our 2021 Forecast

- While 2020 was the year of the Beta, 2021 will be the year of the Alpha.
- Travel and entertainment industries will remain under pressure.
- Widespread consolidation, layoffs, and bankruptcies will underline winners and losers.
- Work from home will continue to disrupt our lives just as Uber and Airbnb did.
- While office real estate will suffer as a result, residential will get a boost.
- Shrinking expenses will boost net earnings and operating leverage.
- Inflation will creep up, but will not pose any significant risk.
- Low interest rates and normalization of earnings will keep the market trend higher.
- Emerging markets will rebound as vaccine distribution ease fears and re-openings expand.
- Small caps and midcaps will outperform large caps. Growth will still dominate value.
- Cyclicals will continue to lead. We like technology, consumer discretionary, healthcare.
- Housing prices will continue to rise, albeit less, because of eroding affordability.
- There is trouble ahead for municipal bonds such as those backed by airports, hospitals, toll roads, universities, nursing homes, and stadiums.

Our 2021 Year-End Targets

- S&P 500: 4300
- Federal Funds Rate: 0-0.25%
- 10 Year Yield: 1.5%
- Oil: $55
- Gold: $1,800
- US Dollar: Stronger
- US GDP growth: 5%
- US Unemployment Rate: 6%
- S&P 500 Earnings: $175

COMING SOON!

Goldenstone's 2021 Surprises

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"I try to avoid being stupid… The single most important thing is to know where you are competent and where you aren't. The Human mind tries to make you believe you are smarter than you are."
- Charlie Munger (Berkshire Hathaway Vice Chairman)

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