When Great News Became Bad News

Bitcoin, GameStop, Loads of Free Money, Rising Yields, NFTs–Oh My!

Greetings from Goldenstone!

The first quarter of 2021 did not cease to bring surprises as we all sought to hit the reset button and leave 2020 far-far behind. But wait – when we turned the switch off "on 2020", wasn't the pandemic supposed to completely die, schools reopen fully in person, restaurants and cinemas return to full capacity, cruise lines and airlines brim with elbow jostling passengers again? Alas – the switch did not work quite as we wished.

- Markets started January with a lot of optimism, but closed out the month almost negative. If you believe in "As Goes January – So Does The Rest of The Year" – you are likely disappointed.

- Bitcoin – which interestingly most people do not own, cannot own, or know how to own, saw renewed interest and continued on its trajectory upward. While Janet Yellen still strongly disapproves of this cryptocurrency, more and more financial institutions including the likes of Morgan Stanley, Fidelity and others decided to overcome their reluctance and fall in line to allow trading and holding this prized asset. The new hype is NFTs (Non-Fungible Tokens) – and no –

that's not a disease or a fungus. These are digital tokens using blockchain technology as well.

- The US economy demonstrated stronger than expected growth leading many to revise their GDP growth estimates upwards with the International Monetary Fund predicting growth at 6.4%. Similarly, estimates of global growth have been positively revised. China is expected to grow at more than 8% this year.

- The labor market continues to show significant improvement with the current national unemployment rate at 6%, and estimated to dip to 4.5% by year end. Of course, the real unemployment rate is much higher.

- The Biden administration made its first lightning move to take advantage of its honeymoon period by approving the $1.9 Trillion stimulus package that provided further relief to households in the form of direct checks/payments, schools and colleges, and vaccination efforts, among others. Another $2.5 Trillion infrastructure spending package (of which only $600 Billion is actually infrastructure) awaits approval, with perhaps another $2 Trillion following that to further restart the economy. Our national debt is currently at $25 Trillion. Corporate taxes are expected to go up from the current 21% to 28% with Dr. Yellen proposing a Global Minimum Corporate Tax.

- Vaccinations against COVID-19 have seen tremendous success with more than 2 Million shots being administered every day, more than 150 Million US residents already vaccinated and many states already reaching herd immunity. Most parts of the country and now establishing re-opening timelines including for schools in person, and even for cruise lines to set sail.

- As we predicted, some of the technology companies are already doing a U-turn on work from home policies and encouraging/requiring their employees to return to the office for collaboration and innovation.

- Data shows the first two round of stimulus checks received by households made their way into increased trading and retail investing in the markets, but not the third round. The younger generations sitting at home with additional money to play with decided to bring notoriety to Robinhood by chasing GameStop, AMC and the likes using Reddit Chat Groups, bringing down some hedge funds that had shorted these stocks to their knees. While we were looking at David winning against Goliath as a good ending to the saga, the eventual truth that markets may be rigged in favor of the rich and powerful prevailed.

- Corporate earnings for Q4 came in better than expected with earnings estimates revised favorably for 2021. Personal income and consumption expenditures both expanded, retail sales came in stronger than anticipated, and added stimulus helped raise optimism levels higher.

- But too much good news suddenly became bad news. With the economy already showing signs of growth on steroids, the additional stimulus already approved and being discussed set off alarms of rapid inflation, with the 10 Year Treasury yield rising swiftly to cross 1.7% reverting to pre-pandemic levels. Markets witnessed a violent sell off in growth names (mostly technology), as investors rotated their money out of high priced sectors and names into cyclical and value depressed ones – called the reopening trade. By quarter end, value names are looking overvalued based on growth prospects going forward. With result, Nasdaq severely underperformed both the Dow and S&P500.

- We remain committed to the major forecasts and predictions we made at the start of the year. Discipline is key to investment success, and short-term gyrations while painful, may not be relevant in the very long run.

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 highlighting 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&P500: 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

Watch [HERE](#) PBS Studio Sacramento Interview Goldenstone Founder

CONTACT US TODAY FOR A CONFIDENTIAL AND COMPLIMENTARY CONSULTATION

Sanjay Varshney, PhD, CFA
Principal and Founder
sanjay@goldenstonewealth.com
(916) 799-6527

Andres R. Villegas, CFA
Principal and Founder
andres@goldenstonewealth.com
(915) 726-8262

"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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