10 THINGS I'LL BE WATCHING CLOSELY IN 2021

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THE IRRELEVANT INVESTOR
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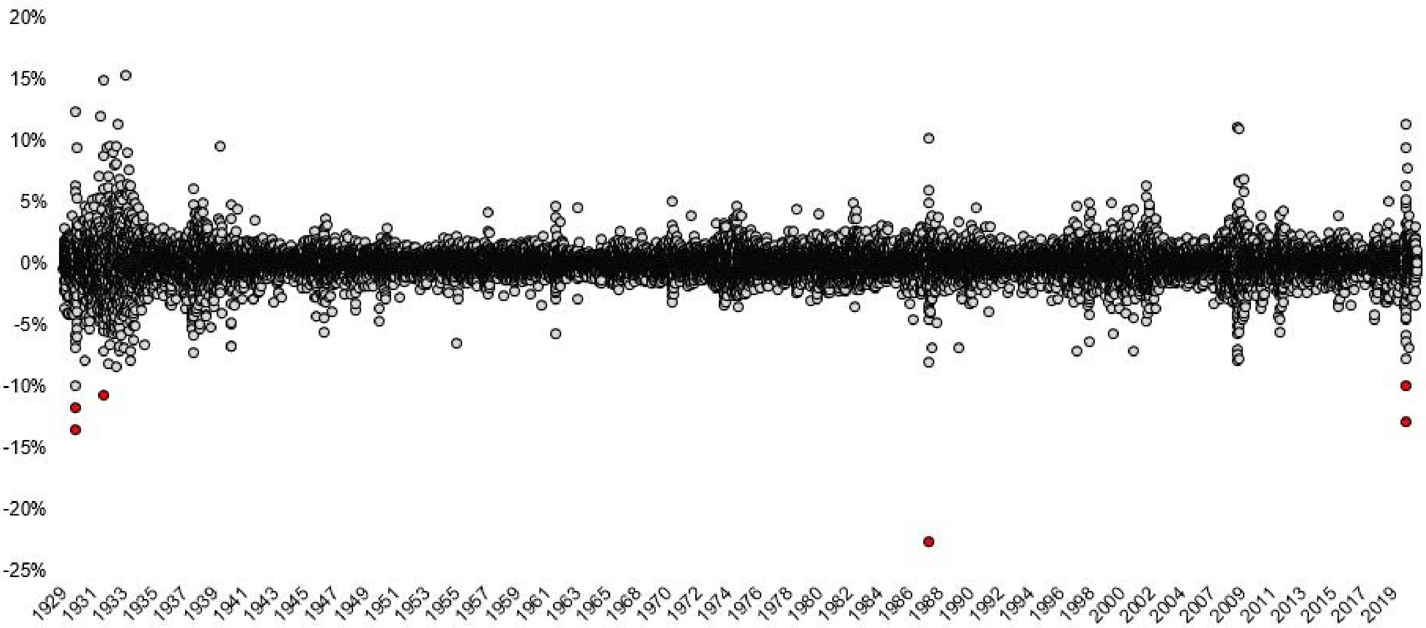
2020 was the wildest year in the stock market that any of us have ever seen.

We had two of the five worst days ever, the fastest bear market ever, and the fastest recovery ever.

DOW DAILY RETURNS



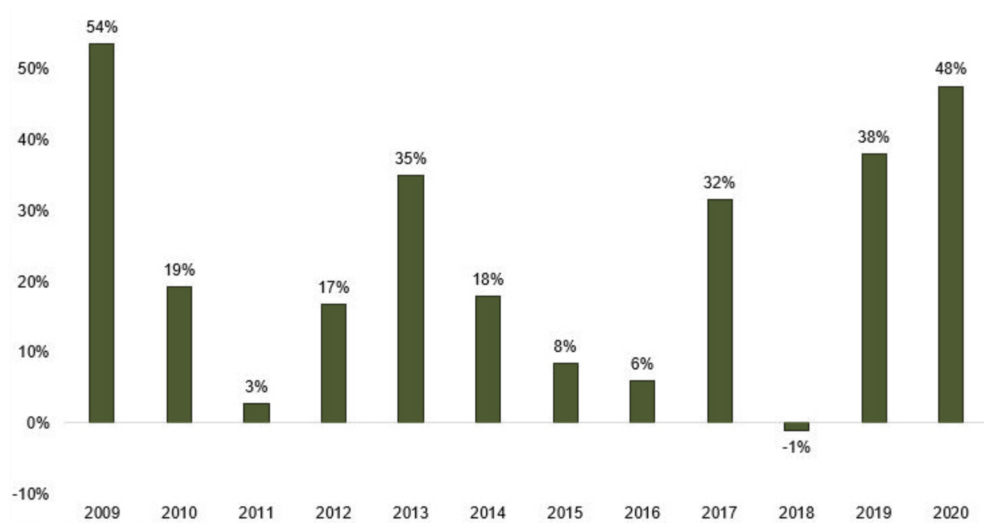
Past performance is not indicative of future results. Data Source: Bloomberg, YCharts.

Today I want to look forward and talk about some of the things I'm thinking about for 2021.

❶ Will the Nasdaq ever fall?

The Nasdaq-100 gained in 2020, which was its best year since 2009. Over the last decade, it had one down year, barely, falling 0.1% in 2018. How much longer can this go on? 45% of this index is in the big five, so as long as they're going up, they will take the index with it.

NASDAQ-100 RETURNS

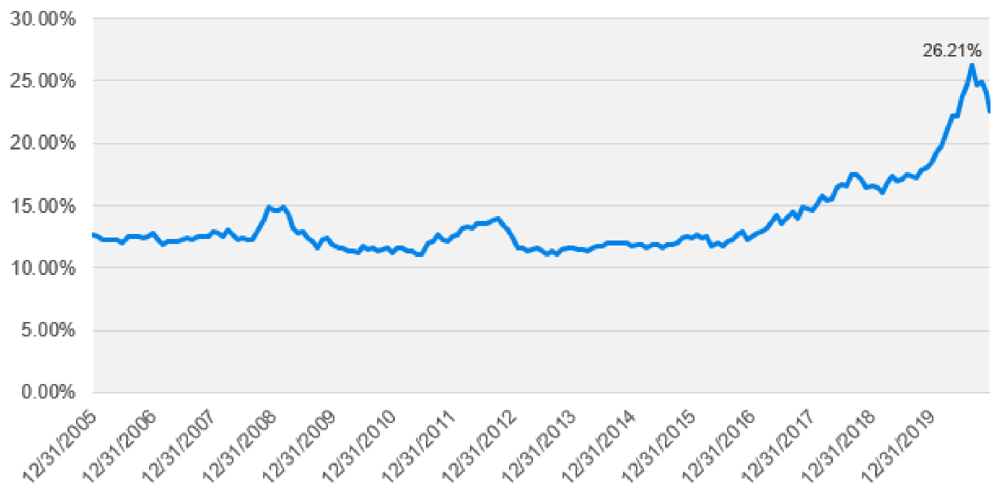


Past performance is not indicative of future results. Source: YCharts.

❷ Will concentration continue?

Speaking of the big five (Apple, Amazon, Microsoft, Alphabet, and Facebook), these stocks represent a quarter of the S&P 500® Index, which is the largest weighting for five stocks since the early 1970s. It's hard seeing this continue, but it's harder to come up with a reason why it won't.

S&P 500® INDEX TOP FIVE STOCKS: % OF MARKET CAP



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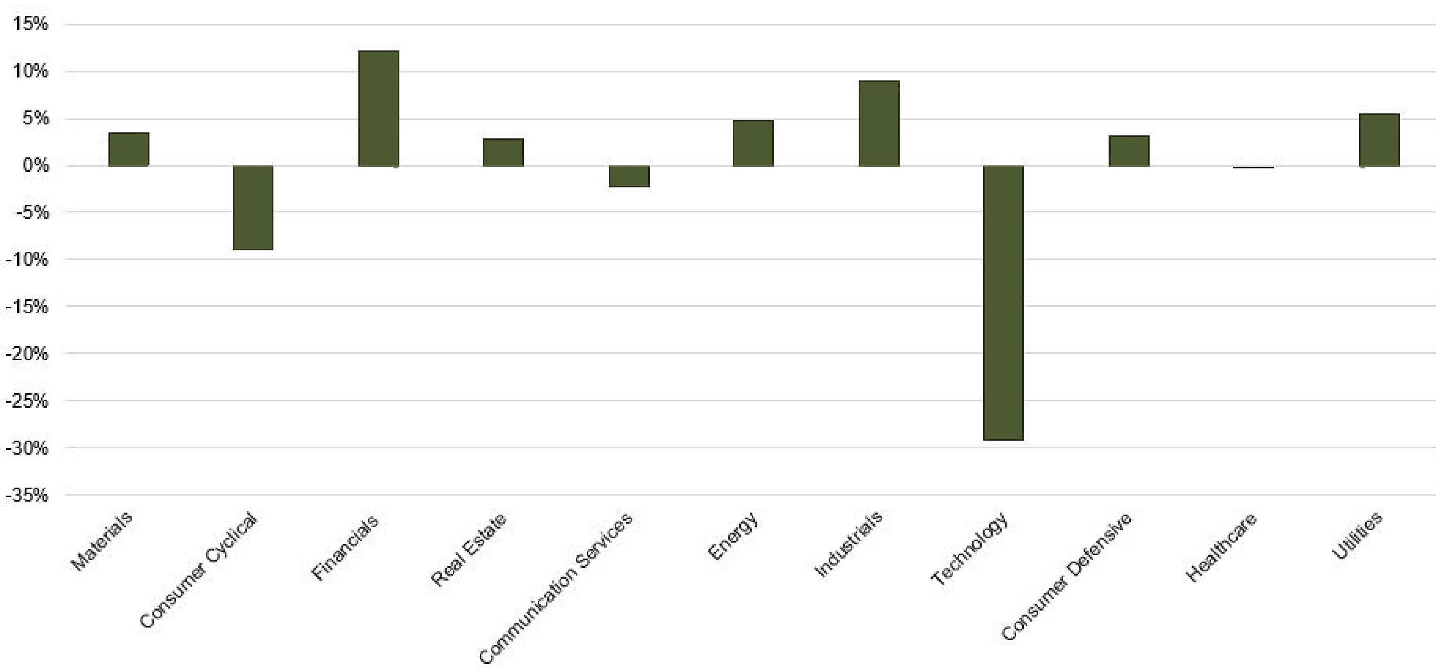
❸ Will value come back?

Over the last five years, the Russell 1000® Value Index has grown at 9% a year. Not bad, not bad at all. But, when you compare it to its growth counterpart, which has grown at 21% a year, it looks downright dreadful.

Maybe we should be talking less about value being dead and more about growth being impossible to keep up with.

One of the reasons for the discrepancy in returns has to do with the difference in sector weights. Value has 29% fewer technology stocks and 26% more financials, industrials, and energy. The spread between value and growth on fundamental factors is as wide as it's been since 1999, and on some metrics, it's even wider. But is it *actually* different this time? You can't rule it out.

RUSSELL 1000® VALUE INDEX MINUS RUSSELL 1000® GROWTH INDEX



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❹ Will the stocks that benefited the most from Covid continue to outperform?

The world looks different today than it did a year ago. People are working from home, and they're wearing masks in the street. Some parts of our lives and some parts of the economy are changed forever. The question is, has the market already discounted all of the change and then some?

Zoom, Peloton, Docusign, Teladoc, Shopify, and Wayfair gained an additional $300 billion in market cap this year. For comparison, that's twice as much as the combined value of Delta, Las Vegas Sands, Marriott, Royal Caribbean, and Simon Property.

Again, the Covid beneficiaries added twice as much in market cap this year as the combined value of the names badly hurt by the virus. Did the market get this right? Does the gap narrow next year? Does it continue to widen?

❺ Irrational Behavior

Investors went a little crazy this year. And I don't mean in the way that Zoom gained $100 billion in market cap. That might be justified. What investors did after Apple and Tesla announced that they were splitting their stocks was absolutely bonkers.

Apple announced a stock split on July 30th. On July 31st, the stock gained 10.5%. That was its second-best performing day of the last decade. $172 billion in additional market cap was added one day because investors were getting four shares for every one they had previously, with the price of their shares getting cut by 75%. In theory, this shouldn't impact the value of a company. In reality, LOL.

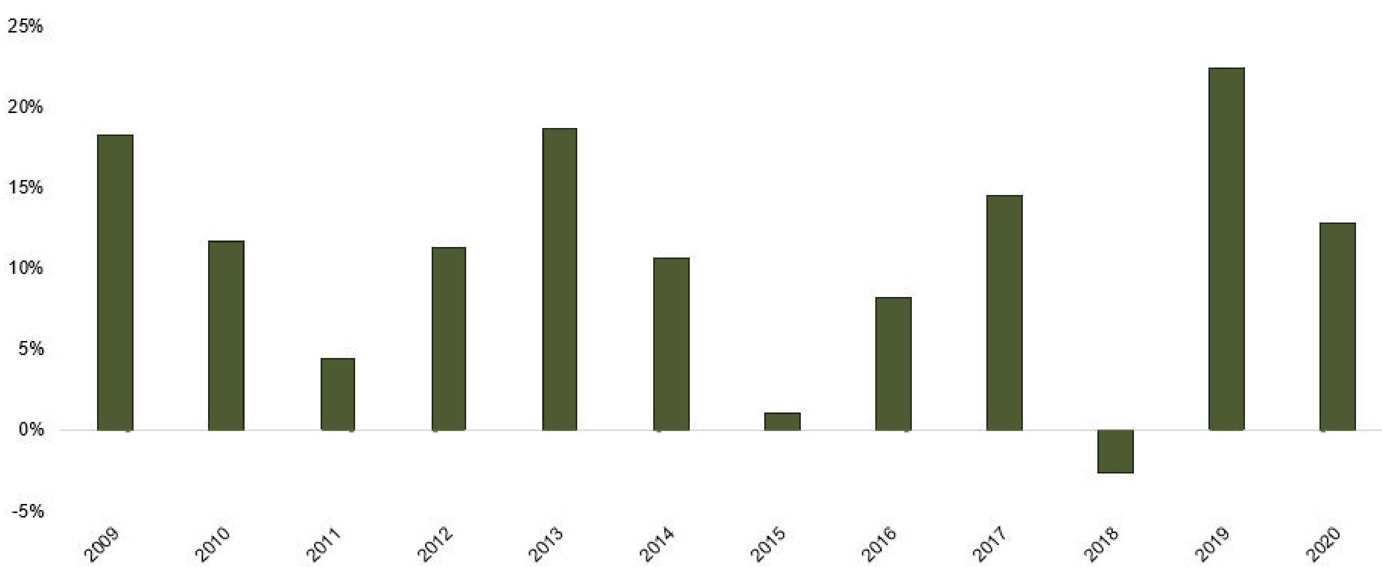
Will investors continue to ignore things like, I don't know, common sense? Investor behavior is impossible to predict, but I'm really looking forward to seeing whether or not 2021 is a continuation of what feels like a lot of shenanigans.

❻ Is 2021 the year 60/40 finally dies?

The 10-year Treasury rate began 2020 under 2%. Investors in the traditional 60/40 portfolio didn't expect too much from this side of their ledger. They got it anyway. Bonds are up more than 7% for 2020.

The stock market started 2020 with a CAPE ratio north of 30, was coming off a 32% year, and had seen increases in nine of the last 10 years. Investors couldn't have expected too much from this side of their ledger for 2020. They got it anyway. The S&P 500 is up some 16% in 2020. The 60/40 is alive and well, for now. It's hard to believe, but it gained 13% in 2020.

60/40 PORTFOLIO



Past performance is not indicative of future results. Data Source: S&P 500 Total Return, Bloomberg Barclays Aggregate Total Return, via YCharts, as of 12/17/20.

I keep telling investors to lower their expectations. Markets keep making me look ridiculous.

❼ Where does the dollar go?

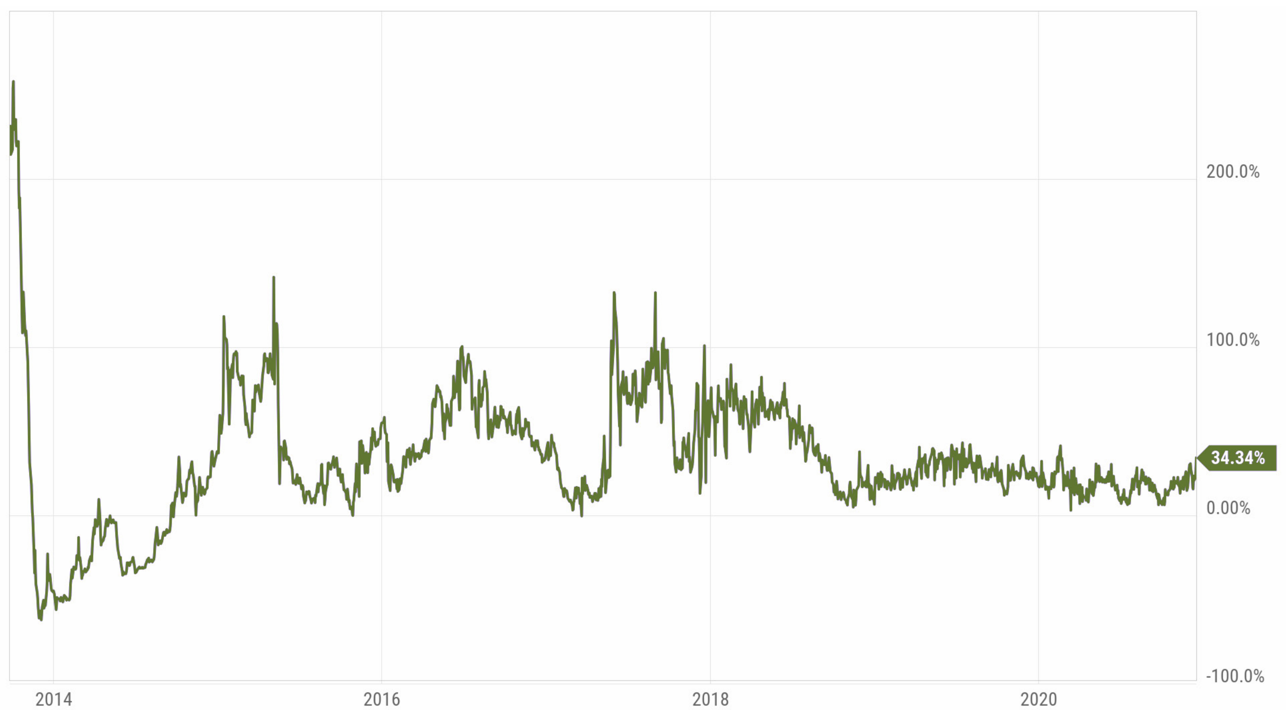
Maybe all that money printing is finally catching up with us. For the first time in a long time, the mighty dollar is starting to show signs of weakness. This has implications for the global economy and for U.S. investors.

A weaker dollar is good for gold and good for non-hedged foreign stocks. Gold quietly made an all-time high earlier in the year, and international stocks are showing signs of life, after doing a whole lot of nothing over the last decade. International developed stocks (EFA)—think Japan, United Kingdom—have only outperformed U.S. stocks once in the last eight years. This is another one of those things that shouldn't continue forever, but it's hard to make the case why it wouldn't.

❽ Will we see more institutional adoption of Bitcoin?

Speaking of dollars, it's been a heck of a year for Bitcoin. Until recently, Grayscale's Bitcoin was the only way for U.S. investors to access bitcoin in a listed fund. Because it was alone in the universe, it has often commanded a hefty premium to the value of its underlying holdings. Grayscale's Michael Sonnenshein said today that flows are up 6x what they were last year.

GRAYSCALE BITCOIN TRUST (BTC) DISCOUNT OR PREMIUM TO NAV



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A competitor recently came onto the playing field. Bitwise is an index fund of cryptocurrencies. It launched less than a month ago, and investors are paying 369% more for the fund than the value of its underlying holdings. It already has $189 million in assets.

Until now, Bitcoin has been mostly a "fringe" asset and hasn't had a place in the portfolio of 99% of investors. What happens if institutional investors start to get involved? You would think that the rising price will attract more demand, which should lead to higher prices.

❾ Will the yield curve continue to steepen?

The yield curve, historically one of the most predictive economic indicators, went negative in 2019. That got a ton of attention at the time. Once again, it preceded a recession, albeit one that had nothing to do with the underlying economy. Be that as it may, right now it's at a 3-year high and I see few people talking about it.

A steeper yield curve, again, in theory, is good for economic growth and rising inflation expectations. With the Fed committed to keeping short-term rates low for the next few years, this may continue to widen, and maybe longer-term bonds start to outpace inflation.

⑩ What's next in the democratization of finance?

Investors are earning nothing on their cash. This has led to an explosion of alternative assets as money looks for something above and beyond the zero risk-free rate. People are turning to baseball cards, artwork, income share agreements, private companies, real estate, and farmland, to name a few.

It's hard to imagine these places garnering this much interest if money could earn something in a bank account. I'm curious to see what comes next.

A Bonus…SPACs

Before this year, I had never heard of a SPAC (Special Purpose Acquisition Company). Now they're ubiquitous. 200 SPACs raised $64 billion this year. And they're just getting started. According to Goldman Sachs, $61 billion in SPAC IPO proceeds are currently searching for acquisition targets.

I cannot wait to see this. There may be some spectacularly bad deals coming through.

It's always hard to see things changing. And then along comes a year like 2020. Nobody had any of this on their list at the end of 2019. 2021 is sure to deliver some surprises, and unlike the last dreadful year, hopefully, they're for the better.

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CAPE Ratio: Price earnings ratio based on average inflation-adjusted earnings from the previous 10 years, known as the Cyclically Adjusted PE Ratio (CAPE Ratio), Shiller PE Ratio, or PE 10. **SPAC (Special Purpose Acquisition Company):** A special purpose acquisition company (SPAC) is a company with no commercial operations that is formed strictly to raise capital through an initial public offering (IPO) for the purpose of acquiring an existing company.

The **Bloomberg Barclays U.S. Aggregate Bond Index** measures the U.S. investment grade fixed rate bond market. The index is calculated on a total return basis. The **Dow Jones Industrial Average (DJIA)** is an index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange (NYSE) and the Nasdaq. The **Nasdaq-100® Index** is a basket of the 100 largest, most actively traded U.S companies listed on the Nasdaq stock exchange. The **Russell 1000® Growth Index** is a market capitalization-weighted index of growth-oriented stocks of the 1,000 largest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. The index is calculated on a total return basis with dividends reinvested. The **Russell 1000® Value Index** is a market capitalization-weighted index of value-oriented stocks of the 1,000 largest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. The index is calculated on a total return basis with dividends reinvested. The **S&P 500® Index** is a free-float market capitalization-weighted index of 500 of the largest U.S. companies. The index is calculated on a total return basis with dividends reinvested. The indexes are unmanaged, their returns do not reflect any fees, expenses, or sales charges, and they are not available for direct investment.

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