



The Bug, The Badger and The Ballot

January 25, 2021

Dear Client,

The year 2020 was a brutal one that challenged our most basic individual freedoms—among them the rights to unrestricted mobility and to physically be with our loved ones. The stock market, as measured by the S&P 500, reacted to the February arrival of Sars-Cov-2 (Covid-19 or “the bug”) in the U.S. by falling 34% in five weeks—the fastest bear market on record.¹ The market produced a series of other records during the year: the highest volatility reading on the VIX (CBOE Volatility Index) ever recorded, eclipsing its last record set during the 2008 financial crisis; oil futures falling into negative territory for the first time in history as the bottom dropped out of the demand for oil; the S&P 500 rising to a new all-time high five months after it bottomed in March; and Apple becoming the first publicly traded company to reach \$2 trillion in market capitalization on August 20th.² The Dow Jones, S&P 500 and the NASDAQ Composite all ultimately finished 2020 at record highs. (4th Qtr/YTD Returns: S&P 500 +12.15/+18.4%; Dow Jones +10.73/+9.72%; NASDAQ Comp. +15.63/+44.92; Barclay’s U.S. Agg. Bond Index +0.67/+7.51%.)³ The year would also end with other heart-breaking records-- 20 million reported Covid-19 cases and 340,000 deaths. As of this writing the number of cases has grown to 24 million and deaths have passed 410,000.⁴

The economic response to the crisis was a staggering rise in unemployment as workers were laid off and businesses closed. The jobless rate hit 14.8% in April--a level not seen since 1948.⁵ The government responded with the \$2.2 trillion CARES Act in March, and the Federal Reserve vowed to keep interest rates low (near zero) for years to come. In response, the 10-year U.S. Treasury bond hit an all-time low of 0.52% in August before ending the year at 0.93%.⁶ The combination of this record one-year amount of government spending and low interest rates was like oxygen to fire in its effect on the stock market. The economy in fact did not completely shut down, and indeed boomed in certain areas like online shopping. The stocks of companies like Zoom Video Communications, which enabled employees to work from home, skyrocketed and pushed the market continually upward, hitting a series of new highs throughout the year.⁷ All of this government largesse was not free, however. At the close of 2020 the federal deficit stood at \$27.75 trillion--an increase of \$4.54 trillion. That will have to be dealt with someday.⁸

And then there was the presidential election. At the start of the year Joe Biden jumped out to an early lead in the polls over Donald Trump. By mid-summer, Trump was warning his supporters that there would be widespread fraud in this election and that it could deny him a second term. The election took place on November 3, but due to the pandemic and resulting huge numbers of mail-in ballots, it took four days to finally declare Biden the winner. Team Trump immediately challenged the results in court and in the individual swing states, all to no avail. Even the administration’s own attorney general, William Barr, and the Department of Homeland Security

failed to find evidence of widespread fraud.⁹ Along the way, the Georgia Senate runoff elections took place, contests that ultimately ended with both Democratic candidates pulling out narrow upset victories. Winning both races allowed them to secure a 50/50 split in the Senate, and a majority with Democratic Vice President Kamala Harris' tie-breaking vote. Though this secured Democratic control of the executive and legislative branches, the election was not the blue wave some had anticipated. The Republicans did very well down ballot and the Democrats currently have their narrowest majority in the House of Representatives since 1942.¹⁰

Finally, on January 6, when Congress met to certify the results of the Electoral College, a mob from the nearby Trump rally stormed the U.S. Capitol, attempting to stop the count and force legislators to overturn the results. It was possibly the greatest, if shortest, single event of domestic insurrection since the Civil War. Confederate flags were paraded throughout the U.S. Capitol building. This is something Robert E. Lee and the Army of Northern Virginia were unable to accomplish in four years of war.

This coming February will mark my 42nd year in the securities industry. I have seen a lot of things, but January 6 may be the most terrifying—and most bizarre. As I watched protestors scramble up the side of the Capitol while battling police on CNBC, the stock market was going up. Some have taken to calling the 2020 stock market “The Honey Badger Market,” after the ferocious omnivore that is related to weasels and skunks, but with an aggression level on par with the Looney Tunes' Tasmanian Devil. It can cause leopards and lions to reconsider their dining choices. Last year saw huge gains in stocks like Tesla, Zoom, and Shopify, which were up 700%, 419%, and 190% respectively, while past winners like Amazon and Apple were up 60%.¹¹

Much of this seemed to be fueled by government stimulus, which provided extra cash, but also by millions of young, new first-time investors who are trading in fractions of shares commission free. This is something that may continue for some time and by itself could push stocks higher in the short run. Given the market's substantial rise from the March lows and the even more dramatic gains achieved by some of the newly public technology stocks, a correction would not be unexpected this year. Because of the volatility we now experience there could be more than one such correction during the year, but the recoveries could be equally quick. This is no longer the stock market of these newcomers' fathers. The trading torch has been passed.

Fears of an election-related market decline have not materialized thus far. As of January 19, the Dow Jones and S & P 500 are both up approximately 11% since the election.¹² On January 15, President-Elect Biden announced a new Covid-19 stimulus plan of an additional \$1.9 trillion, while Federal Reserve Chairman Jerome Powell, in a Q&A session the day before, signaled the Central Bank still intended to keep rates low for the foreseeable future.¹³ Interest rates as represented by the 10-year U.S. Treasury bond have risen to over 1.0% since the election in possible anticipation of a hotter economy and larger issuance of government debt to fund all of this stimulus. Kiplinger predicts for rates to hit 2% by year's-end with a corresponding rise in mortgage rates from the current 2.75% level to 3.5%.¹⁴ For the record, during the 1950s interest rates rose but so did the stock market as American factories rebuilt the post-World War II world.¹⁵

Many challenges face the Biden administration: we are still in the throes of the coronavirus pandemic, unemployment remains unacceptably high, the future of American small business is very much in question, a recent major cyber security breach possibly engineered by the Russians has not been addressed, and Americans are a deeply divided people. According to a Quinnipiac University Poll released on January 11, 37% of voters believe there was widespread voter fraud in the November elections. Among Republicans that number is 73%, versus 36% of Independents and 5% of Democrats who hold the same view.¹⁶

While we have much to do, if we successfully vaccinate a significant number of Americans, by the summer we could potentially see a very strong recovery. Some forecasters are predicting GDP growth of 5% or 6% this year, potentially setting the stage for several years of growth. It is the vaccines and their developers who are the real heroes of 2020. Never before has the world witnessed such a collaborative effort to end a threat to mankind. For all the negative aspects of technology, genetic engineering led to the development of the M-RNA technology which produced the Moderna and Pfizer vaccines. These technologies have enormous potential in treating rare genetic diseases, developing cancer immunotherapies and producing new vaccines for other infectious diseases.¹⁷ Technology gave us the power to work from home and this kept a recession from becoming a depression. Since 2000, companies that have used technology to create business “moats” have been the stock market winners. Thus, companies with durable competitive advantages, strong financials and innovative managements remain our investments of choice.

A handwritten signature in blue ink, appearing to read "Bob Alexander", is written over the list of references.

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