ASCEND
Investment Management, Inc.

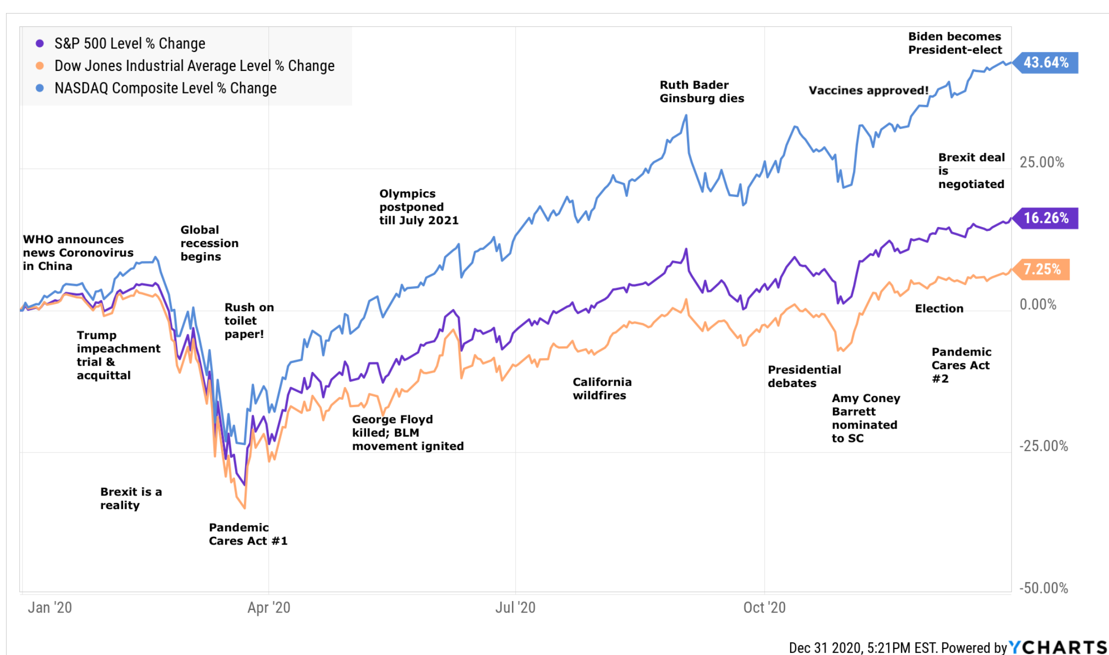
Quarterly Investment Report
December 31, 2020

2020 There is one good thing to say about 2020…it's over!

Dear Investor:

A year that will forever be branded in our collective minds, hearts and souls! It was tough for most of us to varying degrees dealing with social isolation, kids home from school, and worrying about isolated older relatives. But it was tragic for the many who lost loved ones, businesses and jobs to Covid-19. It wasn't as tragic for those of us fortunate enough to have investments. After a short-term pandemic acknowledgement swoon in March, the stock market, true to form as a leading indicator of future corporate earnings expectations, rallied through the heartaches of 2020. Investors were savvy and recognized that the pandemic could be conquered and the world would eventually revert to normal. All three major indices - S&P 500, Dow Jones Industrials, and Nasdaq Composite - made new highs and closed the year up by 16%, 7%, and 44% respectively.

AN EVENTFUL YEAR & STOCKS GO FOR A RIDE
S&P 500 TOTAL RETURN UP 18%
S&P 500 PRICE UP 16%



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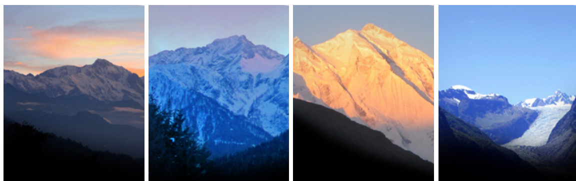

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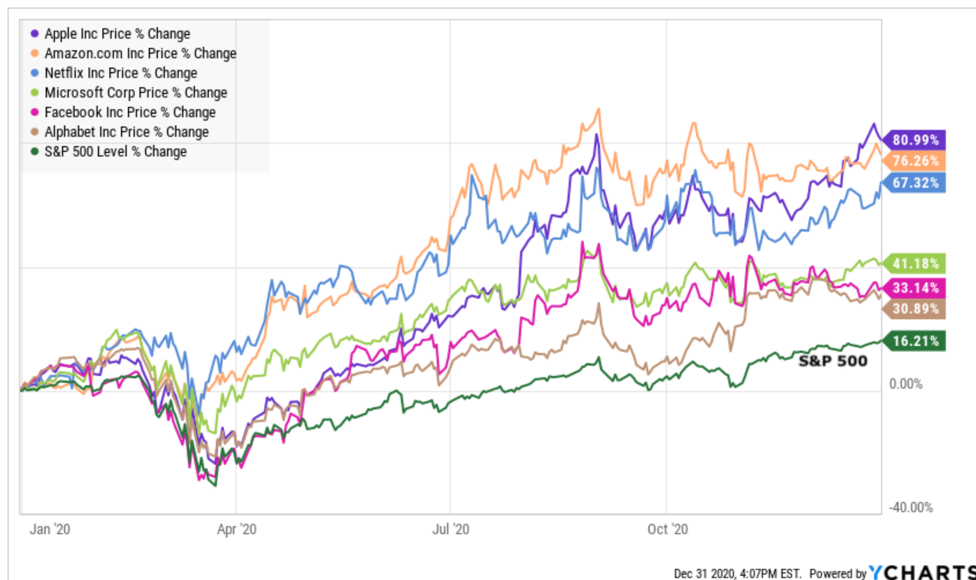
Big Technology Stocks in 2020

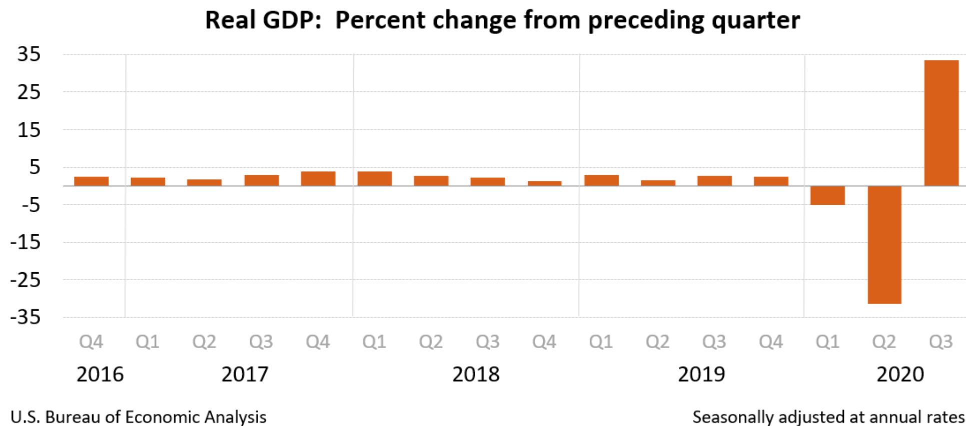


A handful of large technology stocks, Apple, Amazon, Netflix, Microsoft, Facebook, and Google, which together represent more than 20% of the weight of the S&P 500, accounted for the majority of the gain of the entire S&P 500! These and other technology stocks deserve their stretched valuations since they are companies with tremendous economies of scale, cash rich balance sheets, and digitization leadership. In many ways they saved the economy by allowing many companies to prosper as workers could work from anywhere. With the pandemic as catalyst they pushed the economy further ahead than the pre-pandemic trend by a couple of decades with innovations in cloud computing, e-commerce, artificial intelligence, biotechnology and clean energy.

While the stock market overall can thank investors for their foresight to believe in the success of vaccines, and embrace a post pandemic reality of travel, restaurant dining, concerts, etc., the bulk of the thanks should go to the Federal Reserve and the Treasury. We really do need to give the monetary authorities a lot of credit for not letting companies default on their loans and file bankruptcies or the whole system could have been blown apart. The hand wringing over the size of our deficits and debt is feeling a tad old fashioned at this point. As long as new money in the economy gets spent smartly and hyper-inflation can be held at bay, we should not fear high debt levels. As a sovereign nation, the U.S. issues currency at will and since it is a fiat currency it's not held to a gold backing. Also, unlike yours or my household being at risk of going bankrupt for not repaying our debts, the U.S. can't go bankrupt because it can issue dollars as needed. And, it helps that 80% of global trade is transacted with U.S. dollars. We aren't naive; this printing system could be upended if it winds up triggering high inflation and high interest rates.

We are far from out of the woods yet as it will likely take another two full years before we can get employment back to pre-pandemic levels. But the current monetary bailout is different and probably more effective than the bail out we had in 2008/2009. The stimulus back then was of the trickle down variety and mostly went to the big banks with the hopes that they would lend out to companies and consumers. But, instead of lending, banks used the money to shore up their capital ratios and economic recovery was frustratingly slow. With this go around the flood of money is going directly to those who will spend it.

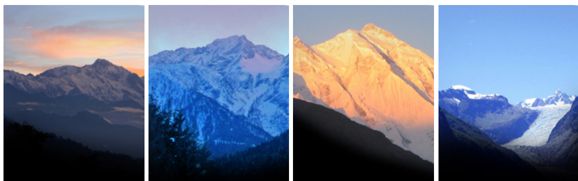
The Federal Reserve forecasts 2021 Gross Domestic Product (GDP) to be 4.2% and an inflation rate of 1.8%. They have no plans to stop buying $80 billion of treasuries and $40 billion of mortgage-backed securities each month until “substantial further progress has been made toward the Committee’s maximum employment and price stability goals…”. This all adds up to a policy stance that is highly supportive of risk asset prices and promises to remain so until inflation increases to 2% sustainability, which may not come to pass for at least several years.



What goes up must come down? OR What goes up can go higher?

Despite our optimistic tone we think this market is a little frothy. And by frothy we mean valuations are stretched relative to future corporate earnings and historical stock price to earnings (PE) ratios. Investors are currently bedazzled by federal monetary support, low inflation and low interest rates, excitement for the upcoming opening of the economy, all topped off with a heavy dose of FOMO (Fear Of Missing Out). Many analysts have compared the current state of stock valuations as being second only to the 1999-2000 Dot-Com boom; and we all know how that ended in 2000-2002. But when we analyze the comparison between the two time periods, we see differences both in valuation and fundamentals. In March 2000, the information technology sector, the epicenter of the collapse in 2000-2002, had an average PE multiple of 68 times whereas technology multiples today are around 33 times. Also, many of the companies sporting nose-bleed ratios in 2000 had no earnings and no realistic expectations of earnings to come. Today, the rally we have seen in technology stocks has been driven by stronger earnings and better profitability.

We believe that stocks have more room to run in the near term. The global pandemic that forced the shutdown of economies around the world also forced a significant number of companies to adapt to a new remote environment. They did this by promoting digital productivity through innovations in cloud technology, artificial intelligence, and virtual empowerment. E-commerce has seen pronounced changes as a result of the pandemic. E-commerce sales in 2020 have grown about 32.4% year over year, while brick and mortar declined 3.2%. No doubt brick and mortar sales will rise again, but the shift to e-commerce will continue post-pandemic. The biotech industry benefited tremendously from the development of the Covid-19 vaccine and the technology behind genomic sciences. And, though clean energy is still a tiny slice of the energy pie, the drop in oil prices this year gave alternative energy technologies a boost forward of at least ten years.



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Despite these advancements in our economy and the fact that even though valuations are not as high as in 2000, there is still enough risk to warrant treading very carefully. There will be stock winners and losers, and fundamental analysis is as important as always. Though we feel we should all be cautious, watchful optimism is at hand as we are starting to see sectors other than technology take the lead. If this broadening trend continues it will add support to the strength of the bull market into 2021. Take a look at the Energy, Financials, and Industrials sector moves in the 4th quarter. Those sectors are highly sensitive to economic growth expectations.

Economic Sector Performance

50%
38%
25%
13%
0%
-13%
-25%
-38%
-50%

2020
4th Qtr 2020

Technology
Consumer Discretionary
Communication Services
Materials
Health Care
Industrials
Consumer Staples
Utilities
Financials
Real Estate
Energy

At Ascend we don't chase the next greatest fad in sectors or stocks. We stoically keep to our disciplined analysis of each company's growth path and financial strength. Valuation is of paramount importance and we are fine to miss out on hyped up stocks and focus instead on companies that prove to reward our portfolios in the long term.

We wish you all good health and a Happy New Year!!

Sincerely,

Ellen P. Le, CFA
President