BULLS&BEARS

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Good Riddance

As we say goodbye and good riddance to 2020, it's almost hard to believe that in a year filled with so much turmoil that the S&P 500 finished the year up 18.4%. This past year gave us one of the largest drawdowns, and recoveries, in S&P 500 history. To be down 34% through late March only to end the year up 18.4% means that 2020 tied with 1987 as having the biggest drawdown intra-year while still ending the year positive. Other notable years included the Great Depression influenced 1933 and 1938 and the Great Recession driven returns found in 2009. Many remember the latter as it's the year the S&P 500 bottomed at the infamous 666; the S&P 500 finished 2020 at 3,756 (+464% from 2009 bottom).

The savior in March was the truly unprecedented fiscal and monetary stimulus that halted the market downturn and drove the ferocious rebound (global equities were up 70%+ from 2020 low). The U.S. government passed $4.2 trillion in fiscal stimulus and the Fed injected $6.2 trillion in liquidity, $10.4 trillion in total, representing half of U.S. economic output. Globally, total 2020 monetary and fiscal stimulus reached an astounding $28 trillion (33% of world economic output). Global debt loads have never been higher, and yet interest rates have never been lower.

Blue Ripple

The U.S. presidential election, as messy as it was, provided further market support. Going into the vote, markets were bracing for a "blue wave" wherein Democrats controlled all branches of government in a big way. While Democrats do look set to have full control of government, the "blue wave" turned out to be more of a "blue ripple". In fact, the Democratic majority is one of the slimmest for either party since 1901.

Investors cheered as many of the new administration's priorities would require 60 votes in the Senate and will either be very difficult to pass or would need to be watered down on their way to becoming law. The "blue wave" would have likely brought higher taxes and a less-friendly business environment. Instead with the "blue ripple" the markets have a possible goldilocks scenario with higher fiscal spending and somewhat divided government.

Vaccine Catalyst

Markets got another shot in the arm shortly after the election, as Pfizer's vaccine showed an impressive 95% efficacy rate, and Moderna matched that a week later. The release of vaccines for COVID-19 will likely be a catalyst for the acceleration of trends that are already in place but just beginning.

1) Acceleration in GDP growth and continued decline of the unemployment rate.

2) The rotation into cyclically oriented equities that require higher GDP growth to grow earnings at a faster pace.

3) Outperformance in emerging market equities as the global recovery continues. Lower valuations than their domestic counterparts should help this trend, but they will need help from a weaker dollar.

We are starting to see that light at the end of the tunnel that many have been longing for and we expect these trends to lead, but we may still have to wait. Virus case counts are rising in much of the world and mass vaccine distribution will be no small feat, given the logistical complexities. Even so, our expectation is for the economic recovery to continue, and earnings to recover to pre-pandemic levels by the end of 2021.

Please contact us at 1-855-829-7192 if we may be of assistance.

Market Indicators

12/31/20	Year-to-Date Change
S&P 500	18.40%
NASDAQ	44.92%
Russell 2000	19.96%

Interest Rates	12/31/20	6/30/20
10-Year Treasury Note	0.93%	0.66%
3-Month Treasury Bill	0.09%	0.16%

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