



*Timely Insights into Markets and the Economy*

# I nvestors Q uarterly

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## **Fourth Quarter, 2020**

### **Equities**

- The year just past is destined for the history books. Fortunately, if you are reading this, it means you survived! What did we not see? Okay, no space invaders. However, the year was full of enough economic, financial, social and political chaos to last a lifetime. It is tempting to say good riddance, move on and just forget 2020 ever happened. *The good news is that things started turning around going into the end of the year.*
- *Unfortunately, if you are in the entertainment or hospitality industries, you might not have noticed much improvement* and there has not been much relief. It is estimated that as many as one-third of all restaurants will not survive the ongoing lockdown orders. Whether or not you agree with lockdowns, the main takeaway is that they will delay continuing improvement on the employment front.
- On a positive note, we see continued improvement in the manufacturing sector. The latest release of the *ISM Manufacturing Index report increased 3.2% in December to 60.7%*. The jobs market also continued to improve, although at a slower rate in the fourth quarter.
- *Equity investors continued to enjoy outsized gains going into the end of the year.* Analysts are divided over whether the recent strength is the start of a new “bubble” or the result of a competing asset class, creating a TINA (there is no alternative) market environment.
- In my opinion, the uptrend remains intact, but valuations remained stretched on large caps. We need to see what fourth quarter earnings will tell us as we move further into January. We continue to profit from the ongoing rally in the Russell 2000 iShare ETF's. *They continue to outperform!*

## Fixed Income

- On the Fixed Income front, the Fed's "lower for longer" strategy continues. In its November 5, 2020 FOMC statement, it was reported that the Fed will maintain an accommodative posture until it sees more improvement on the employment front and an average inflation rate of 2% is achieved. Bottom line is more of the same.
- Fiscal stimulus is also likely to continue to increase in 2021 as relief payments to workers who have lost jobs due to the lockdown provide much needed assistance. I hope that wider distribution of the COVID-19 vaccine will remedy this problem.
- *You cannot spend your way out of a crisis.* Of course, that never stops some people from trying. As of this writing, the national debt is approaching \$28 trillion, up from a staggering \$23 trillion a year ago and about \$10 trillion in 2008 during the Great Recession. That bill will come due someday.
- One site I monitor when I like to frighten myself is the *US Debt Clock*. *You can see it here:* (<https://www.usdebtclock.org/>). While there are obviously numerous statistics on the site, the one I focus on is the US Federal Debt to GDP ratio. Longer term, it has averaged around 50%. It now stands at 130%. That should concern everyone.
- We need to monitor the fiscal policy of the new administration for clues about the future of spending and interest rates. The wiser course for erasing deficits is by growth; and so we need to get back on a growth track. Easier said than done in this environment.

## Conclusions

- Like 1987, as bad as Black Tuesday felt (I remember it all too well), *the markets in 2020 somehow managed to finish in the win column*. For the markets to continue their winning ways, we need to see continued economic and earnings growth.
- Our internal analysis still shows sluggish projected earnings growth year-over-year, but it is improving. Some analysts are forecasting earnings growth in 2021 north of 20%. It is worth noting that analysts tend to be overly bullish at the beginning of a fiscal year and then start hedging their bets later in the year.
- *At this point, I am on the side of the bulls.* This is mainly due to the current rotation into the small cap space, where many of these companies provide goods and services to expanding demand in the large cap space. It is worth noting that in a normal business cycle, small caps emerge from recession first, followed by mid and large caps. That is what I think we are starting to see. I hope I am right! More next time.

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