# *As We Enter 2021, What Should We Expect?*

***By Bob Deitrick, CEO***
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***The stock market has started off one of the absolute best six-week periods we have witnessed in a long time. In fact, 2021 has commenced with some very favorable trends. Vaccines have already begun to thwart the spread of Covid-19. S&P 500 earnings have been better than expected in Q-1 and are expected to keep rebounding. Chairman Powell of the Federal Reserve and Janet Yellen, our new Treasury Secretary, have reassured markets that they will not raise interest rates and will keep the cost of capital low and available. President Biden is likely to sign a new round of fiscal stimulus into law in the next three weeks. If that happens, through something called reconciliation in Congress, it will inject another ~ $1.9 trillion into the economy. That would be huge at a time when many millions of Americans are in need. All of this, in tandem with the VIX falling below 20, could portend another exceptionally good year for stocks looking forward.***

***We are not saying there are not risks; indeed, there are. One of those being a possible correction which could happen anytime over the next several months. But keep in mind that the stock market is a forward-looking animal, and it seems to have priced in a stronger economy and the arrest of the coronavirus pandemic. The Spanish Flu had a timeline of about 18 to 22 months over three different waves when it finally began to subside in the Spring of 1919. Most of those deaths were packed into three especially cruel months in the fall of 1918 when a fatal mutated wave spread back into the states as our troops returned from fighting in Europe. The point is that the timeline is expected to be about 1.7 years and we are now 65% through that timeline. Let us hope that things improve as we move into the Spring and as more Americans get vaccinated.***

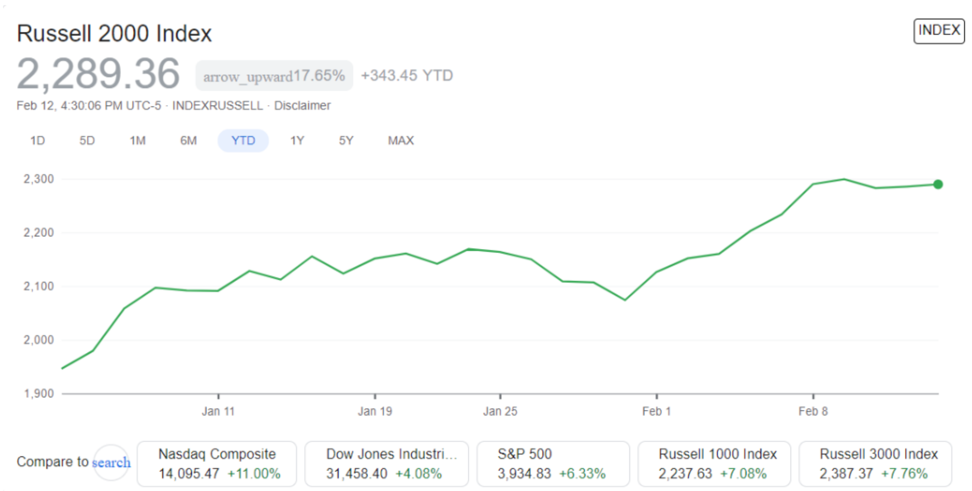
***With investors betting on an economic expansion this year, the 2021 stock market forecast includes an expected shift in market leadership. We believe that cyclical, consumer discretionary, leisure and travel, value, small cap, and emerging markets are widely forecast to outperform in 2021 as the economy thaws from the coronavirus restrictions of the past year. If growth is expected to broadly improve from a more accessible economy because of the vaccine and the ability to test for COVID infection at home, then investors will likely seek out a cheaper source of growth which are those stocks that have lagged or fallen behind.***

***I am not suggesting that the winners of the coronavirus stock market are fading. Online retail has slumped somewhat since September. But cloud software, home furnishings, trucking, technology, and other industry groups that flourished as Americans started keeping a six-foot distance. Eight stocks have symbolized the pandemic trade. They follow:***

***Zoom Video (ZM), Amazon(AMZN) Teladoc (TDOC), Shopify (SHOP), Chegg (CHGG), Peloton (PTON), Apple (AAPL) and Netflix (NFLX). All eight of these positions tumbled on the initial vaccine news, but since then, they have recovered and are at or near new highs.***

***Another favorable trend we see are small cap stocks which have been the strongest asset class going into 2021. The Russell 2000 soared 18.3% after the election in November and then climbed another 8% in December. So far this year small caps have led with a remarkable return of 16.6% through the first***

***six short of the year! We are well represented in this asset class. Small caps tend to outperform in cyclical recoveries, which supports our argument for further economic expansion in 2021.***




***<u>Other Trends Steven and I are watching as we move into 2021 follow:</u>***

- ***This week, Fed Chair Jerome Powell pushed back on suggestions that loose monetary policy risked unleashing inflation and other risks in what may be an emerging economic boom this year. Powell assured Congress that the FED would keep its attention focused on getting Americans back to work as the vaccine-related recovery continues. Powell went on to say monetary policy will continue to be accommodative and that he and Yellen will move "carefully, patiently, and with a lot of advance warning." We see this is a very accommodating sign for the market.***

- ***The new year arrived with elevated numbers of Covid-19 cases and hospitalizations and a new strain to the virus. In the race between virus and vaccines, the latter have a lot of catching up to do. But if Wall Street is banking on immunizations to halt the virus, we could be in for a rough surprise. Recent polls have found that just 52% of Americans are likely to get a Covid-19 vaccine. An additional 41% say they will refuse, and more than a third are skeptical of the vaccines. We fear that, even with the vaccine, many folks are lining up politically.***

- ***Despite all of the volatility, 2020 turned out to be a great year for the stock market. For the first time ever, the market climbed in a year after being down more than 30% at any point which took place last March. On average, stocks gain ~ 65% in the first two years of a new bull market, with an average gain of 41% in the first year. If the stars align and we have good governance and some luck in rolling out the vaccine, this could be another very good year for equities.***

***As always, Steven and I are watching these events for you with great scrutiny. Please feel free to call us at any time to review your questions and to set up a review or meeting by Zoom or at our office. Have a great week!***