Quarterly Market Outlook

January 2021

Joe Biden Wins the Presidency

Americans voted in record numbers to elect Joe Biden the 46th President of the United States. Incumbent President Donald Trump received over 74 million votes, more than any prior *winning* president, a sign of the political polarization in this country. Despite concerns about potential voter fraud, fears of a contested election and storming of the U.S. Capitol, the democratic process generally functioned well.

A Blue Sweep Will Set the Policy Agenda

With wins in the two Senate run-off elections in Georgia in January, the Democrats now have a majority in both houses of Congress (including Vice President Kamala Harris' tie breaking vote in the Senate). This paves the way for an ambitious Biden agenda that includes direct payments to households, improving access to healthcare, a green infrastructure plan, higher taxes on corporations and the wealthy, and more expansive regulation. It's unclear how these influences will ultimately net out for the economy.

COVID-19 Vaccines Provide Hope

Multiple COVID-19 vaccine developers announced positive clinical trial results in November, with Pfizer and Moderna demonstrating over 90% efficacy. Based on these results, both Pfizer and Moderna were given emergency approvals in several countries, with initial vaccinations beginning in December and reaching over 86 million people globally through January 28th.[1] Additional vaccines are likely to be approved over the near term, which will help to increase the speed of vaccinating a large percentage of the global population in the hopes of reaching herd immunity in 2021.

Strong Returns Cap an Extraordinary Year

With greater political certainty (following the US elections) and positive vaccine news, global equity markets (MSCI ACWI) ended the year with an exceptional run in November and December, rising nearly 19% in just two months.[2] Aided by aggressive government stimulus and improving market sentiment, most asset markets ended the year with impressive returns. While we are no doubt pleased with this outcome, elevated valuations increase the challenges of generating high returns going forward.

Exhibit 1. 2020 Asset Class Index Returns[3]

Asset Class	Index	2020 Return
US Equities	S&P 500 Index	+18%
International Equities	MSCI ACWI Ex-US Total Return Index (Net)	+11%
Core Bonds	Barclays US Aggregate Bond Index	+8%
Treasuries	Barclays US Aggregate Long-Term Treasury Index	+18%
TIPS	Barclays US TIPS Index	+11%
Gold	Spot Price of Gold (% change)	+25%
Commodities	Bloomberg Commodities Index	-3%

[1] Bloomberg.com, *More Than 86.4 Million Shots Given: Vodic-19 Tracker*, 01/28/21, https://www.bloomberg.com/graphics/covid-vaccine-tracker-global-distribution/.
[2] Source: Bloomberg, MSCI ACWI Index (NDUEACWF) returned 18.7% from 10/31/20 – 12/31/20.
[3] Source: Bloomberg. 12/31/19 – 12/31/20.

Beginning of a Factor Rotation?

By some measures, 2020 witnessed the greatest outperformance of growth versus value in 100 years as technology companies benefitted from the stay-at-home economy. Since Pfizer's vaccine announcement on November 9th, however, we have begun to see some signs of a factor rotation from growth stocks to value/cyclical names (financials, materials, travel related companies, etc.). As we approach a post pandemic world where people return to cities and workplaces, we anticipate market leadership will continue to evolve.

Exhibit 2. Value vs. Growth 2020[4]

Index	Pre-November 9th (12/31/19 – 11/06/20)	Post-November 9th (11/09/20 – 12/31/20)
Russell 1000 Value Index	-8%	+12%
Russell 1000 Growth Index	+31%	+5%
Difference	**-39%**	**6%**

Signs of a Bubble

A new generation of retail investors, enabled by platforms like Robinhood, have become a significant influence on market behavior. In recent months, a speculative frenzy has gripped many corners of the asset markets including bitcoin, technology stocks and, most recently, popular short trades like GameStop and AMC. These unusual outcomes are reminiscent of past asset bubbles and introduce additional challenges in managing money.

Debt Levels Reach Dizzying Heights

The US has battled the virus through massive issuance of debt, both private and public, propelling the total debt to GDP to an all-time high of 405% in 2020 (this excludes entitlements like Social Security and Medicare which would more than double these figures).[5] We are concerned that these debt levels will be a secular headwind to growth after the immediate economic recovery.

Keep an Eye on Inflation

While there are limited signs of inflation outside of asset prices, we are growing increasingly concerned about the risks should this trend reverse. Monetary and fiscal authorities are intent on print and spend policies to prevent deflation and propel the economy back on an upward trajectory. With higher rates of inflation, the Federal Reserve's job may become far more challenging. We continue to recommend adding inflation hedges to portfolios to diversify against this growing risk.

Cautiously Optimistic but Mindful of the Wide Range of Potential Outcomes

We remain cautiously optimistic on the continued economic recovery as vaccines are rolled out globally and the U.S. government pursues large-scale fiscal stimulus. At the same time, we are mindful of the powerful forces at play – potential asset bubbles weighing on future returns, extraordinary government intervention, historically high debt levels, and an ongoing global pandemic. We believe that diversification remains the most critical component to helping investors meet their return objectives with tolerable risk.

[4] Source: Bloomberg. Russell 1000 Value Index (RLV) vs. Russell 1000 Growth Index (RLG) from 12/31/19 – 11/06/20 and 11/09/20 – 12/31/20.
[5] Sources: Bureau of Economic Analysis, Federal Reserve, Congressional Budget Office. Census Bureau: Historical Statistics of the United States Colonial Times to 1970. Through Q3 2020. 2020 is average of Q1, Q2 and Q3.

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