January 4, 2021

2020 will be remembered as the year the world experienced its worst pandemic in 100 years. The virus and resulting societal reactions have upended the daily lives of literally everyone on the planet. It may be the most significant global event that we will experience in our lifetimes. While infections are currently at their worst levels, the recent arrival of vaccines gives hope that we may see a broad return towards normalcy by the end of Q2.

Looking back on 2020, domestic economic activity cratered beginning in March with H1 GDP down about 10% before rebounding by approximately 11% in H2. Investment assets moved ahead of the economy declining by 31% before bottoming in late March. The S&P500 then rebounded by 67% by the end of the year to finish up 18% for the entire year. These moves – economic and financial – represent the fastest ever recession/recovery, bear market / bull market.

The rebound in both the economy and investment assets was driven in large part by the extraordinary monetary and fiscal stimulus provided by the Fed and the government. In times of economic crisis, these are the most important government levers; and both have helped provide support to the economy including for most workers who have been displaced from their jobs as well as for many struggling small businesses. A significant side effect of lower interest rates and easing credit conditions has been to give investors the confidence to bid up the values for equities and housing to new highs.

An indirect effect of the pandemic and government response has been continued improvement in personal balance sheets. The household debt service ratio is the lowest in 40 years (that is household debt payments as a percentage of income). Also, household net worth is at an all-time high and is more than 80% above its prior peak just before the financial crisis of 2008. These aggregate figures mask the upheaval in the most affected, lower-income populations where significant support will still need to be provided.

The aggregate figures above are a source of confidence that economic resources are in place to drive improving economic trends for 2021 and 2022. Many economic forecasts are in the 3%-5% growth range. Corporate earnings are expected to rebound by 20% this year and another 10%+ in 2022. Some of this has already been priced into equity values as investors are paying higher multiples of earnings based on this expectation for strong economic recovery. Our investment return expectations for 2021 are modest because actual 2020 returns of 18% were so high.

Our investment priorities will continue to emphasize dividend growth, as well as secular growth-oriented themes including technology for the new economy, infrastructure, housing and innovation. We are optimistic about the economy going forward and believe that 2021 will be another positive year for equities; with society's quality of life significantly improved over 2020.




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