



Weekly Commentary

January 25, 2021

THE MARKETS

Last week, as COVID-19 vaccination efforts continued, there was speculation about stock market corrections and asset bubbles.

On Sunday morning, *Bloomberg* reported 63 million doses of the coronavirus vaccine had been administered across 56 countries. In the United States, 21.1 million shots have been delivered – about 51 percent of the vaccinations that were sent to states. At that point, the pace of vaccination in the United States was just over one million doses a day.

Improvements in the pace of vaccinations could lift market optimism, according to Ben Levisohn of *Barron's*, but a market correction is still a possibility:

“...the S&P 500 has been following a pattern typical of recessions since 1990, one that sees the recovery occur in three phases: an initial recovery, a period of consolidation, and a second rebound. The initial recovery has lasted an average of 10 months, with an average return of 48 percent. That was followed by a period of consolidation that lasted from two to seven months and saw stocks sink an average of 17 percent. That was then followed by another rally...The current bounce from the March lows has lasted

about 10 months and produced gains of just over 71 percent. If the market follows the historical pattern, it should pull back by spring – but that will be a buying opportunity.”

A survey from *Deutsche Bank* sparked talk about the possibility of asset bubbles. In a *CNBC* interview, Jim Reid, who heads global credit strategy at Deutsche Bank, shared results of the company’s January survey. Of the 627 market professionals who participated, the vast majority of respondents (89 percent) saw some asset bubbles in markets. Reid explained central bank policies and stay-at-home trading were responsible, in part, for rising asset prices.

Solid fourth quarter 2020 earnings may be supporting asset prices, too. So far, 13 percent of companies in the Standard & Poor’s 500 Index have reported results. John Butters of *FactSet* wrote, “At this point in time, more S&P 500 companies are beating EPS [earnings-per-share] estimates for the fourth quarter than average, and beating EPS estimates by a wider margin than average.”

Last week, major U.S. stock indices moved higher. The Nasdaq Composite gained 4.2 percent, which was its biggest gain since November 2020.

Data as of 1/22/21	1 WEEK	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR
Standard & Poor’s 500 (Domestic Stocks)	1.9%	2.3%	15.7%	10.7%	15.0%	11.5%
Dow Jones Global ex-U.S.	1.2	3.9	12.4	2.1	9.4	2.9
10-year Treasury Note (Yield Only)	1.1	NA	1.8	2.7	2.1	3.4
Gold (per ounce)	0.7	-1.9	19.0	11.6	11.1	3.3
Bloomberg Commodity Index	-1.7	1.4	0.6	-3.8	1.0	-7.0

Notes: S&P 500, DJ Global ex US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods. Sources: Yahoo! Finance, MarketWatch, djindexes.com, London Bullion Market Association. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

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HOW IMPORTANT IS FINANCIAL LITERACY?

At the end of 2020, the *FINRA Investor Education Foundation* published a report that found, "...financial literacy has significant predictive power for future financial outcomes, even after controlling for baseline financial characteristics and a wide set of demographic and individual characteristics that influence financial decision making."

In fact, financial literacy may be more important today than it has ever been. That's because the responsibility for saving, investing, and generating income for retirement has shifted from companies (that managed defined benefit plan assets) to individuals (who manage 401(k), 403(b), and other defined contribution plan assets).

The researchers administered a quiz at the beginning and end of the research period (six years). The quiz included questions that were a lot like these, which are derived from questions asked by the *National Financial Capability Study*:

- Suppose you have \$100 in a savings account and it is earning 2 percent a year. After five years, how much money will be in the account?
 - More than \$102
 - Exactly \$102
 - Less than \$102
 - I don't know
- Now, suppose the interest rate on your savings account is 1 percent a year and inflation is 2 percent a year. After one year, will the money in the account buy more than it does today, exactly the same as it does today, or less than it does today?
 - More
 - Same
 - Less
 - I don't know

3. When interest rates increase, what typically happens to bond prices? Do they rise, fall, or stay the same? Or is there no relationship between interest rates and bond prices?

- Rise
- Fall
- Stay the same
- No relationship
- I don't know

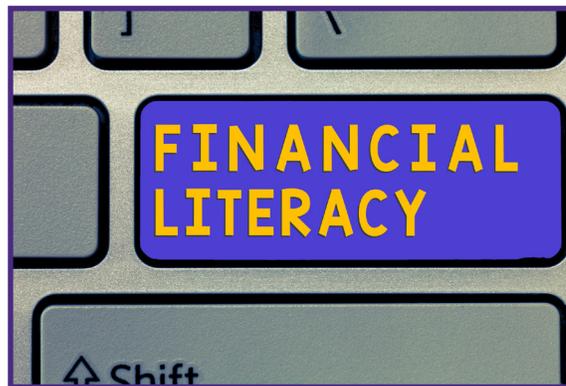
4. Suppose you owe \$1,000 on a loan and the interest rate you are paying is 20 percent per year, compounded annually. If you don't pay anything on the loan, how many years will it take for the amount you owe to double?

- Less than two years
- Two to four years
- Five to nine years
- Ten or more years
- I don't know

If these answers generate questions for you, please give us a call.

Answers: 1. A – More than \$102. 2. C – Less. 3. B – Fall. 4. B – Two to four years.

WEEKLY FOCUS - THINK ABOUT IT



"I was gratified to be able to answer promptly, and I did. I said I didn't know."

--Mark Twain, American writer, humorist, and lecturer



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P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this e-mail with their e-mail address and we will ask for their permission to be added. Michael A. Poland, CFA® – Financial Advisor and Portfolio Manager. Mike is a Chartered Financial Analyst with a BA from Michigan State University and an MBA from the University of St. Thomas, in St. Paul, Minnesota. Mike has been in the financial service industry since 1989. Mike's prior experience was with PaineWebber, Merrill Lynch and Lehmann Financial. Mike is a member of the CFA Society of West Michigan, and has served on the boards of The Builders Exchange of Grand Rapids and West Michigan, Mona Shores Education Foundation, and the West Michigan Symphony Orchestra. Mike lives in Norton Shores with his wife and three children.

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