NATIONAL FINANCIAL NETWORK

January 15, 2021

LESSONS LEARNED: HERE'S WHY THE MARKET IS AT ALL TIME HIGHS

It seems hard to believe, but less than a year ago the words "social" and "distancing" were rarely seen together. Last January talks of the market being overvalued were had on crowded subways in New York City, and discussions of an inevitable rise in interest rates were being forecast by credit analysts on crowded Wall Street trading floors. Remember, entering 2020 the S&P 500 (an index of 500 stocks often used to measure "the market") was in the midst of its longest run ever without a 20% fall. It was a run that lasted nearly 12 years and saw prices rise over 400% since March 2009. So, of course, while stocks have been up 80% of the time over the past 50 years, it was natural for most of Wall Street's brightest minds to call for a breather after the past decade's historic, nearly uninterrupted rise.

All bull markets have eventually come to an end, and as many anticipated, so too did the market in early 2020, at one point dropping by as much as 34%. But, even the most sophisticated algorithms or storied market sages could not have predicted why. COVID-19 changed our lives overnight and sent markets on a rapid, perilous fall. While the virus still keeps humans in a "bear market", financial markets hover near all-time highs. Surely, if back in January 2020 one had a crystal ball and was able to peer through its fog to see the upcoming pandemic and the political instabilities that lied ahead, he/she would have been wise to project that the market would have closed the year down at least 20%. Yet, the bear market of the spring lasted barely a month (they usually last 22 months) and the market closed the year at an all time high. Confused? Consider these factors for some clarity…

THE FED

While the market's resilience can be explained by several forces, The Federal Reserve Board (The Fed), led by Chairman Jerome Powell, has done most of the heaving lifting. In fact, the efforts of Chairman Powell are credited with saving markets and the economy, pedestaling him with the likes of legendary Chairman Paul Volcker, who steered the economy out of the hyperinflation of 80's. Back in July we explained how money is created and discussed the Fed's actions. Today, one out of every five dollars in circulation was created since March. These freshly printed bills have gone direct to households (in the form of stimulus checks and enhanced unemployment benefits) small businesses ("PPP" loans), and large corporations.

NATIONAL
FINANCIAL
NETWORK

January 15, 2021

Much has been done, and is still being done today, to support financial markets by The Fed's bond buying program ($120 billion per month) and of course by holding interest rates near 0%. The Fed's impact cannot be overstated enough. The phrase "Don't fight The Fed" rings truer than ever.

THE BIG GOT BIGGER

While the S&P 500 hovers near all-time highs, gains in the market are heavily skewed towards large technology companies and those that benefited from the "stay at home" (SAH) world in which many of us still live in. Consider that Apple, Amazon and Microsoft – just three stocks – generated 53% of the S&P 500's total return in 2020. Furthermore, technology (which is just one of the 11 S&P sectors) accounted for approximately 69% of the index's total return.

THE STOCK MARKET REFLECTS TOMORROW'S ECONOMY, NOT TODAY'S

The stock market is forward looking; always has been. Just look back to the financial crisis of 2008 when the S&P 500 fell over 50%. Stocks hit their lows on March 9, 2009 (when The Dow Jones Industrial Average dropped below 6,500) yet ended 2009 up over 26%. In the meantime, the unemployment rate did not reach precrisis levels for another 7 years. In 2020 the U.S. experienced both the lowest (3.5%) and highest (14.7%) unemployment rates in the last 50 years and is not expected to return to pre-pandemic levels until 2023 or beyond. So, while the return to "full employment" might take several years, the market has already moved ahead of the economy like it did in 2009 and nearly always has.

THE ECONOMY DOESN'T DIE, IT EVOLVES

The virus acted as an accelerator for trends that were already in place. Retail in-person shopping was already under pressure before the pandemic hit as evidenced by declining employment in the sector since 2017. Less reliance on fossil fuels (oil prices are down over 65% since 2008) and working from home were emerging trends pre COVID as well. Companies that were likely to fade into bankruptcy over the next few years folded quickly, while others were born. At the turn of the 20th century, railroads were the largest employers in the United States. Employment in that sector is now down nearly 85% from its peak over 100 years ago. Looking back 50 years ago, of the top 20 employers in the U.S., only one (IBM) was a technology

company - most others were car and oil companies. Today, Amazon employs more individuals than the entire railroad industry did in 1890. Consider, too, that the number of new business applications filed in 2020 were the most since 2007[1].

THE MARKET DOESN'T CARE ABOUT POLITICS

Aside from a global pandemic that shut down the economy, over the past 12 months the U.S. has been faced with political volatility that we have never seen before. To some prognosticators, a Biden victory would put an end to the market's rebound thanks to the introduction of higher taxes and increased regulation. It was also projected that should the Democrats take control of the Senate, the market downturn would be even more pronounced. A contested election and certainly an attack on Capitol Hill were not factored into most analysts pricing models, but combined all should have meant another 20% decline for the market, right? Well, since these events unfolded the S&P has risen approximately 10%. While some reports might provide entertaining correlations about politics and the market's direction, rigorous studies reveal that the market is not impacted by what is going on in Washington over the long term.

IN A YEAR OF DESPAIR NET WORTHS REACHED ALL TIME HIGHS

Despite all that has occurred over the past 12 months, U.S. household net worth is at an all-time high[2]. For those who own assets, and were able to continue to work, financially speaking these are the best of times. Stock prices are near all-time highs. House prices rose 8.4% and are now up 25% since 2006 thanks to record low interest rates[3] (the average 30-year mortgage stood at 2.76% at the end of 2020) and a desire to leave congested cities. In terms of income, Americans' after-tax income was up 8%, thanks partly to stimulus checks, driving debt service ratios to their lowest levels in 40+ years[4]. Sadly, those in the sectors hit hardest (service, travel, etc.) did not experience the same financial gains widening the wealth gap to the point that the top 10% of earners now take in more than 50% of national income[5].

---

[1] NY Times
[2] JP Morgan Asset Mgt
[3] Freddie Mac
[4] JP Morgan Asset Mgt
[5] Bureau of Labor Statistics

January 15, 2021

LOOKING AHEAD

The lessons of the past year taught us just how unreliable crystal balls can be. However, knowing that outsized returns in some sectors eventually return to earth one wonders how long the gap between the “stay at home” sector and other areas of the economy can persist. Online grocery sales soared 310% and Walmart e-commerce sales rose 79%, while Uber trips fell 35% and the value of Expedia bookings cratered 68%. The difference in performance between “growth” (like technology companies) and “value” (such as banks) was the largest on record. It is likely that such outliers like these converge, of course it is hard to say when. Thanks to productivity growth rates reaching the highest levels in 60 years, analysts expect record earnings in 2021, with most of the growth coming later in the year.

LESSONS LEARNED

“You see this book? This book tells the future. Tells the results of every major sports event till the end of this century”. This is what an old Biff Tannen said to his younger self in *Back to the Future II.* Old Biff gave his younger self a magazine (a sports almanac) from the future so that he could use it for financial gain. It’s safe to say that if anyone were given a copy of a leading magazine from the future twelve months ago that recapped the events of 2020, like Biff, he/she could have attempted to use it for financial gain. A virus that killed hundreds of thousands, bankrupted business, and shut schools, coupled with a contested presidential election that culminated with rioters storming the capital surely seems like a formula that would have benefited someone betting against the market.

Yes, challenges lie ahead, like inflated stock prices and too many retail investors who think the market is a free ride, but the lessons remain the same. You likely get more of your news online than from magazines because the economy evolves, and your investments are evolving with it. The old adage “it’s time in the market, not timing the market” has never rang truer.

NATIONAL
FINANCIAL
NETWORK

January 15, 2021

Written by Dr. Robert Votruba

Registered Representative and Financial Advisor of Park Avenue Securities LLC (PAS), 990 Stewart Avenue, Suite 200. Garden City, NY 11530. Securities products/services and advisory services are offered through PAS, a registered broker/dealer and investment advisor. Financial Representative, The Guardian Life Insurance Company of America (Guardian), New York, NY. PAS is a wholly owned subsidiary of Guardian. National Financial Network LLC is not an affiliate or subsidiary of PAS or Guardian. Guardian, its subsidiaries and its agents do not provide tax or legal advice.

PAS is a Member FINRA & SIPC.

The Registered Representative is securities licensed in AR, AZ, CA, CO, CT, DC, DE, FL, GA, IL, IN, KS, LA, MA, MD, ME, MN, MT, NC, ND, NH, NJ, NV, NY, OH, PA, RI,

SC, SD, TN, VA, VT, WA and WI and advisory licensed in CT, FL, IL, MA, NJ, NY and SC and the material is strictly intended for individuals residing in those states. No offers may be made or accepted from any resident outside these specified states.

Robert Votruba is not insurance licensed in every state. To find if he is licensed in your state contact Joan Gartner at (516) 240-1927.

CA Insurance License # 0D23495

The information or opinions contained in this Internet site should not be construed by any consumer and/or prospective client as an offer to sell or the solicitation of an offer to buy any particular investment product. The information contained herein is directed solely to those individuals who reside in jurisdictions in which the representative is registered in the state where the consumer and/or prospective client reside. Any subsequent direct communication with a consumer and/or prospective client shall only be conducted by a representative that is registered in the state where the consumer and/or prospective client reside.

Dow Jones Industrial Average is a widely used indicator of the overall condition of the stock market, a price-weighted average of 30 actively traded blue chip stocks, primarily industrials, but also includes financial, leisure and other service-oriented firms.

S&P 500 Index is a market index generally considered representative of the stock market as a whole. The index focuses on the large-cap segment of the U.S. equities market.

Indices are unmanaged, and one cannot invest directly in an index. Past performance is not a guarantee of future results.

2021-114688 Exp 1/2023

NATIONAL
FINANCIAL
NETWORK

January 15, 2021

DISCLOSURES