

Economic Summary 4th Quarter 2020

It seems so long ago and hard to remember, but when we entered 2020, the economy was humming. Investors continued to benefit from the longest bull stock market in Wall Street's history. Unemployment was holding at a 50-year low and the trade war that had negatively affected farmers, businesses and investors alike was subsiding. Things were looking up as we began the new decade. And then . . .

Doors closed, the blinds went down, and masks came up. Thirty million people filed for unemployment between March and April, which was unlike any short-term economic event we have seen in history. In a flash, companies went from record revenue growth and profits, to no revenue at all. Cost cuts, furloughs and permanent layoffs were the last resort to stave off shutting a business's doors for good. And what do investors do when *uncertainty* is the dominating watch word of the day? They sell . . . and they indeed sold indiscriminately. Large and small companies plummeted 30% and 40% respectively.

The Comeback

After the dramatic and painful decline, risk assets staged an even more remarkable comeback. Beginning in late March, when things looked most dire, the stock market began to show life. A coordinated effort between the Federal Reserve and U.S. Government to support low interest rates and trillions in fiscal support through the CARES Act served as a lifeline to the struggling economy and U.S. citizens. Suddenly Americans felt they had a bridge to the other side of this financial crisis. Amazingly, in the face of only a muted fundamental economic rebound, markets fully recovered their losses and regained highs. In November, the Dow Jones Industrial Average breached the psychological barrier of 30,000 for the first time. But the rising tide did not lift all boats. In the stock market, the top 1% of companies (5 stocks: Apple, Amazon, Facebook, Microsoft, and Google) benefitted in revenue growth and profit growth, supercharged by a health crisis that kept us at home and glued to our phones and computers.

Is There Light at the End of the Tunnel?

As 2020 ends, the economy and the health of Americans remain dark as it has been for most of this year. COVID-19 cases continue to climb, and the return of calls for a nationwide lockdown brings into question the structural changes that a post-COVID world may bring. Furthermore, after strong gains in the summer months, the labor market has stalled, with joblessness at twice the level compared to where we started the year.

And yet, despite these challenges, there are reasons for optimism heading into a new year. The combination of multiple effective vaccines, an accommodative monetary policy, and a growing probability of fiscal stimulus should help restart the latent services sector while also reigniting the strength of cyclicals. Investor portfolios will have to adapt to an environment of low nominal, even negative, real interest rates. Economic growth may be erratic and choppy. A newly elected President and his Cabinet along with Congress will have their hands full with the challenges they have to handle. Periods of heightened volatility should be expected as the COVID pandemic ebbs and flows, but for the disciplined and patient investor willing to look beyond periodic pullbacks, 2021 may provide more opportunities for upside than downside returns before the year is over.