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INVESTMENT MANAGERS

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Stocks are starting out the new year with mixed results. Large cap stocks in the S&P 500 started strong but gave up their gains and finished with a loss of -1.01% for the month. Small cap stocks in the Russell 2000 continued to build on their strong 4th quarter and posted a 5.03% gain in January. International stocks in the MSCI EAFE index followed their US large cap counterparts and posted a loss of -1.06%. Emerging market stocks, though, were up 3.09% for the month. The Barclays US Aggregate Bond Index was down -0.72% in January as yields rose. The 10-year treasury yield climbed from 0.91% to 1.09% during the month.

GDP growth slowed to 4.0% in the fourth quarter resulting in negative GDP growth of -3.5% for the full year 2020. First quarter of 2021 may also see slower GDP growth but analysts expect stronger GDP growth to reemerge in the second quarter and second half of the year as the vaccine is distributed and the economy continues to open.

Fourth quarter corporate earnings are looking good so far. Of the companies that have reported, 84% have beaten their earnings estimates and 70% have beaten their revenue estimates.

With election uncertainty behind us, some potential market impacts are becoming clear with the new administration. First, more stimulus is expected. Second, we'll see more focus on infrastructure and climate change. Third, we should expect higher taxes. Many analysts are bullish for 2021 as they anticipate the stimulus will come quickly and combined with a reopening of the economy it will provide support to stocks. In addition, analysts are mixed on whether tax increases would be passed in 2021 when we are still in recovery mode.

Unemployment continues to improve. Once the economy is open and the restaurants and travel related industries can hire again, JPMorgan strategist David Kelly believes jobs will come back quickly and unemployment could be down to 4.5% by year-end. Furthermore, he sees that we could be close to full employment in 2022.

Kelly also thinks inflation could be at the Fed's 2% target by April before trending higher in the fourth quarter and into 2022. However, this could be more transitory in nature. Once the economy is open, there will be more demand for travel and leisure which could push prices higher for a while. The Fed has said that "genuine" inflation will have to be above 2% for an extended period of time before they would take action. They also said they will give markets plenty of notice before they would taper indicating that short-term rates will stay low for a while.

The recovery is global. China's economy is better than it was pre-pandemic. International markets may outperform US markets. The stocks in foreign countries are more cyclical than US stocks which have a higher technology position – these stocks haven't performed as well as technology stocks and are selling at more attractive valuations plus tend to do better in the early stages of an economic recovery. In addition, the weakening dollar benefits foreign stocks and US stocks that have a high percentage of international sales.

Volatility in Bitcoin and GameStop gave the media intriguing headlines to discuss and debate during the month. Whether more regulation comes from the trading practices surrounding them remains to be seen.

We continue to believe that investors are well served to be diversified. Sectors that performed poorly the past several years are starting to do better so should not be eliminated from portfolios. Fixed income may continue to struggle in the short term in a rising rate environment, but it does provide security and stability when stocks turn volatile. Please contact your advisor with any questions.