

2021: A New Year; a New Decade

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As we start out the New Year, we are also starting out a new decade, the third decade of the 21st century! The last year of the second decade went out like a lion even in the face of a record-breaking pandemic that has killed over 1.7 million people. One hundred years earlier, a similar pandemic is estimated to have killed over 50 million people! Back then, the crisis was followed by the Roaring Twenties, when the economy and stock market boomed. Is such an experience in store for investors in the “Roaring Twenties” of the 21st century?

There is good reason to believe that the best is yet to come. The implementation of not one but two vaccines, so far, will eliminate the virus in due time. The process of inventing vaccines for viruses has been advanced to the point where future such invasions will be quickly extinguished. In the process of dealing with the virus we have changed the way in which the country does business. The shift to working, dining, and learning at home will remain with us along with the associated improvements in productivity. The closure of businesses directly attributable to the virus is likely to be offset by the surge in entrepreneurs who are starting new ventures. The recent surge in the Russell 2000 index, a benchmark for small companies, is testament to the resurgence in that sector of the market that suggests the bull market can continue well into 2021.

The outlook for next year continues to favor higher stock prices by yearend. The key factor is the Federal Reserve’s commitment to providing a safety net under the economy by keeping interest rates low and buying securities to ensure sufficient liquidity to bolster the recovery in the face of continued virus concerns. If the Fed maintains a supportive policy, the bull market is likely to continue.

Fiscal policy is another backstop for the bull market. The new Administration is likely to continue a policy of supporting the economy by providing further stimulus programs that keep the economy on a growth track. The latest stimulus package signed by President Trump is a testament to that commitment.

The structural fundamentals of the overall economy have never been better. Individual wealth has never been higher with record levels of savings helping consumers to accumulate wealth that translates into rising pent up demand for goods and services. Corporate America has refinanced its balance sheet and record corporate wealth can trigger rising acquisitions of smaller companies to bolster competitive advantages. The new issue market gives us another indication that the virus is changing the business landscape. Examples include recent new issues of Door Dash, a home delivery service offering food from a variety of restaurants and the success of the home rental business through Airbnb. Both new issues had huge demand in the secondary market.

The global economy continues to respond favorably to the vaccines for the virus and monetary policy remains expansive. The second largest economy, China, has been experiencing an economic rebound and that country’s Shenzhen Index has rallied, well beyond the S&P 500, rising by 32% year-to-date.

Despite all this good news, there are potholes on the road to further stock market gains. Policies to raise taxes in 2021 could crimp market gains depending on how investors view those tax increases. The record high margin interest (borrowing to finance stock market investments) could provide the basis for a short-term correction if speculative investors decide that market risk is rising. Mounting antitrust efforts against technology behemoths could pressure other technology companies. Given the progress on the virus, we may also see rotation among the leaders during the year. The bottom line: Investors should experience another good year for equity securities but there will always be bumps along the way.