2021: Looking for Another Good Year for Stocks

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As we review the forecasts for the economy and the stock market for 2021, we are overwhelmed by the number of experienced market prognosticators who are predicting another better than average year for 2021. You can count us among that group as the major factors that have affected markets in the past seem to be supportive of a continuing bull market through yearend. Here are the characteristics that can keep the stock market on the upswing:

1. Monetary Policy is likely to be supportive as the Federal Reserve is committed to keeping interest rates low well into 2023 if not beyond that, which should provide sufficient liquidity to support financial markets.

2. Fiscal Policy is likely to remain supportive to get the economy back on track after the coronavirus derailing. Another stimulative program has been put in place by the current administration and a new president is likely to keep spending until there are signs of overheating and inflation.

3. Energy prices are unlikely to make a big move in one direction or another given the amount of domestic production that can be called upon if prices bounce higher in the short-term. If anything, prices might fall periodically depending on any surge in U.S. production or a decision by OPEC to increase output.

4. Pent-up consumer demand because of forced lockdowns and government subsidies that were implemented during 2020 should bolster business activity as the impact of the virus dissipates.

5. Corporate wealth has never been higher with low-cost debt replacing high-cost securities and rising profits this year after a rough 2020 for some companies. The ability to adapt and innovate has separated the winners from the losers.

There are a couple of short-term events that can rattle the nerves of some investors. The first event probably occurred today as a bout of selling engulfed the market after a positive open. The likely culprit, given the stocks that declined the most, was that a quarterly/annual rebalancing was underway and the sells versus buys was a mechanical event that is dictated by certain asset allocation parameters. Such events often happen after there has been a sharp price differential among asset classes in the prior quarter.

With 10 million new brokerage accounts opened in 2020—primarily among new and younger investors interested in short-term, low-cost trading. Any unexpected negative event could trigger a wave of selling by these novice investors as was the case in the fourth quarter of 2018 when the stock market experienced a sharp correction and investors headed for the sidelines.

After a great year for growth stocks in 2020, there may be a consolidation prior to a resumption of the uptrend that has been in place since March of last year.