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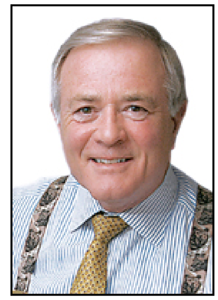

William Rutherford

OP-ED: 2020 hindsight and a look at what lies ahead

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Will Rogers often said, "It is hard to make predictions, especially about the future." But that is what investors must do. Obviously the past is easier to read. For instance, we know that last year the market went from peak to trough in 33 days. This was three times faster than the 1987 bear market. In 2020, the market then recovered to break even, for a V-shaped recovery, by Aug. 18. That made it the fastest recovery on record.

We have since made 19 new highs. The S&P was up 18.4 percent for the 2020 calendar year, and up nearly 50 percent for the trailing two years. An unprecedented amount of government stimulus was the main driver. Some say 10 years of digitization of the U.S. economy squeezed into a matter of months has also been a catalyst for increasing multiples and stock prices. The market began 2021 with a bang, rising strongly for the first 10 minutes of the new year. That was followed by a thud and then another rebound.

So, what's on deck for this year? We can expect that the Federal Reserve will continue to provide support to the market. Also, both political parties will want to keep the economy humming, so we can expect continued fiscal and monetary stimulus from the government. Specifically, we can expect a stimulus package and infrastructure spending.

Inflation should run about 2 percent – the Federal Reserve's sweet spot – to keep dreaded deflation at bay. Upward pressure on inflation is being provided by the unprecedented scale of money printing. The supply of U.S. dollars has increased by almost 15 percent from March 2020 through year end. In other words, one in every five dollars that exists today was created in the past nine months, so it is possible that inflationary pressures will arrive sooner than later.

The recent market uptick increased asset values (inflation), which is why the recovery has been K-shaped and favored owners of things. Such a recovery results in asset owner groups becoming wealthier and poor groups becoming less so – hence the wealth disparity is increasing. Politicians will be under pressure to address this through taxes and social programs. The K-shaped recovery also demonstrates why an investor should have a portfolio with diversified asset classes.

The COVID-19 virus has been a huge impediment to the economy, but now it appears that we have vaccines. In 2020, when the virus appeared, people who could work at home tended to do so. This shift in lifestyle led to changes in spending patterns: less money was spent "out" and more was

spent on cocooning. But overall, less money was spent and more was saved. Now, we could see a reversal of those trends and maybe more consumer spending as lockdowns ease.
The market has edged higher as the economy has grown slowly. The market is forward-looking, so it is forecasting an improving economy. Look for a surge in spending as places reopen. People will resume dining out and spending on entertainment. Since the consumer drives the economy, more spending will mean a stronger economy. In the meantime, more savings should be good for banks. Slight inflation should be as well, since the banks will have more money to lend into a growing economy with rising values.

So, is the shaky start to the new year a warning or a statement of things to come? Be prepared for continued volatility and market reactions to headline news.

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