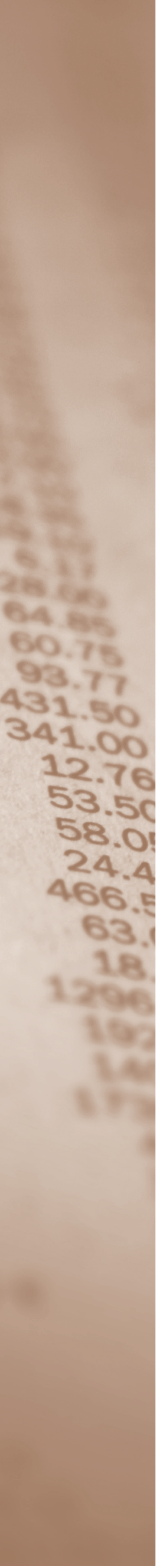

The Advisor

A quarterly publication from Ables, Iannone, Moore & Associates, Inc.

Market Update – First Quarter, 2021

2020 IS OVER. The calendar turning into a new year brings the ritual of a fresh start along with the hope for all things prosperous and healthy in our lives. This couldn't be any truer as we begin 2021.

Last year was extraordinarily miserable in so many ways. Yet, from the market's perspective, it was exceptional. The disconnect between what was occurring on main street to the performance on wall street can be a confusing one for investors. Our regular readers may recall we touched on this last quarter but it is worth revisiting. The question is, how can markets quickly rebound from a pandemic induced bear market, turn bullish, and by year's-end deliver superb gains? The answer is found by understanding the market is a discounting mechanism. Simply stated, the market puts a price, today, on what it expects in the future.

To illustrate this reality, think back to the early part of last year when Covid began rearing its ugly head. The S&P 500 extrapolated the negative impact to global economic conditions and triggered the fastest bear market in history – culminating in a deep selloff of 34%.

However, by mid-August, the S&P 500 had recovered everything it had lost in the bear market and went on to close out the year up over 16%. This happens because the market was pricing future expectations just as it was during the selloff in March. This is how markets should work, up and down. They should take the entire economic and investing landscape into consideration and price those expectations in real-time. Remember, the fundamental premise in owning any stock or bond is to pay a price today for a claim on future cash flows of the company.

So, what does the landscape look like as we get underway in the new year and more importantly, how does this impact the market environment?

Politics, Front & Center
For months, we have been asked about political implications on the markets. Our answer was it depends on the control of Congress along with the White House administration. Democrats winning both Senate seats in Georgia assured unified control across government. That also assured Republicans were unhappy. So goes politics. History and research are very clear on the issue of market performance and political party. The conclusion – there is opportunity regardless of which party is in control. Yes, policies do matter and adjusting to the new playbook can be tricky whenever power transfers hands, be it Democrat or Republican. For example, shifts in tax policy and regulation can materially alter an industry, let alone specific companies. However, we encourage all investors to keep perspective and separate the wheat from the chaff of political theater and focus on the opportunities ahead that will continue to provide a pathway to accomplishing long-term investing goals.

Economic Growth
Consensus estimates show the U.S. is projected to return to GDP growth at ~5% in 2021. The Biden administration's plan for policy expansion and stimulus, combined with increased vaccine distribution, should provide plenty of fuel for demand and a return to economic growth.

Employment
Jobs are the foundation of a healthy economy. We see unemployment continuing to decline as economic reopening slowly unfolds across the country. However, we recognize prevailing headwinds exist from the Covid induced damage to the labor market.

Inflation & Monetary Policy
Inflation is estimated to remain muted in the year ahead. Forecasts call for core inflation to tick up slightly to ~1.6% in the U.S. The Fed has remained consistent on this issue, providing a framework and guidance that will allow prices to run above its target rate of 2% before a policy change is in order. The takeaway – we are still operating in a highly accommodative environment with low inflation that has, historically, provided fertile ground for growth.

Fixed Income / Rate Environment
A distinction is needed here to clarify the rate environment from the Fed's monetary policy and, by extension, their control of the short-end of the yield curve. We anticipate a steeping of the treasury yield curve. This means an increased spread between short-term rates and long-term rates. This likely occurs as a product of the Fed holding the short-end low while the cyclical growth and reflation trade pushes the long end higher, which is driven by supply & demand. Concerning corporate bonds, we see yields falling as confidence in corporate financial strength improves.

Equities
To recap, we have a slow recovery underway with economic growth on the horizon that is underpinned by policy expansion and stimulus. Inflation is in check, for now, and monetary policy is likely to remain accommodative for the foreseeable future. A safe reopening, backed by increased vaccine immunization, spurs consumer demand. Consumer demand is met by companies hiring workers in order to sell their products and services; the cycle strengthens. When viewed in totality, these factors set up a fundamental environment that is still favorable for equities.

Market Prognostications
Research from CFRA highlights three S&P 500 barometers to keep an eye on that occur in January. These indicators have been used to predict how the rest of the year will go. If the indicators are positive, good things are forecasted to come and often times they do. If negative, well, not as good.

The first is the Santa Claus Rally. This is the last five trading days of the last calendar year and the first two trading days of the new year. This was positive in 2021.

The next barometer is The First 5 Days of January. This is self-explanatory and was also positive to start the new year.

The last barometer is The Month of January. Here, we are looking to see if the month of January is positive or negative. So far, the market has been positive, but there is a long way to go until the last trading day on the 29th.

With two of the three barometers already positive this January, what do the numbers say if all three indicators are positive? The market averaged a 17% return for the year with an 88% frequency of seeing a positive increase.

A Word of Caution
Before you go and consider all of the above information as reason to calculate your gains for 2021, keep in mind it is never that simple. Take for example, research from Data Trek Research, which shows the S&P 500 has posted three consecutive years of double-digit growth only five times since 1928. This stat doesn't mean the market will not post another double-digit year; it means that perspective is paramount.

A World of Opportunity
We see a world full of opportunity. We see it in the themes and secular trends that are changing the way we live. Investing in these massive total addressable markets gives us confidence beyond politics, short-sighted narratives and even market selloffs. We are fully aware the market may have already priced in, or even overpriced, a large portion of the good news and expectations for 2021, which may lead to periods of volatility and even selling pressure. From our view, that is where opportunity lives. Maintaining a long-term perspective and the discipline to navigate short-term adversity has been, historically, a recipe for wealth creation.

To our clients, thank you for the opportunity to serve your investment needs and please do not hesitate to contact us if you experience any material changes in your personal situation or would like to discuss any specific matters.

To our other readers, if you would like a second perspective on your investment accounts, please feel free to contact us. As fiduciaries, we will happily provide you with an unbiased opinion.

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