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Outlook 2021

As the team at VETS Indexes looks to what is ahead for 2021, we will first look at the year that was. Donald Trump survived impeachment in early 2020. However other factors proved to be too much for him to be reelected for a second term. When we published last year's note, we were only learning of the novel Coronavirus, which later became classified as COVID-19. At the time, all eyes were on China and the great draconian measures being taken to eradicate the highly contagious virus. Unfortunately not long after, the virus was detected in other parts of Asia and Europe. The first confirmed U.S. case of COVID was reported on January 20, 2020. The case was then reported to the CDC on January 22. In February many states throughout the U.S. were reporting person-to-person transmission of the novel coronavirus, while much of Europe had already begun "locking down" with stay-at-home and shelter-in-place orders. By March 12 over 1,500 cases of COVID-19 had been reported in the U.S. and on March 13, in a report "not for public distribution," the [United States Department of Health and Human Services] (HHS) used the working assumptions for their response plan that the COVID-19 "pandemic will last 18 months or longer and could include multiple waves of illness," and that resultant "supply chain and transportation impacts" would "likely result in significant shortages." By this time, COVID was a worldwide pandemic, and many of the hardest hit states in the U.S. would be implementing their own "lockdowns" in an effort to slow the spread of the virus.

Unfortunately, we saw a great deal of civil unrest in 2020. The death of George Floyd on May 25 at the hands of a Minneapolis police officer ignited a series of protests throughout the country that soon spread internationally. Here at home, protests sparked outrage for and against the Black Lives Matter movement and became nightly news for most of the summer months. The division between mainstream political parties in the U.S. grew wider and more contentious as constituents of both parties grew more weary of the other party.

As mentioned in last year's outlook, the U.S. Presidential election was indeed contested by Donald Trump. He launched many lawsuits in various states claiming voter fraud, all but one of which were dismissed. The U.S. Supreme Court declined to hear the case let alone opine on it.

One has to ask, how the equity markets could have survived 2020, let alone record a gain for the year. In the early part of 2020, when the belief was that COVID would be contained in the U.S., the markets, as measured by the S&P 500, continued to climb ever higher, before peaking at an all time high of 3,393.52 on February 19. As reality of a worldwide pandemic set in, market participants headed for the exits, and the S&P fell more than 1,200 points (roughly 35%) in less than five weeks. At the same time, volatility spiked more than 80%. In March, the Federal Reserve made two emergency interest rate cuts within two weeks. The first cut on March 5 was 50 basis points and the second cut on March 15 took rates to zero with a full percentage point (100 basis points) cut. The latter move was also paired with a $700 billion quantitative easing initiative. At first, the markets continued to slide, but the S&P bottomed out on March 23 at 2,191.86. Market participants had made up their minds that equity prices were too low and better days would indeed return. From the lows of February, the market gained an astounding 70% and had a price return for 2020 of 16.3%. Even more impressive was the 43.6% price return of the Nasdaq composite index.

What are we looking for in the year ahead?. We'll start with the fact that Joe Biden will be sworn in as President on January 20 and he will have a Democratic majority in congress. Since 1950, the S&P 500 has been positive 77.8% of the time with an average return of 9.1% when Democrats controlled the White House and Congress. Using history as a guide and the current trends of the market, we feel that the market will continue higher for the year and register a positive return for investors.

Another positive that we see, for the markets and economy, are low interest rates. Although interest rates are off their low of .52% for the U.S. Ten Year Treasury Note set in August, rates overall, and more importantly mortgage rates, are at historic lows. This is good news for borrowers who are refinancing and companies that are servicing their debt.

We feel that there will be sectors that perform better than others, as we had mentioned in our Q4 2020 note. At that time, we saw transportation, healthcare/biotech and technology outperforming the overall market, and we expect more of the same going forward with the addition of material stocks. Transports obviously are doing well with the high demand from online retail. Technology should continue to outperform, especially in the absence of scrutiny from the Trump administration although social media platforms are still coming under fire as to how they should balance free speech and a safe platform at the same time. As vaccines grow in availability, we expect to see outperformance from healthcare and the continued efforts to develop more vaccines. As the world economy slowly begins to grow and build from the stand still occurring from the early onset of the pandemic, we are looking at the materials sector as a part of that growth. Of course, there is plenty of optimism currently built into the markets and we are not suggesting a smooth ride, but, the outlook currently looks favorable at the very beginning of 2021.

One theme, which we pointed to last year, is once again an area that we want to highlight. That is socially responsible investing, or as many people refer to it, ESG (Environmental, Social and Governance). Last year saw a record inflow of $27.4 billion into ESG related ETFs. There were 31 new ESG ETFs launched in 2020, taking the number of ETFs in that arena to over 100. It's becoming more evident that investors want to align their investments with their values and beliefs. We at VETS Indexes are proud to announce that last year we added to our index offerings, with the launch of The Veterans Select Index (VTRNIX).

In closing, our country is in need of healing in more ways than one, but, we are a resilient people and America has always risen to the challenge. This healing process will certainly be good for the markets and most importantly for the greater good of all.

Sincerely,

Karl Snyder, CMT
Managing Director - Chief Market Strategist

More Information:

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