Client Note

February 4, 2021

January 2021 was certainly an intense month. Not because the markets were wild, but the environment we find ourselves in. COVID-19 super-spike, insurrection in the Capitol, impeachment, and debate on whether to pass additional relief to our most economically vulnerable filled the news every day. Despite all this, the S&P, Dow, and Nasdaq all made new all-time highs—and at the same time, I had several people ask me if the market was about to crash. There's a lot of cognitive dissonance out there.

After hitting new all-time highs, the S&P500 pulled back into month end to end the month down 1%. Energy was the best performing sector, followed by Telecommunications which just edged out Healthcare, all with positive gains on the month while all other sectors were negative**. My moderate to aggressive portfolios saw just shy of 1% gains while conservative portfolios pulled back by about 1%, weighed down by bonds while gold was flat on the month.**

GDP fell almost 4% in 2020 and the hope is that as COVID-19 gets under control with fewer hospitalizations, the economy will rebound strongly. Longer term interest rates have risen over the past several months with this as the primary driver. Vaccine doses are being produced at 10.5 million per week and almost 30 million have already been administered. Very recent data shows cases and hospitalizations beginning to come down from super-peak levels. If this trend persists, we should see more talk of re-openings and less talk of additional stimulus. Half the US should be vaccinated by May as production and distribution continue to increase**. The economic activity will increase, *stocks may* see most of their climb prior to this trend is seen.**

Governments and committees make decisions very slowly. Expect to see a relief package passed by Congress even as COVID-19 numbers decrease, as Congress is ***reacting*** to data seen over the past couple of months. If there is no further stimulus from Congress, and interest rates continue to rise, the Fed will be forced to reduce the $150B+/month its currently injecting into financial markets. This brings us to **a counterintuitive situation come late Spring**: rebounding economy and jobs, but less market intervention/support by the Fed and Congress, which may lead to a weak stock market by mid-year.

In the immediate term, as long as the S&P 500 stays over 3750, this uptrend is intact, and I expect to see a continuance of the trend that started late October.

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