Reflecting on 2020 might give one equal parts overwhelming anxiety and incredible relief; two emotions that would be quite warranted, given the unbelievable tumultuousness of the year. 2020 certainly did not lack for excitement, stress, or temperamentality, but the biggest surprise, perhaps, was that every major market index produced positive returns, most in double-digits. Indeed, the financial markets seemed altogether on a different wavelength than society as a whole at times, yet in actuality they were merely looking forward, whilst many were merely living in the day-to-day.

While the fourth quarter engendered record COVID-19 case counts in the US, markets were able to overlook this, given the realization of several viable and approved vaccines. The confirmation of 'light at the end of the tunnel' buoyed market participants and gave concrete affirmation that things will eventually return to normal. That being said, we expect 2021 to most likely be a tale of two halves. With a more infectious strain of the virus now spreading worldwide, already elevated case counts and a slower than anticipated vaccine rollout, a restart of economic activity may well be delayed further, increasing the amount of time it will take to return to pre-COVID levels. Yet once mass inoculations are well underway and the vaccine supply is consistent, we anticipate that the cumulative economic loss from the pandemic will be a fraction of that seen after the global financial crisis of the prior decade.

The political backdrop in the US has closely mirrored that of the world at large; dramatic, unsettled and unpredictable. The unprecedented tenor and aftermath of the presidential election, culminating in the rioting on Capitol Hill and a historic second impeachment of President Trump, have the country and the world on edge, yet the markets have managed to largely shrug this off as well, instead looking forward, positively, to the implications of a new administration and Democratic control in Congress. A slim Democratic majority paves the way for significant fiscal spending and support for growth and inflation, while limiting any large-scale tax increases, or overly progressive policies that might curtail economic activity.

Given the prospect for further stimulus and governmental spending, we've already seen an increase in inflation expectations, with long-dated Treasury yields rising significantly from their lows (though the 10 year still yields a mere 1.10%). Despite this, the Fed remains committed to their accommodative monetary policy stance, which will suppress real yields, making government bonds less attractive as a portfolio ballast in the near-term and supporting the case for stronger growth via equities.

As we have noted in prior outlooks, the pandemic has accelerated pre-existing structural trends, fueling the atmospheric rise of a select group of market-leading companies. This dynamic remains in place and those that are well positioned to benefit from the tailwind will continue to do so. Tech and healthcare still stand to gain the most from these undercurrents and their positioning as leaders in innovation and sustainability and their bias towards quality and stability make them a core position in our portfolio. Recently though, the prospects for fiscal spending, coupled with a hopefully accelerating vaccine rollout, also provide support for small- and mid-cap stocks. We are actively looking to increase our exposure to these more cyclical sectors, as they will benefit most from an accelerated restart of economic activity and a more risk-on attitude in the markets. While 2021 will undoubtedly have its fair share of volatility, we are constructive on the outlook for the year and as always, are focused on our fundamental objective of achieving your long-term goals. Happy New Year and we look forward to hearing from you in the coming months!

Prepared by Flagship Capital Management, Inc.
Flagship Corporate Center | 2. W. Baltimore Ave. | Suite 200 | Media, PA 19063
T 610.565.9580 | flagshipcap.com