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A View from the Bevy – 1Q21

Market Overview

Those of us hoping for a calmer start to 2021 did not have our wishes answered during the first quarter. In spite of the roller coaster of positive and negative events that took place, stocks ended the quarter higher, with many indices sitting near record highs at quarter-end.

It's fair to say that market volatility was elevated during the quarter, fueled by some phenomenon rarely if ever seen before: meme stocks such as GameStop rose and fell by large amounts, the value of bitcoin and other crypto-currencies continued to soar, and near the end of the quarter the large investment firm Archegos Capital Management collapsed, resulting in a fire sale in stocks that it owned.

Another driver of the market action was a spike in longer-term interest rates caused by a combination of inflation concerns and expectations of a stronger-than-expected economic recovery. Investors hit technology stocks particularly hard when rates rose. The technology-heavy NASDAQ Composite, which had started the year well, briefly fell into correction mode (down 10% from its highs), but still managed to end the quarter higher. The 10-year Treasury started the quarter with a yield of 0.9% and almost doubled by quarter-end to nearly 1.7%. The reality, however, is that rates are still near historical lows. And as shown below, U.S. stocks continued to lead the world as they did in 2020.

Stock Market Indices	1st Quarter
S&P 500	6.17%
S&P 500 (Equal-Weight)	11.49%
Dow Jones Industrial Average (DJIA)	8.29%
NASDAQ Composite	2.78%
Russell 2000	12.70%
MSCI World	4.92%
MSCI World ex U.S.	4.04%
MSCI Emerging Markets	2.29%

Source: AJO. Data supplied by FactSet Research Systems.

The overall markets started and ended the quarter well. The somewhat surprising early January win by democrats in both Georgia Senate races gave the party control of the Senate (with Vice President Harris being the deciding vote). Markets reacted positively as investors raised optimism that a sizeable stimulus package could be passed. Such a package – the $1.9 trillion American Rescue Plan – did pass in March.

As the quarter wore on, investors weighed the impacts of divergent forces: optimism over the economic recovery countered by rising rates and inflation fears, an increasingly successful vaccine rollout domestically compared to stumbles across Europe, and the effectiveness of vaccines versus the rise in COVID variants.

Despite these concerns, optimism (perhaps combined with lock-down fatigue) won out by quarter-end, as more states began to ease restrictions and travel picked-up. While technology stocks were hit hard by rising interest rates, they have recovered and finished the quarter with positive performance. Meanwhile, long beaten-up stocks like financials and energy have rebounded strongly since the beginning of the year. Investors appear to be pricing in faster than expected economic recovery, to the benefit of cyclical stocks and companies in the travel and entertainment sectors.

Outlook

The overall outlook heading into the second quarter is bright, but as always, we caution that there will be bumps and headwinds along the way.

Our overall optimism is predicated on expectations of a robust economic recovery, fueled by strong consumer spending, especially in the service and hospitality industries. There are billions of stimulus dollars available to be spent and large pent-up demand. While the consensus estimate for economic growth in the quarter just finished is around 5%, economists expect growth closer to 9% in the second quarter.

Other positive underlying factors for stocks include an accommodative stance from the U.S. Federal Reserve (Fed), which has pledged not to increase interest rates until 2022 at the earliest, growing momentum behind a large infrastructure package, and the historical fact that the second quarter is usually a strong one for stocks. While we do expect some short-term inflation due to this increased economic activity and consumer spending, we don’t expect the Fed to react with rate increases.

The biggest risk to markets continues to be COVID-19. Cases are surging in Brazil and Europe, with Germany and France among others facing new lockdowns. It is likely that the daily back and forth between vaccine rollouts and increased prevalence of variants will cause some volatility in the coming months as the economy continues its comeback.

We enter the quarter cautiously optimistic and as always are available to answer any questions.

Happy Spring!

Of Interest: Investment Principals Flourish in 2020

It would be an understatement to say that 2020 was a challenging year. As we look forward to a more normal rest of 2021 and beyond, and as Covid-19 vaccines begin to rollout around the globe, let's take one last look back at the 2020 stock market.

Stocks certainly tested us in 2020 – from steep declines early in the year as the pandemic took hold, to a stunning rally that took many indices into record territory. Yet through it all, the good and the bad, a number of important investment lessons were reinforced:

- It rarely pays to sell in a panic
- There are always some stocks that are winners
- Liquidity matters
- Having an investment strategy and a financial plan is important

It rarely pays to sell in a panic. We have said many times that it is time in the market, not market timing that matters. Had you sold in February and March, when the pandemic was spreading, with an uncertain future and the economic outlook looking bleak, in all likelihood you would still be on the sidelines today, and you would have missed the historic rebound. There was no way to know on February 20th, when the fastest sell-off in stocks since the 1929 crash began, and which ended the longest bull market in history, that stocks would have recovered enough by April to enter a new bull market.

There are always some stocks that are winners. While everyone refers to the stock market, it is really a market of stocks. In other words, regardless of what the overall market does, there are always investment opportunities in companies with strong balance sheets that are benefitting from current trends. For example, despite the pandemic, there were many companies that benefitted from the stay-at-home trend and whose shares propelled the market rebound. Some examples include the e-commerce delivery company Amazon and the on-line meeting company Zoom. On the other hand, many entertainment and travel-related stocks have yet to fully recover, and probably won't for many years.

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This divergent performance reinforces two other investment principles, the importance of asset allocation and diversification. Be very careful about having too many eggs in one basket, whether the basket is a stock or a sector.

Liquidity matters. 2020 reinforced why liquidity is so important. First, many people faced unexpected financial disruptions during the year, and having rainy day cash on hand helped provide some peace of mind. And second, investors with cash and liquidity in their portfolios were able to add to their stock positions at very attractive price levels in March and April.

Having a well thought out investment strategy and a financial plan is important. Having a plan in place can keep you from making ill-advised emotional decisions at the worst possible moment, like in the middle of a pandemic. The holistic planning process we use for clients is well thought out and offers them an opportunity to meet their long-term investment and financial goals.

It is comforting in a year that was unusual in so many ways, that the investment discipline and our focus on the longer-term needs of our clients, helped you weather the storm from a financial perspective.

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