



January 2021 – Our Plague Year

**Bad times, hard times, this is what people keep saying; but let us live well, and times shall be good.
We are the times: Such are the times.
-Saint Augustine**

2020 – A World Odyssey

On March 23, the coronavirus was raging, and the S&P 500 closed 30.7% below its value on December 31, 2019. That day there were 42,835 active cases of covid-19 in the United States, an increase of about 25% from the day before. Active cases continued to increase all year with 716,166 at December 31, 2020, and over 1.8 million world-wide deaths!

Showing that the market isn't easy to predict, March 23rd turned out to be the low point for the S&P 500 for 2020. From then until the end of the year, the S&P 500 increased 68%. No one ever dreamed that would happen.

Why did this occur when the coronavirus was raging, the economy was falling apart with job losses and business closures, President Trump was, well, being Trump, cities were burning, crime was rising, and anxiety levels were sky high?

The only logical answer is that interest rates were near zero and people and organizations which had monetary assets saved more. Stock appreciation and dividends were in demand and, as Economics 101 teaches us, when demand increases, prices increase.

Now we are seeing signs of cautious optimism. Effective vaccines are here thanks to Pfizer, Moderna and AstraZeneca. Hopefully, others like Johnson and Johnson will soon follow. And while there are production and distribution hiccups, the process will get better, and soon will be in full throttle. The end is in sight.

The implications of this are that our economy will improve.

At the start of the pandemic the Federal Reserve (Fed) implemented its multiple tools to support the economy. Thus far it has added almost \$3 Trillion of liquidity to the markets while also dropping interest rates to zero. As the economy begins to recover as expected, the Fed will likely pause the support programs before raising rates. (At this time the Fed remains committed to essentially zero rates until 2023.) As the Fed eases off its bond purchasing program, interest rates will start to increase.

However, none of this is likely to happen very quickly, but unless something else bad happens (always a possibility) interest rates will begin to gradually climb, and investors will begin returning to higher allocations of fixed income securities and lower allocations to stocks.

Such predictions are tricky and probably best left for the arrogant, but we believe this will begin to happen in 2021.



Experiencing fewer covid cases and seeing some return on fixed income investments should make us all happier and more at ease. To paraphrase Saint Augustine's quote, we are looking forward to living well and the good times.

I continue to be grateful for your support and hope that we all get our vaccines soon and will be able to enjoy life. Please stay safe. None of my friends who served in the Viet Nam war wanted to do any patrols when they were returning home the next week.