"Investment News for the Educated Investor"

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THE ALOOF/MATTOS REPORT

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Outlook 2021: Powering Forward

Where We Are

More than most years, it's hard to look ahead to the next year, to 2021, without looking back at 2020. A global pandemic, a massive economic collapse, a bear market, a surprisingly sharp reversal, a hotly contested election where passions ran high, the impact of lockdowns—it was an unusual year of extraordinary challenges. In 2021 it's time to restart the engines, but things are going to look different, feel different. 2020 has changed us, the way we do business, the way we connect. It's also shown us our constants, what works for us, and what we hold on to.

In 2021 we restart the engine, but we're not driving toward the same world we left behind in 2019. It's not even our destination. There has been damage to areas of the economy that may never fully recover, but there are other areas that will adapt, reinvent themselves, and help reinvigorate growth. In Outlook 2021: Powering Forward, we'll talk about stocks and bonds, the economy, and the postelection policy environment, but in the background will be new challenges, new opportunities, and new ways of doing things.

Thankfully, one constant has been the value of personal and professional relationships, even if we've had to learn how to connect in new ways. Sound financial advice offered a long-term map for many investors that helped them from getting off course in a turbulent 2020. There are still risks to navigate in 2021, but it's time to get back on the road.

COVID-19: Over the course of the year, we have seen an increased understanding of how to contain the COVID-19 virus, important progress on how to treat those hospitalized, and promising developments on treatments and potential vaccines. Nevertheless, conditions have worsened heading into late 2020, with a record number of confirmed cases and increased hospitalizations. We believe we will see continued advances in 2021 that will further limit the impact of the virus by the end of the year, but it will be a process. In the meantime, the goal remains keeping the economy as open as possible while making sure that our healthcare system doesn't get overwhelmed and the most vulnerable are protected.

Policy: We expect global central banks to remain supportive and for individual economies to continue to refine their responses to COVID-19. In the United States, what will likely be a divided government may help limit the size of any tax hikes and regulation while still supporting additional fiscal stimulus that may include high-priority items for both Democrats and Republicans. We could also see movement toward a similar deal on infrastructure. Greater clarity on trade may make it easier for some companies to do business, but a more challenging regulatory environment may be an offset.

Domestic Economy: Continued progress in the response to COVID-19, including further stimulus, will be the key to sustaining the recovery. COVID-19-impacted service industries may be the last to bounce back. We expect some of the accelerated innovation that came with the COVID-19 response to have a positive long-term impact. We forecast 4–4.5% US gross domestic

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product (GDP) growth in 2021.

International Economy: Emerging market economies may lead in a global rebound. We believe growth in international developed economies may lag behind the United States, although a strong fiscal response may help Japan. We forecast global GDP growth of 4.5–5%.

Stocks: A strong earnings rebound in 2021 may allow stocks to grow into somewhat elevated valuations. Cost efficiencies achieved during the pandemic may persist. We see an S&P 500 Index fair value target range of 3,850–3,900 in 2021 with potential for upside with better-than-expected vaccine progress.

Bonds: Inflationary pressure is likely to be limited, and the Federal Reserve (Fed) is expected to keep rates low, but economic improvement and even normalizing inflation could put upward pressure on rates. We see the 10-year yield finishing 2021 in a range of 1.25–1.75% with a bias toward the lower end.

THE JOURNEY CONTINUES: 2020 has been an extraordinary year filled with uncertainty and unexpected challenges that will stay with us for a long time. But looking at 2020 market performance—and ignoring the path to getting there—it was not that unusual a year at all. For longterm investors, 2020 was another year of making steady progress toward long-term investing goals.

2021 may offer similar market performance, although we believe it will offer a smoother path and an economic environment that may simply feel better. Markets are always looking ahead, and even back in March 2020—early in the COVID-19 crisis—they began to respond to the economy and corporate America to power forward, even if the timing was uncertain. Whether we're looking at earnings or economic data, we've exceeded those early expectations to date. 2021 is about continuing to follow that course and maintaining the momentum.

If our base case—or something close to it—plays out, then years from now market participants may look at the market landscapes in 2020 and 2021 and conclude they had a lot of similarity. Market conditions within each year may have been remarkably different, but in the end they were just another leg on the journey.

Outlook 2021: Powering Forward was designed to help you navigate a year in which economic conditions may continue to improve dramatically. Understanding the road immediately ahead is essential for navigating its twists and turns, but it will be thoughtful planning and sound financial advice that will keep us on the journey.

Investing Reminders from Dave & Jerry:

Market volatility is an inevitable part of investing.
If we never had market sell-offs, we wouldn't have as much opportunity to see returns.

Markets trend upward. While the past can't tell us what the future holds, the past 30 years have had upward-moving markets despite recessions. It makes sense that this would continue since investors see opportunity in undervalued stocks.

Trying to time the markets may not end well. If you sell out of the market during a decrease, you "lock in your loss," because unless you buy back in at just the right time, it can be difficult to recover the amount you lose—and the very best days tend to happen right after the very worst ones.*

Understand your strategy. Your strategy was designed for your specific goals, timeline, and risk tolerance.

Review your needs and goals. This is a great time to determine if your goals and objectives remain the same, or if they've shifted, requiring an update to your strategy.

Stick to your strategy. Your strategy was built for your individual time horizon, and sticking to it will position you to work toward your goals.

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** There are six examples in the S&P 500 since 1987 of deep declines that were followed within 10 days by big moves to the upside. The S&P 500 is generally considered representative of the U.S. stock market. Past performance is no guarantee of future results.*