CONWAY • JARVIS LLC
Investment Outlook

Volume 31 Issue 1 March 11, 2021

Investors Envision a Reopened Economy

This week, we find ourselves a year removed from the onset of the pandemic and the hyper-speed bear market decline that resulted. We're also a few weeks short of the one-year anniversary of the bull market that followed. Things happened fast in 2020, including the development of vaccines that now offer a glimpse of what post-pandemic life will look like in 2021. The economy is accelerating and has broadened its resurgence in the last few months to where we see conditions on Main Street catching up with a Wall Street that has already priced in a robust recovery. "The Reopening" of the economy is a necessary *leap* toward full recovery. In the past month investors have experienced some side effects of renewed economic expansion in a post-pandemic environment. The migration of investor capital from Growth to Cyclical issues has weighed heavily on the Tech sector. Will this shift in market leadership persist or is this merely the next stage in the market's march to even greater heights?

The View from Main Street

Nearly ten million Americans are waiting to be re-employed, the hospitality industry has been hollowed out to skeletal proportions, brick and mortar retail is in tatters, and the travel industry has been all but shut down for nearly a year. These are the realities of Main Street in the pandemic era at the close of 2020. This year, an accelerating distribution of vaccines has raised the curtain on the future and offered a glimpse of normalcy in a post-pandemic era. We like the view forward and, along with others, aspire to the old normal of 2019, a pretty good year for most in terms of the economy.

We have reason to be optimistic about a resurgence of Main Street. First and foremost is the tailwind provided by the monetary and fiscal stimulus that's being showered upon the broader economy. That's life support for those displaced by the pandemic, buying time for them as the virus recedes and The Reopening comes up to speed. Recent economic data indicates that GDP growth is being led by a revival of the industrial/manufacturing sector. That's predictive of future gains in employment and consumption as people return to work. At the end of this causal chain is the unleashing of pent-up demand for services, travel, dining out, sporting events and other pursuits prevented by the pandemic.

We're seeing evidence of this as many who remained employed during the lockdowns embark on a spending spree. That's good news for investors and non-investors alike. Will that persist in the face of an expected revision of current fiscal policy? It's too soon to tell as we are left with only a few anecdotal declarations of intent from some on the extreme left frontier of the political spectrum. We're waiting to hear something more economically literate and rational from those policy-makers inhabiting the middle region of that spectrum where we reside. Success for both Main and Wall Street hinges on the outcome of the struggle between Centrists and Extremists in Congress.

The View from Wall Street

The "market", as defined by the S&P 500, ended the year on a high note, buoyed by expectations for an improving vaccination rate. Stocks have continued their advance in 2021, but erratically so. We've seen a significant shift in market leadership and a divergence in performance among the major benchmark indexes.

As we write, the DOW 30 leads the pack at +5% with the S&P500 trailing at +2%. Last year's superstar, the NASDAQ, this week climbed out of correction territory to stand at -2% YTD. The investor herd has seemingly run to the other side of the boat, away from high-priced Growth issues to the more staid and predictable Cyclicals that are usually early-recovery favorites. We view this as an internal rebalancing of the market with investor capital migrating to more opportunistic value propositions rather than heading to the sidelines.

A number of last year's high-priced, much loved, market leaders have corrected. Several have declined into their own private bear markets. Despite that, the broad market remains positive. That speaks to the benefits of constructing a diversified portfolio. It's fun to brag of owning companies making headlines. It's prudent to also own those less exciting issues that don't make the front page. That said, we think last year's market leaders are simply being paused as the economy transitions from a pandemic-inspired, stay-at-home version to a post-pandemic return to the old normal. As the story of full recovery unfolds, we think this year will be featured in the chapter where the economic tide rises to float all boats, not just those on Wall Street. As that occurs, we expect to see a broadening of market leadership that will again include some of last year's high-flyers, those that are reasonably priced and positioned for sustainable long-term growth.

A Return of Inflation?

Recent concern over the backup in yield of the 10-year treasury has prompted some experts to rekindle fears of inflation. That's the stuff of an economy perched on the brink of sustainable, stimulus-free growth. We should be so lucky. It will require time and stimulus to rebuild employment to pre-COVID levels. Until then, any indications derived from a steepened yield curve will prove to be indicative of a *recovering* economy only, not a fully recovered one. We have no doubt that the Fed, along with the new administration, remains wary of deflationary pressures and will adhere to its current policy at least through next year in spite of the broadening inflation narrative.

Update on our list of Risks to Recovery and Economic Expansion

COVID-19: Widespread vaccination in US on the way as the virus caseload shrinks dramatically. Reduced to **Benign**

The Fed: Maintaining persistent lower rates. No change in policy. Remains **Benign**

Trade War: China remains the adversary. Embracing multilateralism with EU. An acknowledged retreat from America First. Reduction in tariffs with EU and Canada possible. Maintained at **Moderate**

Global Economy: After effects of Brexit and uneven COVID recovery stagnate GDP. Remains **Moderate**

Policy Formation: Awaiting budget and fiscal policy initiatives. Centrists vs. Extremists. Deficit of economic literacy in Washington threatens stability. Risk is **Moderate**

Conway • Jarvis LLC

www.conwayjarvis.com