TW ADVISORS

Newsletter 4th Quarter 2020

MORE THAN EVERYONE EXPECTED !

There was a lot to like about the final quarter of 2020. The obvious positive was the broad-based double-digit returns reflected by the S&P 500's 12.15% gain. The most important factor in the quarter though was that formerly weak areas of the stock market led the way. Value beat Growth; International beat Domestic; and Small Cap beat Large Cap highlighted by Small Cap's over 27% increase. Earlier in the year we wrote that long-term laggards need to do well to sustain the market rally. And that is exactly what happened in the final quarter of the year which is a good sign for 2021.

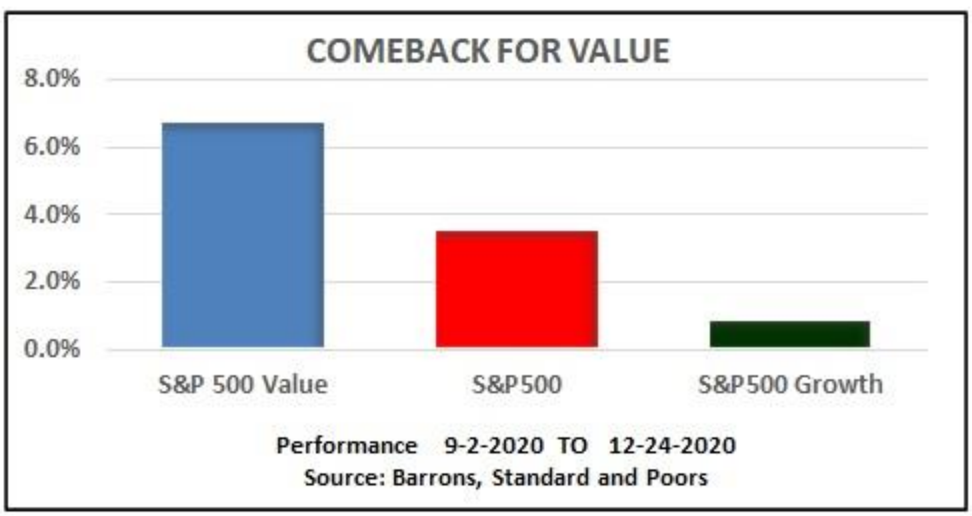
We also wrote last quarter it was best to ignore the election and concentrate on the significant and durable support of the Federal Reserve (Fed) which once again turned out to be sage advice. Despite a chaotic and disputed election - which was the biggest justification to sell stocks - the stock market has marched relentlessly higher. Besides the Fed, stock market bulls are encouraged by a stronger recovery than what was expected. November's ISM Manufacturing Survey was the seventh straight month of expansion and paints a picture of both strong demand and very tight inventories. The labor market has surprised by adding slightly more than half of the 22 million jobs lost at the onset of the pandemic.

Arguably the biggest driver of the rally was the approval of several Covid-19 vaccines. Even Congress helped the bullish sentiment by passing a stimulus package which will support the economy in the first half of the year. Worldwide corporations have feasted on accommodating financial markets by raising $3.6 trillion in capital from public investors. Cash held by the world's 3,000 most valuable listed non-financial firms has exploded to $7.6 trillion! Consumers are equally flush with cash as fiscal transfers have generated a meaningful savings buffer. A credit crisis is unlikely anytime soon.

While the signs are mostly positive plenty could go wrong in 2021. The vaccine program is off to a slow start, and if it stumbles significantly, a more normal lifestyle may be further off than expected. The legacy of the pandemic will include millions of long-term unemployed, record high public debts, and an exacerbation of wealth and income disparity, all issues that will have to be addressed in the future. Other concerns include a funding crunch facing state and local governments and the fallout from the massive cyber-attack that compromised several U.S. government agencies.

Control of the Senate will garner a lot of attention but once again it is probably best for investors to ignore. Higher taxes would be a potential problem but possibly offset by a more robust infrastructure package. The latter would be a boon to the cyclical part of the stock market which still looks quite attractive. While we expect this bull market to be tested with some corrections, the path of least resistance still appears to be higher.

While the advance from the bottom was welcome, it was at first a narrow rise focused mainly on the large and popular tech stocks often known as FANMAG (Facebook, Amazon, Netflix, Microsoft, Apple and Google). The tech heavy NASDAQ market raced past the average stock and other indices. Recently, performance from formally out-of-favor groups like Value stocks, Small cap and International stocks has improved and have a long way to go to recover from the initial drop. While it is too early to say a trend is in place, diversified investors should benefit from a broad-based recovery that will likely be driven by the expectation of better earnings as the economy opens and business is brisk again (see chart).



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