RAYMOND JAMES®

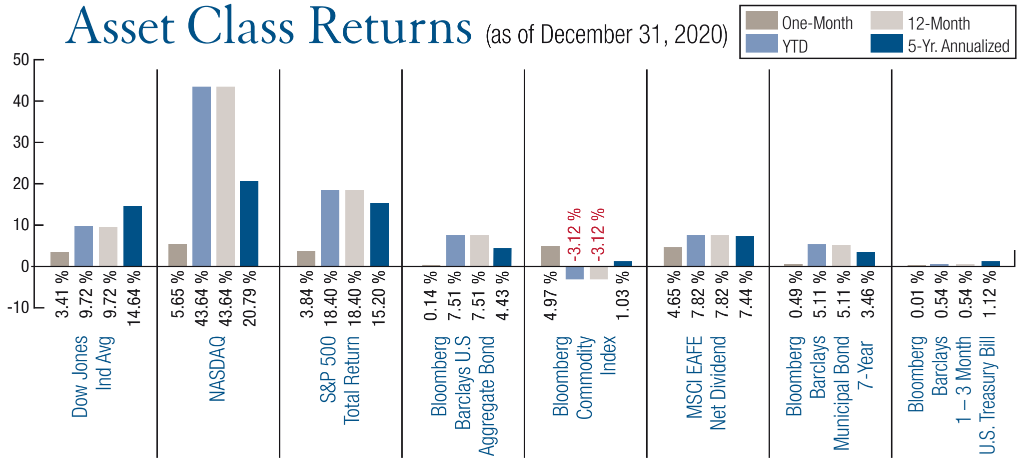
market update

From the Office of Jeff Sgroi, CFP®

"Roads were made for journeys, not destinations."

– *Confucius*

Asset Class Returns (as of December 31, 2020)



Material prepared by Raymond James for use by its Financial Advisors

Market & Economic Synopsis

- President Joseph R. Biden Jr. is inaugurated as the United States of America's 46th president on January 20, 2021, just weeks after the Capitol building riots startle Washington, D.C. and the nation.
- U.S. equity markets push higher to start 2021, buoyed by additional fiscal and monetary stimulus packages.
- Bond yields bump up, as the U.S. 10-Year Treasury yield runs up and through 1.1%.
- COVID-19 cases and deaths spike, while widespread distribution of vaccines is expected to take place over several months.
- An expected recovery in global oil demand pushes WTI and Brent crude into the low/mid $50/barrel price range.
- As U.S. federal debt mounts, future inflation concerns persist; the U.S. Consumer Price Index (CPI) rises 1.4% year-over-year in December.
- Value investors celebrate relative outperformance over growth, a trend shift that began in late 2020 and continues through the first two weeks of 2021.

Market Outlook – Ten Themes for 2021

Flipping the calendar into a new year allows us to hit reset and start with a fresh perspective. As investors, we know that a new year doesn't necessarily change in-place trends, or disrupt year-end market momentum. It does, however, give us pause to reassess opportunities and consider what may lie ahead for the next twelve months. For the past few years, Larry Adam, Chief Investment Officer at Raymond James, has done fantastic research to pull these ideas together in a timely, relevant report. For 2021, his ten themes are centered on the Olympics, given that the Summer Games are scheduled to begin in Tokyo in July. Below is a synopsis of Larry Adam's *Ten Themes for 2021.*

1. Global Synchronized Recovery - Rowing in the Same Direction

The effects of the pandemic in 2020 knew no boundaries. Nearly all countries and economies, large and small, had historic and immediate recessions. The recovery, on the flip side, has been largely synchronized across the world. Fiscal stimulus, monetary stimulus, and medical solutions are primary factors in what is expected to be global economic recovery this year.

2. U.S. Economic Recovery - Taking on a Triathlon

The analogy of our domestic economic recovery reflecting the pace of a triathlon starts with the swimmer struggling to remain above water. This window of time covers January 2020 – early 2021. The next leg, cycling, sees a rapid economic acceleration driven by pent-up demand and rebuilding of inventory as economic restrictions are lifted. Finally, the runner brings a new pace to the economy of stabilization and a slower, but steady, cadence. Reasons for optimism in our economy this year include improved employment, strong housing, pent-up demand, and a boost to capital expenditures.

3. Fixed Income - Keeping Portfolios "En Garde" Despite Low Yields

Most fixed-income markets enjoyed a robust year in 2020, in large part due to yields being pressured to all-time lows. The Federal Reserve has stated it is not even considering moving rates higher for years. Despite many reasons for yields to increase, three factors contribute to our expectation of yields staying low through 2021 – global attractiveness of U.S. Treasuries (yields are negative in many foreign markets), significant money moving into bond funds and ETFs (think healthy demand), and Central Bank buying (to the tune of $120B purchased by the Fed each month).

4. Equity Market - Earnings Will Do the Heavy Lifting

In 2020, P/E expansion drove equity markets higher after bottoming in March. To continue upward momentum, corporate earnings will need to follow. Two sectors expected to outperform, after years of underperformance, include small-cap and value equities.

5. Information Technology - Hitting the Bullseye of Our Sector Target

COVID-19 did not necessarily redefine how our nation does business – it accelerated and exposed trends already in place. Technology has been at the epicenter of this change. Businesses expect to spend 64% more on technology in 2021. Because of this, as well as stronger EPS growth than the S&P 500 as a whole and consistent earnings beats, technology is likely to continue to be a strong sector.

6. **ESG (Environmental, Social, and Corporate Governance) – Wave of Socially Responsible Investing Not About to Break**

   Interest and actual money being placed into ESG-based investments have gained significant traction over the past few years. Between the recent change in administration in Washington, ongoing social justice issues, and the COVID-19 pandemic, momentum is only expected to grow.

7. **International Equities – Exposure Abroad Will Be a Balancing Act**

   Domestic equities have been the place to be during the 10+ year bull market. Period. And that is not expected to change. But, per the first theme item – global synchronized recovery – both U.S. and international markets are all expected to perform well in 2021. However, not all international markets are equal. Emerging foreign markets are expected to outperform developed foreign markets, in large part due to current valuation levels and stronger growth premiums.

8. **Currencies – U.S. Dollar Will Not Have the Inside Track**

   Volatility ruled in 2020 – not just in the equity markets, but in currency markets as well. The U.S. dollar reached strength not seen since 2017, then subsequently dropped like a rock to end 2020 at its lowest level in two years. Current fiscal and monetary policy support the theme for a lower dollar. Furthermore, the dollar-strength and -weakness trends tend to last between 7–10 years. We are on the heels of a nine-year positive run, signaling the strong possibility of a reversal.

9. **Commodities – Oil Demand to Catch the Crosswind of Economic Activity**

   The expectation for a more robust economy in 2021 should translate to higher oil prices. As additional transport sectors (i.e., air travel, shipping, etc.) come back online, so should an increase in demand for oil. With that being said, there may be limitations to how high prices rise. Domestic production is likely to increase as prices rise (think higher supply). OPEC is likely to pull levers and increase production as well.

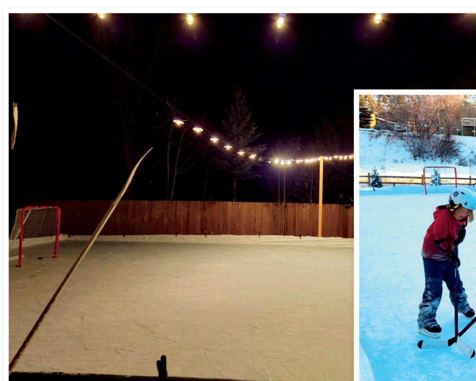
10. **Asset Allocation – Keeping Parameters on the Fairway**

    If nothing else, 2020 reminded us to expect the unexpected. Given we have worked through election season and have multiple, highly-effective vaccines being distributed, we should expect volatility to moderate. With that being said, diversification, sound asset allocation, and a thoughtful, deliberate approach to our ongoing investment strategy remains in focus for 2021, helping keep goals on track and "on the fairway."

For a full report of Larry Adam's *Ten Themes for 2021*, including charting, data points, and additional, detailed information, please contact our office. We will be happy to send a hard copy or link to you.

From the Homefront

Going into this season, we all knew our winter routines were going to be disrupted. Whether it be travel to warmer climates, ski trips with friends, or gathering together with our families near and far for the holidays, we all expected adjustments. Trying to make the most of a different winter, our family embraced some of the great opportunities around us. Our most exciting experience has been a winter full of ice skating and hockey. We are fortunate to have a bit of flat, open space in our yard. In taking full advantage of any available outdoor opportunity, I researched all I could on Google, YouTube, and Canadian websites about how to build and maintain a skating rink. Being aware of about a half dozen rinks in our area, I suspected it could be pulled off. The reality is that it was a BIG experiment. Would the siding hold up? Would the water freeze (and stay frozen)? Would my girls enjoy it? How many teeth would be knocked out from on-ice collisions and flailing hockey sticks? Well . . . seven weeks into our experiment, the rink is still standing and dentist bills are nil. Here are Lily and Hannah, with hockey sticks from Santa. Lights over the ice have been key to keeping the fun going well into the night!



I hope that you and your families have been able to find quality time together this winter, and perhaps picked up a new hobby or interest during this time.

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