While the epic struggle of the past ten months has been filled with fear, anxiety and the dismal, often controversial path on how best to find a way to normalcy, there are many reasons for optimism during 2021. The current trends on infections/ hospitalization and mortality will in all probability subside with the vaccine distribution and increasing herd immunity. The second quarter seems to be the target for improvement in mortality/hospitalization rates, as advances in treatment, targeted vaccine distribution and focused public health measures assist in an endgame. In the interim, the continuing lockdowns in certain regions of the country will create additional difficulties for many businesses and individuals.

Equity markets in 2020 witnessed *the most* significant reversal relative to any previous move from low to high. While there is no doubt a disconnect with the underlying economy (negative annualized GDP/ persistent unemployment/ business disruption), select sectors continue to grow dramatically, while others are the beneficiaries of overall spending patterns. The sustainability is difficult to assess. What one can conclude with confidence is that the pandemic has rapidly accelerated trends that were already in place. Some of these trends will revert toward the mean, others will continue on a relatively stable trajectory.

It is impossible to predict how 2021 will play out. The majority of equity analysts are calling for a positive year, with the inevitable bumps lower along the way. The primary near term obstacles include a massive build up of debt and margin borrowing - both near record levels. Other hindrances: an inflation rate reported by the Bureau of Labor Statistics at a 1.2% annual rate (it seems a possible underreporting to allow for continuation of ultra low rates). A concentration in momentum investing has pushed valuations of select equities - primarily the stay at home sector – into the stratosphere. The overly rich valuations will likely react poorly during a market correction. Additional government stimulus, both fiscal and monetary, will certainly over time lead to higher inflation. The easy money from the Federal Reserve and federal government pushes up asset prices for stocks/ select commodities and housing. How these inputs play out over time is a function of future growth/ ability to control debt and reduce the fed balance sheet, along with global influences. All the while, banks are likely to experience severe credit losses through 2021. Slower global growth will present a separate set of challenges that may persist beyond mid-decade. Fortunately, the majority of banks are in a strong financial position, and likely to withstand the headwinds.

The energy sector is navigating through adoptive shifts, with carbon neutrality a central theme. The oil majors have all made commitments for net zero and other green targets by mid-century or shortly thereafter. Oil majors have posted record losses during the pandemic. Global lockdowns have lead to a plunge in oil demand, with individuals staying at home and air travel severely curtailed. Clean energy is leading the charge with outsized gains in 2020, with an aggressive green push a certainty under Joe Biden. LNG, liquefied natural gas - should see strong demand in the heating fuel sector, as nations look to cheaper and cleaner alternatives to coal/ heating oil.

Brexit, with the UK making its final break from the EU December 31st, 2020, will likely create near term chaos with shipping routes - creating crushing backups and confusion with the new customs regime. There are pros and cons for Britain. Boosting trade with the rest of the world and the ability to set laws without interference from Brussels being the primary drivers.

The Georgia Senate runoff races on January 5th are a significant input for equities. If the two seats in Georgia fall to Democrats, Kamala Harris will break the tie of power - a 50/50 republican democrat split – hence Democratically controlled Congress and White House. While this might bode well for the green energy sector, it may have a negative impact via loss of balance of power in Washington – clearing the path for higher corporate and individual tax rates, massive spending on the Green New Deal, and other large spending programs. A republican win of one seat will maintain the balance of power for the next two years. The democrats have the edge in early voting. Regardless of any initial reaction, please maintain a long term view with all investments.

Look forward to a sane/ stable political environment, which should facilitate global growth with the easing of tensions between the US and its allies, trading partners and adversaries. The trend toward normal will not be easy, but appears within grasp. Best for a great 2021! Please call or email anytime. Thank you.

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