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President Biden and 2021 Markets

"Listening to and understanding our client's financial goals allows us to provide the highest level of investment planning advice and service."

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What President Biden Means for Markets:

The U.S. presidency has changed but the two driving forces of 2020 are likely to remain the same. Interest rates and monetary policy as determined by the Federal Reserve and the coronavirus pandemic.

Market moves are not dependent on what President Biden will do in his first 100 days in the white house. We have a politically divided country and an equally divided congress that, while controlled by democrats, does not have a mandate to move legislatively. Markets really don't care if there's a second impeachment trial. But markets do care if interest rates spike or if the vaccine roll out is slower (or faster) than expected.

We do see some small impacts of specific executive orders. Oil prices have bumped up about 20% as the XL pipeline is put on hold and exploration of federal lands is delayed. Interest rates have risen as it appears more likely that a stimulus package over $1.5 Trillion does seem likely to pass even after the two that already passed in 2020. The 10-year treasury has stayed above 1.0% for a few weeks now.

Again, these are corrections that the market can easily absorb. What puts the markets at risk are outlier moves that are unexpected. Should interest rates increase to 2.0% or higher. Or the Fed changes their expectations and starts to increase short terms rates, we would see a sharp decline in the bond market and possibly stocks as well. Should the adoption of the vaccine fall well short of expectations, or a new covid strain spreads worldwide, we can expect markets to respond negatively.

Many suggest that markets are priced for perfection and that simply isn't true. Markets have moved higher on the expectation that interest rates will remain low and that the vaccine will bring the economy back to a reasonable normal within 6-12 months. That isn't perfection, but simply an expectation. If fulfilled we can expect a growing economy and all that goes with it – falling unemployment, higher stock prices and valuations, innovation and entrepreneurship. If we fall short some counter version is the likely result. This is the challenge with investing and the risks involved. It also supports our diligence to managing risk for your specific situation and diversifying a portfolio to reduce the downside as much as possible.

We are cautiously optimistic with the equity markets over the next 9-12 months. We will continue to monitor many factors that could cause additional stress on the economy. The economy was tightening pre-covid and interest rates and access to capital will play a significant role over the next few years.

Sources of data –Wall Street Journal, CNBC, S&P Global, MSCI, Russell. The performance of an unmanaged index is not indicative of the performance of any particular investment. It is not possible to invest directly in any index. Past performance is no guarantee of future results. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Three-year performance data is annualized. Bonds have fixed principal value and yield if held to maturity and the issuer does not enter into default. Bonds have inflation, credit, and interest rate risk. Treasury Inflation Protected Securities (TIPS) have principal values that grow with inflation if held to maturity. High-yield bonds (lower rated or junk bonds) experience higher volatility and increased credit risk when compared to other fixed-income investments. REITs are subject to real estate risks associated with operating and leasing properties. Additional risks include changes in economic conditions, interest rates, property values, and supply and demand, as well as possible environmental liabilities, zoning issues and natural disasters. Stocks can have fluctuating principal and returns based on changing market conditions. The prices of small company stocks generally are more volatile than those of large company stocks. International investing involves special risks not found in domestic investing, including political and social differences and currency fluctuations due to economic decisions. Investing in emerging markets can be riskier than investing in well-established foreign markets. The MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. The Russell 2500 Index measures the performance of the 2,500 smallest companies (19% of total capitalization) in the Russell 3000 index. The S&P 500 index measures the performance of 500 stocks generally considered representative of the overall market. The Wilshire REIT Index is designed to offer a market-based index that is more reflective of real estate held by pension funds.

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