ROBINSON·TIGUE·SPONCIL
PRIVATE WEALTH MANAGEMENT

(4th Quarter, 2020)

Just when you think you've seen everything, 2020 comes along. It's safe to say that we have mixed feelings about the year. It's been an emotional and challenging year for everyone in many respects, yet a rewarding year for investors who stayed the course with a sound investment strategy.

In the face of an extraordinary set of events, the U.S. economy has responded with incredible resilience. While this may seem to defy logic, a clear look at the response to the crisis helps explain where we stand today. First, policymakers quickly mobilized U.S. fiscal policy to infuse stimulus totaling about 10% of GDP, mostly in the form of income replacement and business support. Second, the Fed responded with lightning speed to activate several liquidity programs. Indeed, the Fed's balance sheet now stands at $7 trillion, up from $4 trillion pre-crisis, and short-term interest rates remain at or near zero. Lastly, it is important not to underestimate the dynamism of the U.S. economy and the corporations that comprise it. Innovation is alive and well and helping to insulate against historic disruptions.

The following are some of the previously inconceivable seesaw statistics we saw in 2020: GDP fell 31.4% in the 2nd quarter and recovered 33.4% in the 3rd quarter. 4th quarter real GDP is currently estimated to grow at ~8.5%, bringing us back to ~97% of peak GDP. With continued growth expected in the new year, current estimates indicate new highs in GDP by the 2nd quarter 2021. The unemployment rate peaked at 15% in April, and has since dropped to less than 7%. New home sales fell 30+% in the first half of the year and have since rebounded 70+% to new yearly highs. Retail sales fell about 20% from February to April, and have since rebounded ~30% to new highs.

It is important to remember that the economy was on very solid ground headed into 2020, perhaps allowing for a strong "immune" response to the virus and lockdown-inflicted economic damage that has taken place. That said, many issues need to be addressed coming out of this crisis, including the ballooning national deficit and debt. The current budget deficit rose from $1trillion to $3+ trillion in 2020. Accordingly, government debt to GDP has risen from 107% at the beginning of the year to 127% at the end of Q3 2020. Before we sound the alarm on these numbers, some perspective is necessary.

Because of low interest rates, net interest payments as a percentage of GDP are lower than 2019, and about half what they were in the 1980s and 90s. For now, it is manageable, but greater fiscal discipline will be required in the years ahead, perhaps impeding potential growth.

As Jason Trennert from Strategas recently commented, "the Kryptonite for this Superpower will be, as always, higher inflation and long-term interest rates."

Economic growth is expected to continue into 2021, and along with accommodative monetary and fiscal conditions, the backdrop for stocks remains constructive. That said, heated sentiment and above average valuations could force a meaningful correction at some point, perhaps even early in the year. These are always disconcerting, but we would encourage a longer-term point of view. For that, we'll be focusing on the things that matter most, including monetary policy, fiscal policy, trade, and regulatory policy, as well as the pace of innovation. For now, the balance of these items is positive.

We continue to be extremely grateful and honored to serve as your investment advisors and wish everyone the very best in the New Year.

January 6, 2021

RTS Private Wealth Management

David & Keith
