Argent
Wealth Management, LLC

Investment Outlook

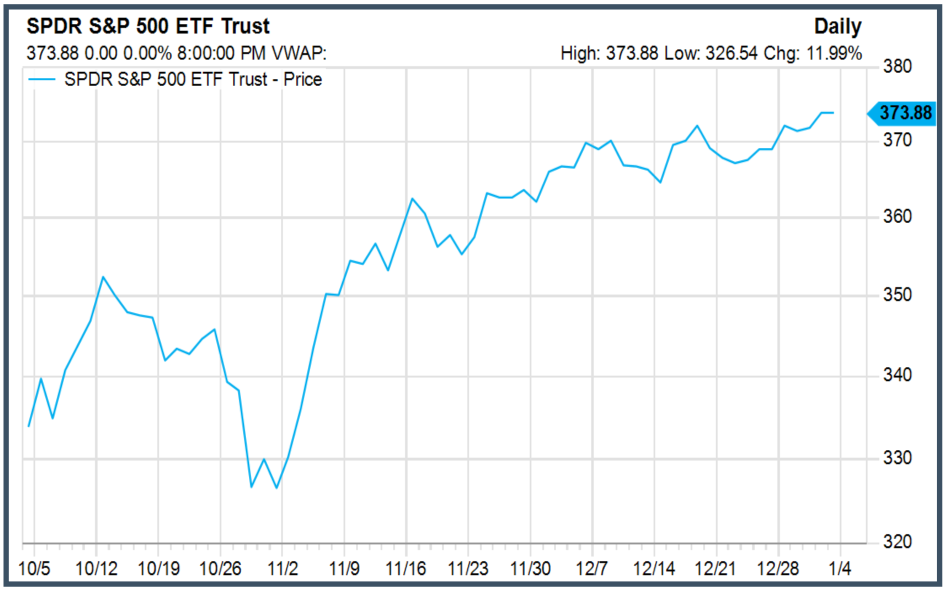
Winter 2020

Fourth Quarter 2020 Review and First Quarter 2021 Outlook

To Be or Not to Be (Bullish), That is The Question!

What Happened?

The Third Quarter Review and Fourth Quarter Outlook was titled "A Year for The History Books! What Else Could Happen?" The fourth quarter of 2020 did not disappoint. On November 7th Joe Biden was declared the winner of the 2020 Presidential Election. Donald Trump was the first incumbent to lose a presidential election since George Bush lost to Bill Clinton in 1992. Then, on November 9th, Pfizer released data showing that their COVID-19 vaccine was essentially safe and about 95% effective, much higher than a typical vaccine. Moderna would follow with similar results for their COVID-19 vaccine trial.



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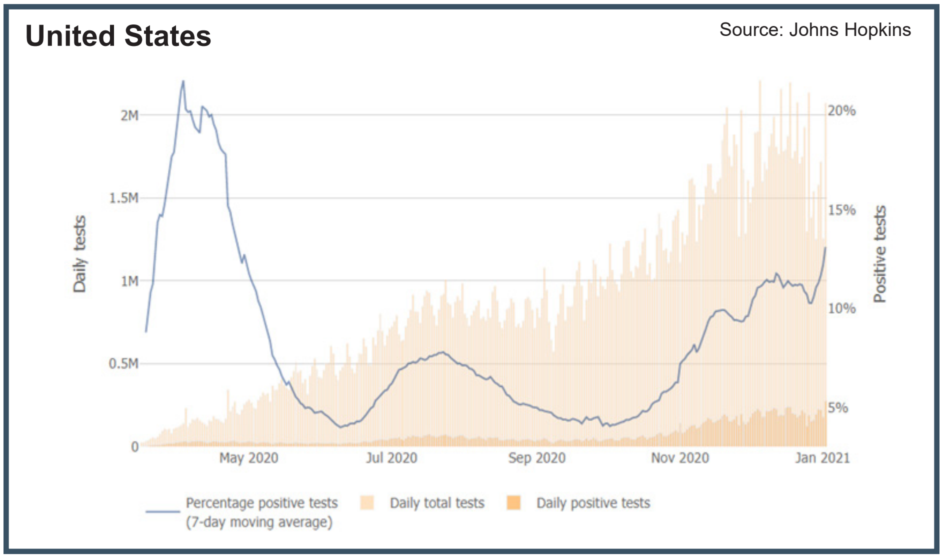
The last Quarterly also noted that "in terms of economic policy and stock markets, both Democrats and Republicans can argue why their candidate would be better, and both parties can make valid, logical points to defend their claims…**Uncertainty is what market indices react most negatively to.**" As shown in the chart below, the S&P 500 index was volatile in October and early November due to the uncertainty around the spread of COVID-19 and the presidential election.



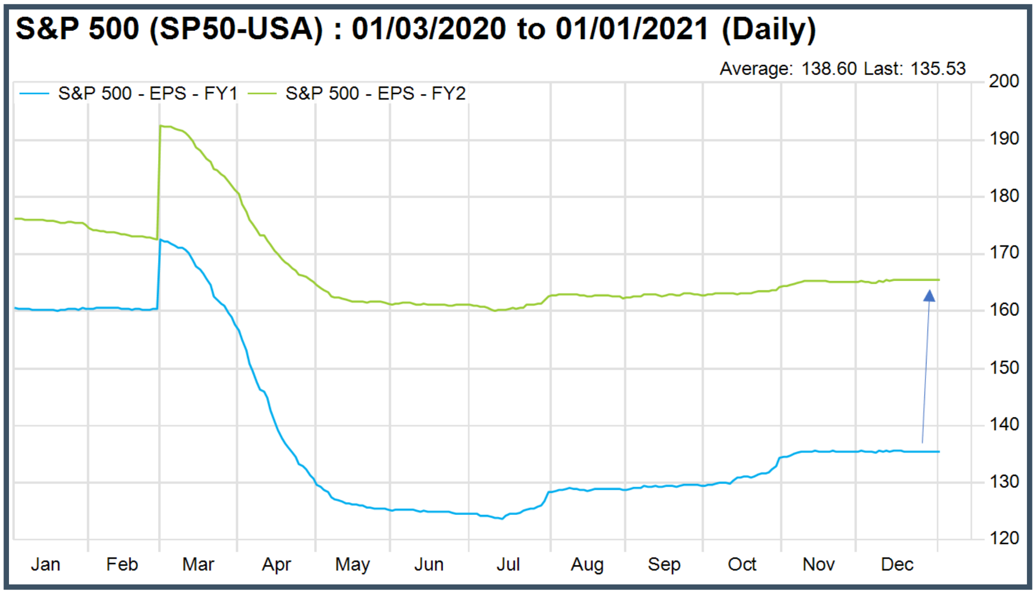
After the election was called for Biden, investors were able to focus on fundamentals like stock valuation and growth, and the economy. The trajectory of the world economy and stocks was, and will continue to be, impacted by the spread of COVID-19, and how nations deal with and react to the spread.

The number of COVID-19 cases grew rapidly over the last two months. In addition, the positivity rate went from ~ 5% to over 12%, a sign that cases might be underreported and that testing is not fully capturing the spread of COVID-19; so why were markets so strong in the last two months of the year?

A better understanding of the virus, improved treatments and a lower death rate help explain why investors were not as worried about the spread as they were through February and March, 2020, when the S&P 500 dropped over 30% in 33 days.

Investors have also been reassured by Jerome Powell at the Federal Reserve, and various politicians, that they would do what was needed to combat the economic fallout from the spread of COVID-19. A ~$900 billion fiscal stimulus bill was passed prior to year-end with many expecting additional spending once Biden is sworn in. In the last year, Congress has passed ~$3.8 trillion in stimulus which is about 18% of GDP by our estimates. (U.S. Nominal Gross Domestic Product, according to Ned Davis Research, was $21.17 trillion on 12/31/2020.) To put this in perspective, during the financial crises of 2008, fiscal stimulus amounted to about 6.5% of GDP.

In addition, market indices rise and fall as investors attempt to predict future economic outcomes. With the consensus that vaccines will be widely available to the public by the middle of 2021, companies and investors could more confidently predict economic and earnings growth for the next 12-18 months, which lowers uncertainty and volatility in stock markets.



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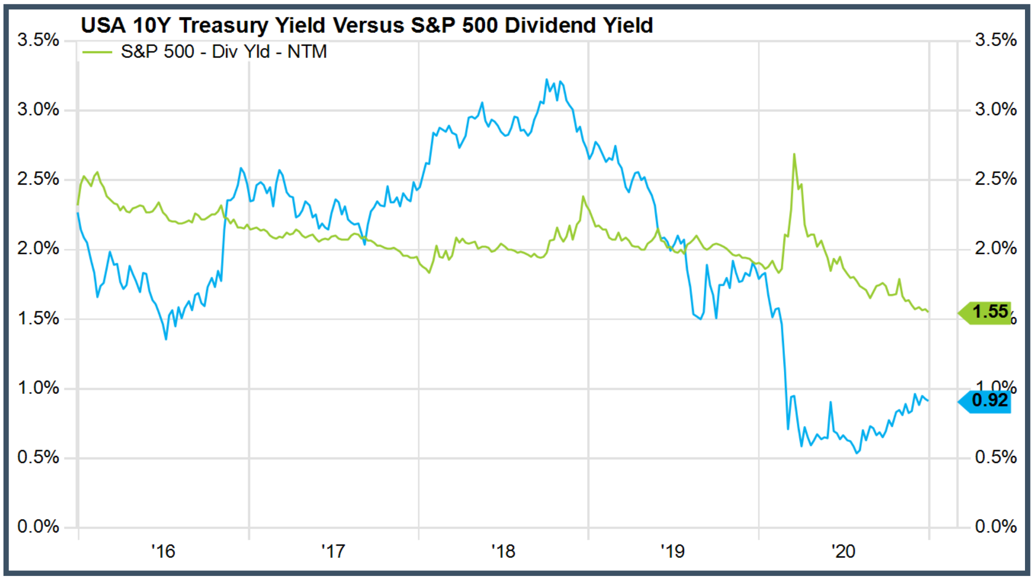
The chart above shows expected earnings for 2020 (FY1 or Fiscal Year 1) and expected earnings or 2021 (FY2 or Fiscal Year 2) for the S&P 500 Index. Earnings estimates increased in the fourth quarter and earnings are expected to increase by ~22% over the next year as the economy gradually reopens. Investors often demand an increase in bond yields to keep up with an increase in economic and earnings growth. Although bond yields did increase slightly in Q4, the 10-year U.S. Treasury Bond yield is still under 1% meaning stocks remain relatively attractive compared to bonds from a valuation perspective.



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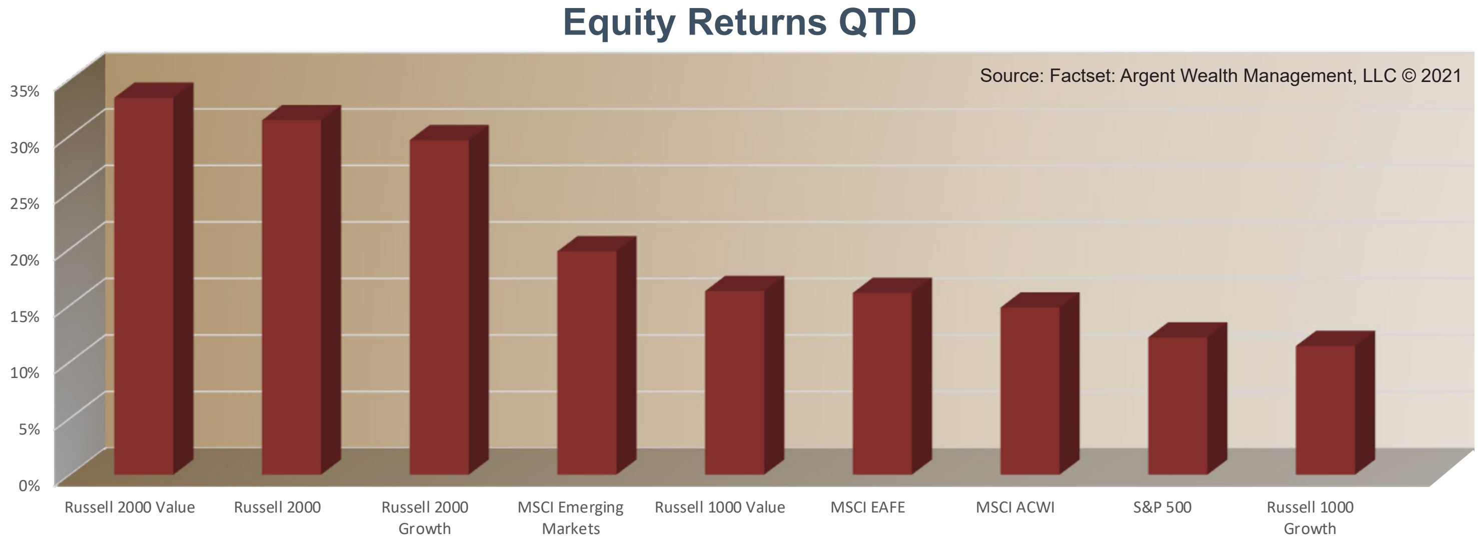
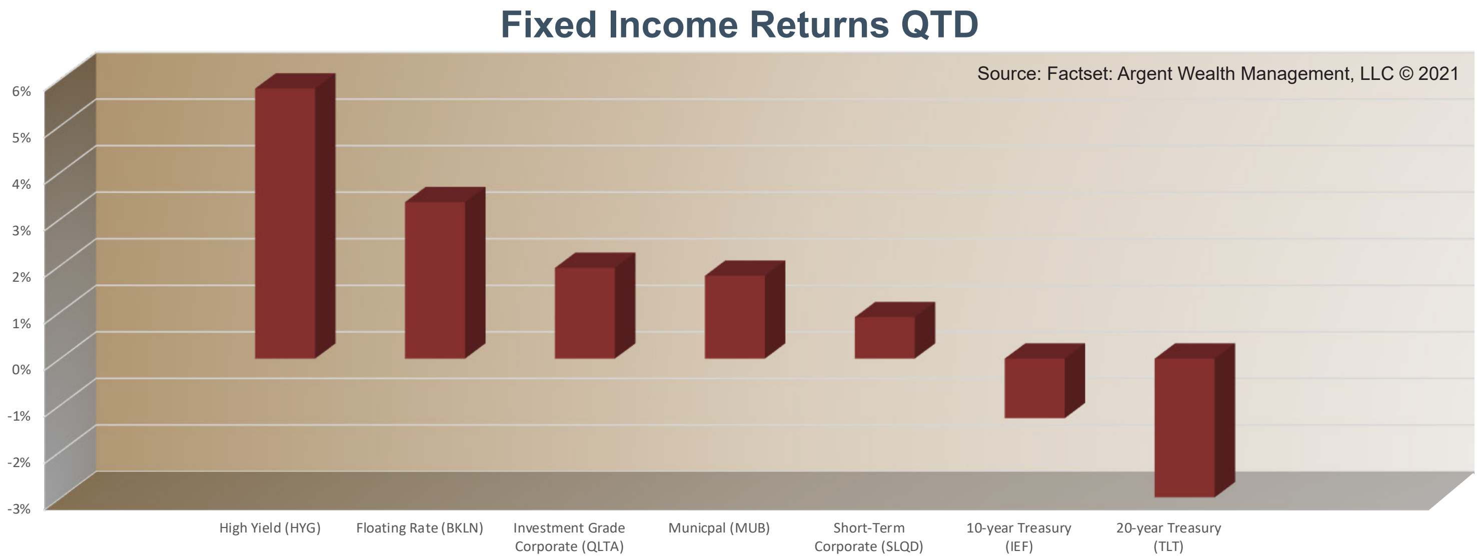
Review of Returns

Small and mid-capitalization and value stocks outperformed large cap and growth stocks in Q4 which is the opposite of what happened in the first three quarters as investors started to rotate towards stocks that will benefit from the economy reopening as the vaccine becomes more widely administered. Large technology stocks, which mostly reside in large growth indices, were the highest returning stocks for most of the year because they benefited from the stay at home trends caused by COVID-19. International indices outperformed U.S. indices. They tend to correlate more with U.S. core and value indices as sector weightings correlate more than they do with U.S. growth indices.



Within bonds, lower rated corporate bonds outperformed investment grade corporate bonds. Investment grade corporate bonds outperformed treasury bonds. This reflects investors' willingness to own riskier assets which tends to happen as investors gain more confidence that the economy will improve over the next year.

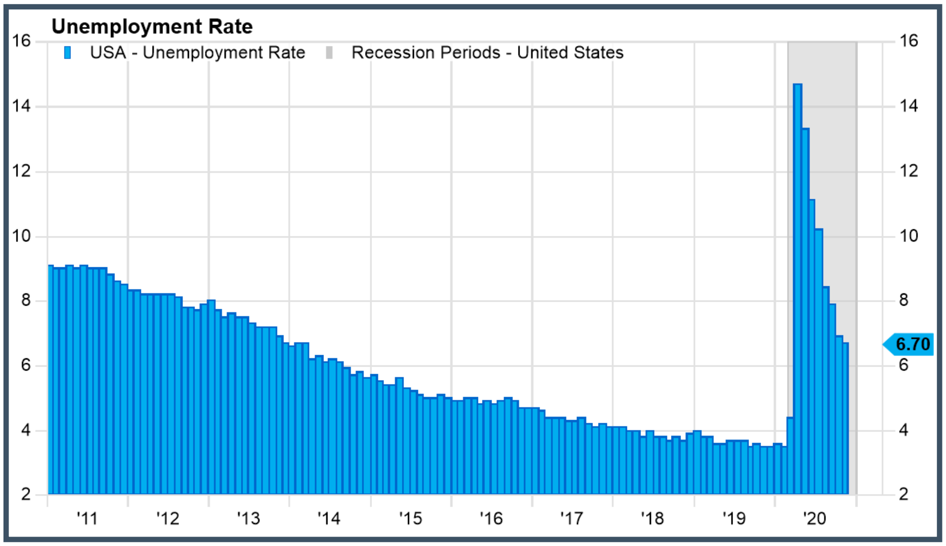


How to Position Portfolios for 2021

The main risk going into 2021 is that investors are overly optimistic about the vaccine rollout. If the expectation of wide rollout by mid- 2021 is not met, it could mean increased uncertainty and volatility. The S&P 500 was up over 18% in 2020! Precious few predicted this outcome to start the year prior to concerns about COVID-19, and even fewer predicted this outcome in March during the height of concerns about COVID-19. However, much of what drove these strong stock returns is still in place.

The Federal Reserve has laid the groundwork to maintain easy monetary policy for the foreseeable future. They are likely to let inflation run higher than 2% for several months before they start to do any meaningful tightening to slow the economy. This is in line with the thinking of other central banks around the world. Therefore, yields are likely to stay low, supporting stock markets' relatively attractive valuations. The U.S. Government and other major governments around the world stand ready to spend more fiscally if necessary.

Market breadth is extraordinarily strong, with 98% of All Cap World Index Markets above their 200 day moving averages, and 96% of All Cap World Index Markets above their 50 day moving averages, according to Ned Davis Research as of 12/31/2020. Historically, this portends strong stock market returns in the months to come.



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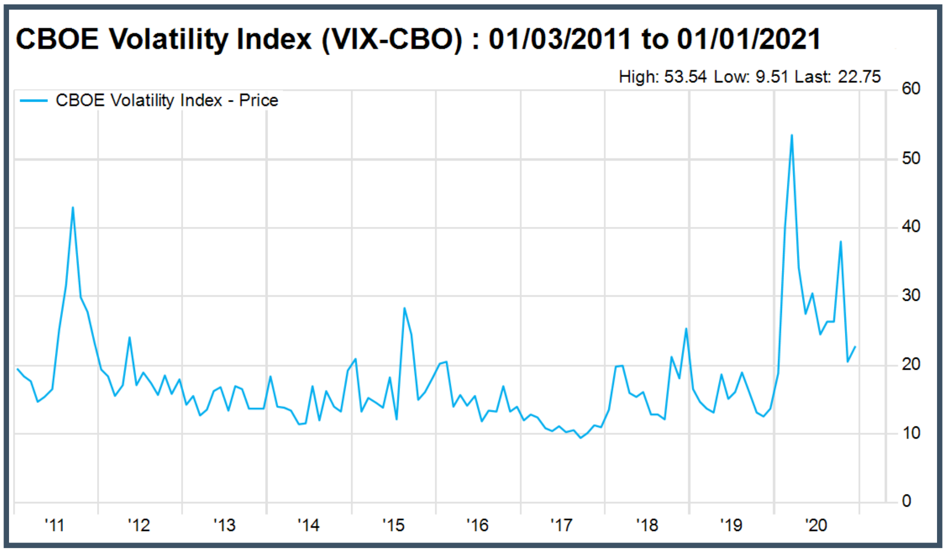
Companies have found new ways to maintain or increase margins with the rapid adoption of new technology. Employees and potential employees will adapt to these technologies. Over time, the unemployment rate will continue to go down as the economy continues to improve supporting economic and earnings growth.

Volatility, or VIX (a measure of fear) is still elevated relative to historical averages. This implies we are far from the widespread optimism that tends to occur during market peaks, though optimism is higher than would be expected given the situation we find ourselves in relative to COVID-19.



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The S&P 500 index, which is a good representation of large capitalization stocks in the U.S. did well in 2020, mostly driven by large capitalization tech stocks that were up ~43%, (as represented by the Sector SPDR XLK ETF). However, many indices and stocks did not do that well. High dividend stocks and value stocks returned less than 5% in 2020 and dividend growth stocks returned less than 10% in 2020 and were negative for most of the year (which is why breadth measures only recently reached strong levels). Many companies within these indices were more acutely impacted by stay at home orders. However, these companies also used the past year to improve their businesses, take market share, and set themselves up for outsized gains in the years to come as the world moves away from the pandemic's epicenter. Argent's stock strategies include many stocks to benefit from this situation. However, Argent's strategies continue to invest in large cap growth and innovative technology companies for the long run. They are at the forefront of long-term societal trends like the adoption of artificial intelligence, big data, 5G infrastructure, money processing technologies, and autonomous manufacturing and driving. There are opportunities in both value and growth indices.

Strong market breadth, accommodative Fed and fiscal policy, attractive relative valuations, and a wide range of opportunities for stock pickers bodes well for investors willing to take a more bullish than bearish stance in 2021. As always, stay within your risk tolerance, and use volatility to make smart adjustments to your portfolio.

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