Steady as she goes!?!

Pine Haven Investment Counsel, Inc. – Commentary –4th Quarter 2020

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It would be hard to imagine a stranger year in the U.S. investment markets than the one just passed or a year that did a better job of defying logic. After the dramatic market collapse that began on February 20 and saw a 13% drop into March, the U.S. investment world recovered nicely. The equity markets sailed through a steep recession, record unemployment, and three waves of a pandemic. By the end of the year, the S&P 500 index had gained more than 16% in a year of steep job losses and widespread pain, achieving record highs as the markets closed on December 31.

2020 also illustrated the folly of trying to predict the future. At the beginning of the year, who could have forecast that a massive global pandemic would engulf every aspect of our lives, especially in the U.S.--the wealthiest country in the world. Despite a significant part of the global economy shut down, the US equity markets hit new highs. There are a couple of things that are currently boosting equity markets: the passage of December's stimulus bill, the expectation of continued low interest rates, the development and deployment of COVID vaccines, and the hopes of a new stimulus bill once Congress reconvenes.

One lesson from the volatility of earlier this year is that the economy can't be forecast at the dramatic turning points, and we cannot time the markets. Therefore, it is best (although challenging at the moment) to stay invested and focus on the long-term. The US economy is strong and resilient. Overall, companies quickly reacted, adapted, and pivoted their offerings due to the pandemic.

The COVID economy has turbocharged some societal trends such as online ordering, contactless payment and pickup, working from home, virtual meetings, and telehealth. However, it has also exposed some of the deep inequalities of our current economic system. Many workers deemed essential are paid a minimum wage, which is often insufficient, and they have suffered disproportionately from COVID. There have been base wage increases for sectors where there is work (for example, grocery and hardware). Unemployment has not hit everyone equally. One eye-opening fact is since February, women account for over 55% of jobs lost. This is one example of the disconnect between main street and Wall Street.

In the upcoming months, the economy may continue to stutter as government restrictions continue, however, if the vaccine rollout continues (even if it is slower than expected). Our economy will rebound – as there is significant pent up demand and many people have increased savings.

Whether or any of the predictions come to pass, a new year almost always brings surprises of one form or another. Having a well-balanced, diversified portfolio and being prepared in the event of unexpected times are keys to successful investing.