From the Desk of Donald Calcagni, Chief Investment Officer

A Year to Remember: Resilient Markets Overcome Pandemic Panic

A year ago, no one could have foreseen the global pandemic poised to plunge the world into the worst crisis in decades. To date, almost two million have died worldwide from the virus. Millions have lost their jobs, pushing unemployment to levels not seen since the Great Depression. After reaching all-time highs in February, U.S. stock markets plummeted 35%, the most rapid bear market in history.

Yet, despite it all, the S&P 500 stock index miraculously rebounded to finish up 18.4% for the year.[1] The Dow Jones Industrial Average (DJIA) crossed the symbolic 30,000 level in late November and finished up 9.7% for the year and the Bloomberg Barclays US aggregate bond index closed the year up 7.5%.

This is why we diversify. This real story of 2020 is that diversification worked when it was needed most, both during March's COVID-inspired meltdown and again during the fourth quarter as the nation grappled with a venomous presidential election and parabolic increases in new COVID infections.

2021 Market Outlook

We believe 2021 looks quite promising for several reasons.

- **Uncertainty should decline in 2021.** Most of the uncertainty that crippled us throughout 2020 revolved around COVID and the U.S. presidential election. But with the development of several vaccines, it appears COVID's days are thankfully numbered. While COVID and politics will no doubt continue to be with us in 2021, their relative dominance should decline, and with it, so too should market uncertainty.

- **Earnings should recover in 2021.** Economists project GDP growth of 2.7% in 2021. Subsequently, analysts are expecting a similar recovery in corporate earnings. Consensus estimates are that S&P 500 earnings will grow 22% in 2021.[2]

- **S&P 500 Price Target:** A good bit of 2021's projected earnings recovery is likely already priced into stocks but industry analysts, Mercer Advisors included, still see some room for growth with a year-end price target for the S&P 500 of 3,900, about 6% higher from where it is today.

- **Market performance should broaden in 2021 as market leadership pivots to value and small cap stocks.** A broader economic recovery should affect topline growth and corporate earnings for more companies and more sectors resulting in a more broad-based equity market rally than we saw during most of 2020.

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[1] FactSet, Inc.

[2] FactSet "Earnings Insight", December 18, 2020, p.12.

- **A weakening U.S. dollar should provide a strong tailwind for non-US stocks.** Moving beyond the U.S., growing U.S. debt and the expansion of the Fed's balance sheet should continue to put downward pressure on the dollar. Subsequently, a continued decline in the dollar should boost non-U.S. equity returns relative to U.S. equity returns. Since October 1, non-U.S. and emerging market stocks have handsomely outperformed U.S. stocks. And given the dovish and expansionary tendencies of the incoming Biden administration, we can expect a weakening U.S. dollar to continue to provide a tailwind for non-U.S. stocks.

- **Bonds, for the most part, should be boring in 2021 barring any major market headwinds.** With the Fed's commitment to keeping rates unchanged through 2023, duration risk shouldn't be a major concern heading into 2021. The Fed has also effectively put a floor under investment grade corporate bonds. A robust economic recovery should also help keep debt defaults in check.

While we're optimistic for all that 2021 promises, none of this is to say we should expect 2021 to be smooth sailing. There will certainly be starts and stops along the rough road to recovery. At times, just like in 2020, the future may seem dark and ominous; at other times, it may appear bright and full of promise. The secret to successful investing is taking the market's mood swings in stride—and not letting the mood of the moment lead you to make short-term decisions with long-term assets. As we learned yet again in 2020, the best way to deal with volatility is through broad diversification, careful and proactive planning, and a healthy, long-term perspective.