



2021 in Focus

“Always remember, your focus determines your reality.”

- George Lucas

George Lucas could have easily failed when building the Star Wars franchise, as he had to overcome many obstacles. Including, being faced with the challenge of inventing his own special effects technology just to produce his movies. However, it was his focus on the end result and the larger picture that saw him through the initial setbacks and led to his eventual success.

In 2021, many of the same problems are still in place and as investors we cannot be distracted by these short term worries but must stay focused on our long term investment goals. Here are the key themes we are watching now:

1) The U.S. election may have been run in November but with Wednesday’s disgraceful riot and the Democrats now with the deciding vote in the Senate, the political climate in the U.S. has not been this tense in many years. The market seems to be reacting positively in the short term with the hope of more stimulus but the news cycle for the next 2 weeks will be very choppy due to the riot and the President’s lack of action.

2) Covid-19 remains a global concern as case counts continue to rise and the vaccine rollout is much slower than hoped. Once Biden is in the White House, Covid will likely regain the

spotlight. It will take a meaningful drop in U.S. cases before business decision makers will make long term investment decisions and investors give the broader market their full attention.

3) Tied closely to these two issues is the state of the U.S. economy. So far during the pandemic, the U.S. has held up fairly well as there have been improvements in unemployment and consumer spending has remained steady. However, fears of another at least partial lockdown have kept markets on edge. The current gap between Wall St and Main St could attract legislative interference from a Biden White House. The good news here is that the U.S. Federal Reserve continues to do everything possible to provide liquidity to the financial system and keep the economy afloat.

4) U.S. corporate earnings will play a crucial role in the coming months. When the U.S. reporting cycle begins, analysts and investors will be on the lookout for signs of weakness. Many corporations have been able to refinance their debts at today's ultra low interest rates, which will help companies affected by the Covid economy to survive and let strong companies grow. In November, we saw investors reward the broader stock market with strong gains as most companies exceeded reduced earnings expectations. Continued strength in earnings will help to lead to higher markets in 2021.

With these issues in mind, here are our thoughts:

1) The U.S. election noise will pass soon, as Inauguration Day is fast approaching. This could be complicated by a President who refuses to leave gracefully and fallout from the riot, but the incoming administration will try to get on with the business of the American people as soon as possible. The Biden camp will have their hands full with Covid and the economy for the next few months and little time for any legislative action that would be detrimental to investors.

2) The unpredictability of Covid remains a wild card. In 2020, after the initial panic in March, the market looked past the pandemic and had a historic rally. Should another shutdown of the economy occur, we must maintain our focus on long term results and stick with our investment strategy, using short term tactical trading to stay in sectors that continue to prosper in a Covid world, as we did throughout 2020.

3) The U.S. Federal Reserve has pledged to keep interest rates at current levels until the jobs market returns to pre-Covid levels and inflation tops their 2% target. The good news for equity investors is that even at full employment, the U.S. couldn't get inflation above 2%. In our opinion, low interest rates are with us for the foreseeable future. This solid underpinning for equities will help to act as a brake on any future selloffs, regardless of the cause. The breadth and depth of the market's advance will be based on how quickly the other issues we have mentioned are resolved. At its most basic, the faster Covid is dealt with, the faster the economy recovers and the market grows. For the time being, we are maintaining our 2020 Covid investment strategy, keeping the core of the portfolio in large capitalization U.S. technology that benefits from stay at home work, as well as companies that continue to grow in these uncertain times such as transportation companies delivering those online purchases to your door.

4) Estimates for U.S. earnings remain relatively low as Covid continues. U.S. stocks are coming into 2021 at their highest overall valuations since 1955. This is due to the overall drop in corporate earnings because of Covid, mixed with an equal conviction that earnings will recover as quickly as the economy. We continuously monitor earnings and keep your investments focused on companies that trade at reasonable valuations.

The coming months will present both old and new challenges. We will continue to focus on adapting to market changes to meet the coming days head on. Here's to the end of Covid and to brighter days ahead.

As usual, questions, comments and concerns are always welcome.

Yours truly,

Trevor, Walter and the Cooper Wealth Management team



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