THE INVESTMENT COUNSEL COMPANY

# Quarterly Insights January 2021

2020 was a year unlike any other, that meaningfully contributed to over a decade of recovery in the financial markets that is impressive by historical comparison over the past century. Even if a person was so unlucky to start investing at the beginning of the Global Financial Crisis in late 2007 but remained steadfast through both the worst financial crisis and pandemic in 100 years, this investor still would have prospered handsomely. During the last ten years, more than a few investors were fearful and therefore stayed away, citing the market was continually overvalued. Many are confounded how the stock market could attain all-time highs, with the Dow eclipsing 30,000 for the first time, while so many businesses continue to struggle and almost 11 million Americans remain unemployed, as the economy lethargically recovers after its earlier plunge in 2020.

Some believe the reason for the market's sharp rebound stemmed from the aftereffects of COVID is because of the availability of an effective vaccine removing the obstacle to restoring economic prosperity. Others are confident that the sudden rebound in corporate profits, marking the shortest recession in history, is justification enough. Less obvious, a new generation of investors entered the market last year. With more than 10 million new brokerage accounts opened, these new buyers of stocks have unquestionably helped fuel the market's rise. However, the reason most cited is the Federal Reserve Bank's actions to lower interest rates. Their decision's intended consequence was to reduce the cost of borrowing to nearly zero percent, providing ample incentive for consumers and corporations alike to spend more and reinvigorate our economy. The pandemic has accentuated that performance of the stock market does not track the direction of the economy, corporate profits, labor conditions, or even political challenges. It is difficult for many investors to learn not to react to current conditions or events, making abrupt decisions they will later often regret. The stock market is a forward-looking mechanism, anticipating the consensus of investors' expectations in the months ahead.

So what do investors believe will occur in 2021? First and foremost, corporate profits and the economy will continue rebounding and the stock market will maintain forward progress. Wall Street forecasters are also calling for 37% corporate profit growth in 2021 and for the Fed to continue their low interest rate/investor friendly monetary policy. Economists predict that the economic impact of record amounts of monetary stimulus from the Fed's actions in 2020 will also be felt in 2021. Some fear that a Democrat-controlled Senate may result in higher corporate and personal taxes, which could create an additional obstacle for the market. However, this outcome could also generate additional fiscal stimulus, helping those companies negatively impacted by the pandemic. The virus has accelerated many trends that were already underway, fueling advances in green energy, technology, transportation, biosciences and healthcare, real estate and more. Many market strategists say that a pullback during 2021 is likely, though stocks should end the year higher. They also conclude that there are no present alternatives to growing wealth other than equities since low interest rates make competing investment assets far too unattractive.

What makes this time different than other extended bull market highs like early 2000 is that interest rates are far lower than stock dividend yields today. Back then, dividend yields were relatively unattractive compared to bonds and other fixed income instruments. The 10-year Treasury yielded more than 6% while the U.S. stock market's dividend yield reached an all-time low of just above 1%. Currently, the 10-year Treasury is hovering around 1% while the S&P 500's dividend yield is almost 2%. The cash flow advantage equities now offer above bonds and other debt instruments (including money market funds and certificates of deposit) explain why so many investors have conceded There Is No Alternative ("TINA") to stocks.

What will matter most is that the market's future progress will be greatly influenced by the degree these and other expectations materialize. Optimism now prevails with investors willing to look beyond current known challenges to expected progress and renewed prosperity ahead. By comparison, many investors were convinced during the Great Recession that the U.S. stock market's future performance would be pedestrian at best. However, history has proven yet again not to bet against the long-term positive direction of the U.S. stock market, as it remains undeniably the greatest builder of wealth available. Financial markets always contain known risks and more critically, unknown risks. Those investors who wait until fear, uncertainty, and doubt subside pay top price and enter the market at the riskiest of times because financial assets are priced for perfection and are more likely to lead to disappointing outcomes. Sustainable, successful investing is both an art and a science that occasionally seems easy and yet more often is beyond the grasp of most.

Our team continues to strive, without compromise, to both exploit market opportunities and mitigate risks whenever advantageous on behalf of our valued clients. We are greatly appreciative of the professional relationships we hold with our clients and regard the trust given to us as a significant responsibility we remain firmly committed to fulfilling. All of us at ICC wish you and your loved ones a wonderful, healthy new year with the hope that you will have blessings in abundance in the year ahead!

Sincerely,

Randy Garcia
Chief Executive Officer