BALDINI
INVESTMENT STRATEGIES

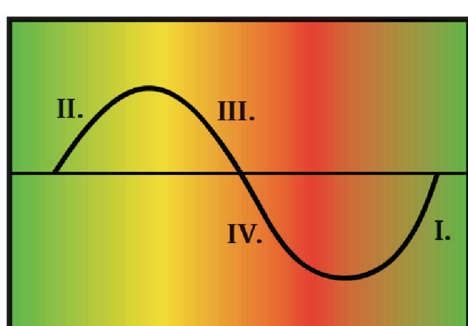
January 2021

Month in Review

The S&P 500 rose 3.71% in December as passage of a second fiscal stimulus package added fuel to the post-election rally. 2020 was a remarkable year that saw the end of the longest bull market in history, the shortest bear market on record, and a V-shaped recovery that marked the beginning of a new bull market. Throughout most the year the Feds managed to keep the markets afloat, but the vaccine announcements in November were the true game changer. As late as early September, more than 36% of the S&P 500 stocks were still in a bear market—defined as down 20% or more from their 52-week highs. The positive vaccine news lifted the mood and drove the stock market to record highs by year- end. It's time to check our indicators and see how the "running of the bulls" over the last two months has affected them. I have also provided a brief summary of my thoughts on the market going forward.

I. CREDIT CYCLE

PHASE II: EXPANSION



Financial conditions remain very loose; the US dollar has weakened, credit spreads have narrowed, and access to capital is readily available. Moreover, inflation expectations are rising, which is keeping real interest rates (nominal interest rates less inflation) in negative territory. "The Fed is actually easing by doing nothing," observes Liz Ann Sonders, Chief Investment Strategist at Charles Schwab, "if it stays with current policy, real rates fall and financial conditions ease." For much of the year, the Fed has been the major force pushing the economy forward, throwing lifelines to corporations, foreign central banks and municipalities through its special facilities and programs. The heavy lifting may be done, but the Fed is committed to keeping rates near-zero and maintaining the pace and size of its Treasury/MBS asset purchases as long as necessary to support the economy.

II. RISK LEVEL INDICATORS

LOW *GUARDED* *ELEVATED* *HIGH* *SEVERE*

US STOCKS: Guarded

The Risk Level for **US STOCKS** is **GUARDED**. Over the past eight weeks, there has been an ongoing succession of good news that culminated in the fiscal deal Congress was finally able to reach at the end of the year. We may have seen the last positive catalyst for a while, however. The economic impact of soaring virus cases, hospitalizations and continued lockdowns has yet to be dealt with and may take over as a market driver in the near-term. Art Hogan at National Securities isn't worried. "I'm not concerned about a near-term drawdown becoming the beginning of something larger," he says, "We are going to see an explosion of economic activity in the back half of this year." Hogan, who oversees $15 billion in assets, recently released his official 2021 S&P 500 price target of 4,300. The SWING INDICATORS are positive but extended, raising the risk of a short-term pullback. We would be a buyer on any dips.

INTERNATIONAL STOCKS: GUARDED

The Risk Level for I**NTERNATIONAL STOCKS** is **GUARDED**. Sentiment indicators are stretched and have made all risk assets, including US and international stocks, more vulnerable to negative shocks. The good news is that the International Monetary Fund (IMF) expects the global economy to not only make a full recovery in 2021 but to expand by over 5%. International gross domestic product (GDP) and earnings-per-share (EPS) growth are expected to exceed those in the US for the first time in many years, supporting potential outperformance by international markets. US stocks have been the top-performing asset class for over a decade but the start of a new cycle may signal a switch to international stocks.

US FIXED INCOME QUALITY: HIGH

The Risk Level for **US FIXED INCOME QUALITY** is **HIGH**. Bond yields have risen to the highest levels since the onset of the COVID-19 crisis. With the vaccine rollout underway, investors are overlooking the ongoing damage to the economy and pricing in stronger growth for the second half of 2021. Perhaps the biggest risk to the financial markets is that growth is too strong, leading to a spike in inflation and interest rates. Market participants are counting on the Fed to hold down interest rates by increasing its purchases of long-term bonds even as inflation expectations climb. Any disappointment could result in a spike in bond yields similar to the "taper tantrum" in 2013 when the Federal Reserve made a surprise announcement that it would be putting the brakes on its quantitative easing (QE) program. The BOND INDICATORS are negative and we continue to underweight them

III. LOOKING AHEAD

HELICOPTER MONEY

The transition to a Biden presidency comes with the belief that more stimulus is on the way, and with it a "generational shift from monetary to fiscal policy dominance," according to Mike Wilson, Chief Investment Officer at Morgan Stanley. In the financial crisis in 2008, the Fed printed money to shore up the damaged Wall Street banks while Main Street went begging. This time there is more political support for the "people's QE", wherein the Fed finances payments directly to consumers and companies who will spend it in the real economy. Ben Bernanke famously referred to such payments as "helicopter money" since it was tantamount to dropping money from helicopters. Of course, so far we have only seen the benefits from this burst of helicopter money, as asset prices tied to stronger economic growth, especially cyclically oriented equities, have gone ballistic. In the long run, however, many questions remain as to what will be the unexpected consequences of this new policy and what will it mean for asset prices going forward. But that is a question for another day. For now, more stimulus, higher inflation, and accelerating economic growth all bode well for a continuation of the bull market and another good year for stocks.

Find information on the latest market-moving events at BaldiniInvestmentStrategies.com/Resources

**Call today to get my Month in Review straight to your inbox.
480-284-8203**

Any opinions are those of Deborah Baldini and not necessarily those of RJFS or Raymond James. Expressions of opinion are as of this date and are subject to change without notice. Investing involves risk and investors may incur a profit or a loss. International investing involves special risks, including currency fluctuations, differing financial accounting standards, and possible political and economic volatility. Investing in emerging markets can be riskier than investing in well-established foreign markets. Bond prices and yields are subject to change based upon market conditions and availability. If bonds are sold prior to maturity, you may receive more or less than your initial investment. Holding bonds to term allows redemption at par value. There is an inverse relationship between interest rate movement and bond prices. Although this data is derived from information which we believe to be accurate (including, in some cases information provided to us by you) we cannot guarantee its accuracy. The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ. The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. Inclusion of these indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results.