MARKET INSIGHT MONTHLY

OUR THOUGHTS

UNITED BANK
Wealth Management

Our warmest New Year wishes to you and your families. We have attached our Market Insight Monthly update for your review. Each month we provide a markets overview and highlight topical themes which played a significant role in market activity.

2021 offers a welcome turn of the calendar. 2020 will undoubtedly be studied by medical, political, and economic scientists for decades, if not centuries, to come. History shows that political uncertainty, social turmoil, civic unrest, and even health conditions may influence the economy and, thus, market and investor behavior. Experiencing a single year in which all these volatile inputs were realized is extraordinarily rare. And yet, with all the dramatic events, disciplined investors "looked-through" the turmoil in 2020. They kept their composure, concentrated on the driving forces behind equity valuation, and maintained proper equity exposure. United Wealth Management was among these disciplined investors. As a result, and for the benefit of our clients, we were positioned to capitalize on the opportunities provided by a year in which the S&P 500 reached all-time highs.

The dire health and economic conditions of mid-March created a spectacular opportunity for great people and great minds to collaborate and work together. The global medical community immediately began developing potential vaccines which are now being distributed. Governments across the world quickly understood the unemployment implications and created stimulus packages for their citizens. Corporations quickly harnessed interactive technology to continue business. All of this was envisioned and created within a year.

Despite the ongoing challenges of COVID-19, it is important to remember the tremendous progress the U.S. economy has made in its recovery so far. Below are some promising trends that we observed toward the end of 2020:

- The U.S. has created 12 million jobs since April, well more than half of the jobs which were lost.
- The unemployment rate has fallen from 14.7% in April to 6.7%.
- Holiday shopping was up a better-than-expected 3% from last year.
- In December, the Institute for Supply Management's manufacturing index tied its second highest level in the last 15 years and has been in expansion territory for 7 straight months.
- Corporate earnings forecasts for 2021 suggest S&P 500 earnings will exceed the record levels set in 2019.

While 2021 and beyond will look quite different than 2020, our team at United Wealth Management continues to closely monitor these changing trends and will adapt with those that are here to stay. By interpreting a spectrum of world events, our team evaluates both risks and opportunities on your behalf. We welcome your calls and correspondence so that we can continue to offer exceptional service and provide our latest thoughts on the market and your financial well-being.

Sincerely,
Your United Wealth Management Team

10 ECONOMIC LESSONS FROM 2020

2020 was a year characterized in part by the outbreak of a global pandemic, which captivated the world and shocked the global economy and financial markets. As we turn the page to 2021, it can be helpful to reflect on the lessons learned from such a historic year. We offer 10 economic lessons we'll remember from 2020.

A YEAR TO REMEMBER

To say that 2020 was a unique year would be an understatement. What began as an ordinary year quickly turned into an extraordinary one—does anyone even remember it was a leap year? Initial reports in early January noted that a novel virus was beginning to spread, but few at the time could comprehend how the situation would escalate. By March, the COVID-19 pandemic gripped the entire world. So after such a tumultuous year, what have we learned?

10 TAKEAWAYS FROM 2020

The world is full of surprises. In December 2019, we did not forecast a recession in the United States. Heading into 2020, the economy was growing modestly—we didn't see the usual extremes like excessive spending or overleverage that have been the hallmarks of the end of past economic cycles. The outbreak of COVID-19 forced the economy to slam on the brakes as much of the world went into lockdown to contain the spread, ending the longest economic expansion ever—one that had lasted more than 10 years.

2021 Economic Forecasts—Rebound in Global Growth Expected as COVID-19 Threat Diminishes

Real GDP Growth Forecasts (YoY)	2019	2020	2021
United States	2.2%	-4.0%	4.0–4.5%
Developed ex-US	1.3%	-7.0%	3.75–4.25%
Emerging Markets	4.3%	-0.7%	5–5.5%
Global	2.8%	-3.9%	4.5–5%
US Economic Data			
Inflation (YoY%)	1.8%	1.2%	1.9%
Unemployment	3.7%	8.3%	6.7%

Source: LPL Research, Bloomberg 11/06/20
Economic forecasts set forth may not develop as predicted and are subject to change.

Records are meant to be broken. As the imposition of stay-at-home orders kept the US consumer from spending, gross domestic product (GDP) declined a record 31% in the second quarter and unemployment skyrocketed to a post-WWII record 14.7%. When the US economy began to recover from the lockdowns, GDP rebounded 33% in the third quarter, also a record. This set the stage for what potentially could be the shortest recession on record—to be determined when the end of the recession is officially marked by the National Bureau of Economic Research.

Stimulus matters. A historic recession required a historic policy response. Many speculated that the Federal Reserve (Fed) was out of ammunition, but policymakers proved doubters wrong. The Fed effectively lowered interest rates to zero, expanded its balance sheet by record amounts (15% of US GDP), and even ventured into purchasing corporate bonds—both investment grade and high yield—to restore function to markets and support corporate borrowing. Meanwhile, Congress passed record amounts of fiscal stimulus (totaling roughly 10% of US GDP in 2020), including small business lending and direct payments to households, to help lift the economy as it emerged from lockdowns.

The path of returns typically isn't a straight line. Ideally, the low-volatility/high-return environment of 2017 would have been the norm at this point of an economic cycle, but unfortunately it wasn't. 2020 brought us the fastest bear market in history (down 20% from the highs), with the S&P 500 Index reaching that level in just 16 trading days on its way to a peak drawdown of roughly 34%. Supported by historic stimulus measures, stocks rebounded off the lows to climb back to new all-time highs in only 106 trading days. 2020 also was the only year when stocks experienced a 30% drawdown and managed to finish the year in positive territory.

Markets can experience extraordinary short-term disruptions. At the height of the March volatility, we saw multiple Sundays when S&P 500 futures traded limit-down—when circuit-breaker mechanisms kicked in to prevent further losses. Then during regular trading sessions, stocks experienced trading halts triggered by large intraday losses. While the orderly operation of stock markets had returned by April, oil futures were not out of the woods. Global lockdowns caused energy demand to plummet and maxed out the capacity of supply tankers, sending the price of the April WTI crude oil contract into negative territory—implying someone literally would pay you to take delivery of their oil.

Stock markets are forward looking. Admittedly, the timing of the recovery was uncertain, but we believed in the Spring that stocks would begin to price in the end of the pandemic, bolstered by the massive stimulus response. With the economy at a standstill, 2020 earnings forecasts plunged more than 25% (source: FactSet). Consensus earnings per share (EPS) estimates for the S&P 500 bottomed in late June, after the index had already rebounded 35% from the March 23 low. Stocks were well ahead of the economy and analysts' earnings forecasts.

Lower for longer. In 2020 the 10-year US Treasury yield plummeted to its lowest in history. We expect the 10-year Treasury yield will rise to a target range of 1.25–1.75% by year-end 2021 as the economy expands and inflation normalizes, but lower interest rates may be here to stay. The economic turmoil has prompted the Fed to lower interest rates and convey the intention to keep them low for an extended period of time. Few on Wall Street expect the Fed to raise interest rates before 2023, and only one member of the Fed expects a rate hike before then, according to the most recent dot-plot survey of Fed members' policy rate projections.

Stocks like election clarity. We have stressed the importance of not trying to time investment decisions based on political preferences, as we believe that stocks mainly want clarity from elections. Stocks put together another strong rally when more clarity arrived after the 2020 presidential election. They also benefited from the anticipation of a Congress likely split between Democrats and Republicans, an environment where stocks historically have delivered their strongest returns since 1950. We now know that Congress will fully align with the White House, but given additional stimulus we do not see this as an obstacle in the near term.

The wonders of modern medicine. The Food and Drug Administration so far has granted emergency use authorization to two COVID-19 vaccines, and the first doses have been administered. While there is considerable uncertainty about the mass production and distribution of the vaccines, it is a remarkable feat of modern scientific medicine nonetheless. As the vaccine is distributed, we expect the hard-hit areas of the economy—particularly service industries—will begin to improve as life slowly begins to normalize.

The power of human perseverance. Many sacrifices have been made in 2020, from holding off on visiting loved ones to helping children with virtual education, and the fight against COVID-19 is not quite over despite the discovery of new vaccines. Humanity has an incredible ability to find solutions to its problems, and 2020 showed our ability to persevere as a society.

MARKET POLICY PROJECTIONS FOR 2021

The Democrat's Senate majority will be razor thin, with the Senate split 50–50 and Vice President-elect Kamala Harris casting any tie-breaking vote. That means legislation will need to satisfy the most moderate Democratic Senators, such as West Virginia's Joe Manchin and Montana's Jon Tester. If Democrats lose votes from the left wing of their party, they will need to pull in moderate Republicans as well. With such a narrow margin, eliminating the filibuster is basically off the table. On many key legislative issues, Senate Democrats will need to muster 60 votes. The Democratic majority in the US House also narrowed significantly in the 2020 election and currently stands at 222–211 with two vacancies, creating a similar challenge.

LITTLE THINGS MATTER IN POLICY

Historically, which party occupied the White House or controlled Congress hasn't had a meaningful impact on broad stock market performance. Policy matters—but larger economic forces are much more influential, and businesses are very good at adapting to different political environments. Having an environment where it's easier to start or run a business can make a big difference in people's lives, but the policy impact on markets tends to be more focused.

Markets historically have seemed to prefer divided government, whether because it removes the extremes or it encourages a spirit of compromise. At the same time, market performance when Democrats have held the presidency and controlled both the House and the Senate has been in line with longer-term historical returns. The distribution of power in Washington, DC, by itself does not mean a lot, especially since voters have the chance to change the balance of power every two years.

1 SHOULD A DEMOCRATIC SWEEP SCARE MARKETS? PROBABLY NOT

S&P 500 Index Returns When Democrats Controlled the White House and Congress

Year	President	S&P 500 Index Return
1951	Harry Truman	16.3%
1952	Harry Truman	11.8%
1961	John F. Kennedy	23.1%
1962	John F. Kennedy	-11.8%
1963	John F. Kennedy/Lyndon B. Johnson	18.9%
1964	Lyndon B. Johnson	13.0%
1965	Lyndon B. Johnson	9.1%
1966	Lyndon B. Johnson	-13.1%
1967	Lyndon B. Johnson	20.1%
1968	Lyndon B. Johnson	7.7%
1977	Jimmy Carter	-11.5%
1978	Jimmy Carter	1.1%
1979	Jimmy Carter	12.3%
1980	Jimmy Carter	25.8%
1993	Bill Clinton	7.1%
1994	Bill Clinton	-1.5%
2009	Barack Obama	23.5%
2010	Barack Obama	12.8%
	Average	9.1%
	Median	12.0%
	% Positive	77.8%

Source: LPL Research, FactSet 01/06/20 (1950 - Current)

All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results. The modern design of the S&P 500 Index was first launched in 1957. Performance before then incorporates the performance of its predecessor index, the S&P 90.

TAXES, REGULATION, AND STIMULUS IN FOCUS

The most important shift in policy expectations following the Georgia runoffs are around taxes, regulation, and stimulus prospects.

Taxes. Business taxes will almost certainly increase due to the new makeup of Congress. The *Tax Cut and Jobs Act of 2017* (TCJA) lowered the top corporate tax rate from 35% to 21%. The top tax rate is likely to be raised to 25–27%, although the timing may be delayed depending on the economic recovery. When an increase is imposed, the hit to corporate profits potentially could be around 5%. Tax rates for the wealthy also are likely to increase and would likely take place under the obscure reconciliation process, which is how the TCJA was passed. The reconciliation process requires only a 50% majority, but the bill must be deficit neutral over a 10-year window to qualify.

Regulation. A Democratic majority in the Senate will also have regulatory implications. First, it would make it easier for President-elect Joe Biden to confirm cabinet members more tilted toward the left wing of the party. The majority party in the Senate also has considerable power to review regulation. Environmental regulations and labor standards probably will be a focus, likely reversing many Trump administration deregulatory efforts.

Stimulus. Democratic control of the Senate also will make it easier to pass additional stimulus measures, although, again, a slim majority may limit the scope. The most recent stimulus package, passed at the end of 2020, was for $900 billion. Democrats may try to pass an additional package of approximately $1 trillion or more. Passing some kind of infrastructure bill where there are some areas of bipartisan support also may become more likely. Markets are likely to applaud potential economic benefits of additional stimulus in the near term, but it also will push deficits higher and may weigh on the economy over the longer run.

The overall impact of the "before" and "after" of the Georgia elections likely will be a mixed market at best, one that probably will be small compared to more important market drivers, such as the effectiveness of COVID-19 vaccine rollout efforts and Federal Reserve policy. Higher taxes likely are the most market-negative takeaway of the Georgia runoffs, but there may be some economic offset from improved fiscal stimulus prospects, which could spur economic growth and support overall sales growth.

INVESTMENT IMPACTS

Growth and value equities. Improved stimulus prospects may encourage rotation toward areas of the market that may respond positively to economic reopening. This possibly could accelerate the timetable for taking a more balanced approach to the growth and value equity styles and extend the run for smaller cap stocks, although prospects of higher taxes may eventually be a headwind for small caps.

Muni bonds. If tax increases are passed, municipal bonds may also become more attractive. Higher taxes may support demand while stimulus provisions that provide aid to state and local governments can help shore up municipalities' financials. It is likely that municipal bonds have already begun to price in this favorable environment, as municipal yields relative to Treasuries have declined more than 35% since Election Day. While this may suggest that valuations are less attractive, we would consider any cheapening to be an opportunity, particularly for high-yielding municipals.

Sector investing. Democratic control of Congress may pave the way for more thematic sector investing. Control of Congress could further open the door for the Biden administration to pursue green energy policies. Meanwhile, we have remained positive on the healthcare sector, and the expansion of the Affordable Care Act (ACA) may be positive for managed care stocks and the broader healthcare sector.

US dollar. The anticipated impact of higher deficits due to added fiscal stimulus could continue to put pressure on the US dollar despite already meaningful declines. Dollar weakness would support international stocks in dollar terms. Potential easing of trade tensions under the Biden administration and higher corporate taxes also would likely be dollar negative.

Disclosures

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual security. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing.

All performance referenced is historical and is no guarantee of future results. All indexes are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.

Economic forecasts set forth may not develop as predicted.

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