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BLOG POST

Five Things All Investors Can Be Thankful For

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Thanksgiving is by far my favorite holiday of the year (barely eclipsing St. Patrick's Day, but only if celebrated in Chicago). Spending time with family around a table filled with food is a highlight, but so is the intentionality with which we pause from overly busy schedules to reflect on what really matters and contemplate all we have to be thankful for.

This year has seen more challenges than most, but investors have much to be thankful for. Who could have imagined on January 1 that we would experience the worst global pandemic in a century, a global recession that still impairs every economy, portions of cities would be shut down as demonstrators/rioters attempted to create their own sovereignties, and we would have probably the most contentious election in recent history (well, maybe that was predictable)? Yet, despite all this, the markets are higher. We experienced the fastest bear market in history, only to be followed by the fastest recovery in history.

As we head into 2021, we pause to reflect on why investors can be hopeful about the future. We are reminded, however, that it is not always the dramatic that ends bull markets (wars, recessions, scandals), but often it is the subtle that almost goes unnoticed (policy error, currency appreciation, or interest rates nudging higher) that ultimately undo the markets. For each aspect we can give thanks there is also a warning, but this month we focus on why investors can be thankful.

1. An accommodative Fed and low interest rates. I believe this is the biggest reason stocks have been able to shake off the catastrophic and recover to new highs. Congress may get an assist in 2020 from the fiscal stimulus of the CARES Act, but the ability for the market to forge higher without new stimulus suggests monetary accommodation still rules the day. The Fed, by keeping rates near zero, has made stocks The Only Game In Town (TOGIT). With few alternatives to stocks, money has plowed into equities at a staggering pace. Looking forward, there is no reason to believe this will change in 2021.

2. Low levels of inflation. Inflation is the cousin to interest rates as they are certainly related, but not as closely as some suspect. Changes in price are predominantly a function of aggregate demand and aggregate supply. What gives me confidence that inflation is going to remain low for the foreseeable future is labor productivity. The pandemic is forcing companies and employees to figure out how to be more productive, and it is showing up in the statistics. Productivity jumped more than 10% in Q2 and nearly 5% in Q3, the highest gains in decades, and should keep a lid on rising prices throughout 2021.

3. Low and stable oil prices. In the past you could just list low oil prices, but we have learned that if oil prices are not also stable, it negatively impacts the economy now that we are an oil exporting nation. Oil independence, once thought impossible, has had a tremendous positive impact on the economy and stock market. Expect consumer spending to remain strong if, as expected, oil trades between the high $30's and high $40's next year.

4. Low corporate tax rates. The 2017 Tax Cuts and Jobs Act (TCJA) lowered corporate income tax in the U.S. and significantly increased competitiveness for U.S. companies. The lower taxes also made it more attractive for foreign companies to manufacture in the U.S. and is, in part, responsible for the period of the lowest unemployment in history until COVID hit. The reduction from 35% to 21% took America from one of the highest to just below average among our major trading partners in tax competitiveness benefitting stocks in the process.

5. A vaccine seems to be on the way. I realize many have been critical about the current Administration's response to the pandemic, but critics overlook, intentionally or not, the historic steps that have been taken to develop a vaccine. Billions have been allocated in public/private partnerships to develop an effective vaccine against COVID-19, and are likely to succeed bringing a vaccine to market in less than one-half the shortest time it has taken in the past. History will likely reflect very differently than the portrayal by today's mainstream media.

Identifying what investors can be thankful for does not ignore the risks that exist today. Valuations are simply unsustainable. We are likely to see economy-choking regulations introduced that will hurt earnings. Economic growth and a rising stock market will be "a" target, not "the" target in the coming year. We do not want it too easy for investors; after all, stocks climb a wall of worry.