viewpoint

MARSHALL & SULLIVAN

Marshall & Sullivan, Inc. / Registered Investment Advisor

Winter 2021 newsletter

Not What We Expected!!

As we move into the New Year, we thought it would be illustrative to review 2020 market activity in the context of worldwide coronavirus developments.

When 2020 began, world financial markets looked rosy. The S&P500 was up over 30% the prior year, US unemployment was at record lows, home ownership reached all-time highs, and we had a narrowing wage inequality for the first time in years. Economists were predicting continued economic growth and market analysts were projecting 2020 returns of 6-8% for the S&P500. Interest rates were at historic lows. 10-year treasury bonds were yielding 1.9% and the 2-year Treasury bonds were yielding 1.6%. With the rate spreads between short and long-term bonds so low, most analysts expected interest rates would rise as the economy expanded.

The first reports of a coronavirus flu outbreak in Wuhan China were reported on December 31st. No deaths were reported at that time.

The year started out slow for financial markets. The S&P500 was flat for the month of January. This was anticipated given the 30% gain in 2019. Other indexes were fairing a little worse with small companies (Russell 2000) down a little over 3% and international stocks (MSCI EAFE) down a little over 2%.

The virus now had a name – COVID-19. And, as the number of infections grew in Asia, travel restrictions were put in place between the US and China. Still, the markets shrugged off the news. By mid-February, the S&P500 was up over 4%, unemployment was lower, and it looked like things were going as expected.

In late February, the first cases of COVID-19 began appearing in the US. On March 11th, the World Health Organization declared COVID-19 a Global Pandemic. By mid-month, all 50 states had reported infections. Soon states like California began to impose rules to help curtail the spread of the virus. Business activity was effectively shuttered. Unemployment increased at an unprecedented rate.

Financial markets began selling off on February 21st with a panic bottom on March 23rd. The S&P500 was down 30%, the Russell 2000 off 41%, and the MSCI EAFE down 34%. The correction erased over 3 years of market returns.

The Federal Reserve assisted the economy in every way possible. They lowered the Federal funds rate on March 16th from 1.75% to 0.25% and began buying bonds to add liquidity. This helped stabilize markets. It also lowered returns on bonds, CDs, and cash instruments to near zero. Additional help from the Federal government came with the CARES act which extended unemployment benefits and provided financial support to businesses and individuals.

Once emotions settled, the stock market began to recover. Businesses with earnings that benefited or were unaffected by the shutdowns propelled the market forward. (See our Fall newsletter.) Previously unknown companies like ZOOM and DoorDash suddenly became highfliers and household names – some increased over 500% despite a total lack of earnings.

As we learned more about COVID and became more comfortable with the new normal, other companies started to recover. By the end of July, the S&P500 was back to where it started the year, while the Russell 2000 and MSCI EAFE remained down 10%.

With vaccines and a second stimulus package approval looming, markets continued to move higher. This time, the market was led by businesses benefitting from people going back to work. Markets ended the year better than expected. The S&P500 returned 18.4%, the MSCI EAFE 7.8%, and the Russell 2000 20%. Interest rates remained lower than expected with the 10-year Treasury at 0.93%.

The investment lessons of last year mirror our investment disciplines; buy good companies at a fair value with growing earnings, diversify portfolios, and most of all, do not let emotions drive investment decisions.

Without question, 2020 was a challenging year and for some, it was devastating. Aside from the many trials and tribulations, the equity markets ended on a positive note. We just got there in a much different way than anyone could have ever expected.

Best wishes for a happy, healthy, and profitable New Year!

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