SLOAN

INVESTMENT MANAGEMENT, LLC

2020 Year End Letter

This Too Shall Pass

While the Covid-19 pandemic continues to be a global healthcare crisis, the development of several vaccines with remarkable effectiveness and advancements in therapeutic treatments provide a path to beating the global pandemic. We see the potential to achieve herd immunity as early as this summer, through the rapid acceleration of vaccinations and the increasing number of people who have developed antibodies by previous infection. Unfortunately, in the near term we are likely to see a continuation in the high number of new cases as winter rolls on, lockdown fatigue increases, and our government works to find the most efficient means to distribute the vaccines. With that said, the market is forward looking. Pandemic related news over the coming months might seem concerning; however, investors are likely to look past the near term with confidence that we will be living in a world that is much more 'normal' than the one we have been in since last March.

Coming off the worst economic downturn since the Great Depression, the economy has already made great strides in its recovery and will further rebound once we move past this crisis. Economic indicators such as employment, wage data, and robust inventory levels are all positive signs of a strengthening US economy. Our economy has proven its resiliency and we believe its spring loaded with pent up demand in a favorable climate of supportive monetary policy and low interest rates. This optimism has led to strong growth expectations for 2021, as global GDP is now forecast to range from 5%-7%.

Looking back, our team tactically raised cash levels across client portfolios early in the year after coming off such a strong 2019 and as we headed into an election year. This was followed by heightened volatility created by the pandemic and the economic fallout, both of which created opportunities across our portfolios. As we look forward into 2021, we expect volatility to continue, although it should be at reduced levels as the balance between an ongoing healthcare crisis and an economic recovery plays out.

Bring Out the Bazooka

Drawing on lessons learned from the great financial crisis a decade ago, the Fed (and other global central banks) acted swiftly to provide support and liquidity to our market and to the economy. Expansion of lending facilities, cutting the fed funds rate to near 0%, initiating direct bond purchases in the open market, and backstopping money market mutual funds were some of the most important steps the Fed took earlier in the year. In addition, the Fed increased its transparency and forward guidance, initiating a new 'Average Inflation Targeting' framework that suggests they are taking a dovish stance by signaling their intent to keep short term interest rates low for the foreseeable future. Not only are lower interest rates a benefit to consumers and businesses, but they also help global markets by steering assets away from cash and into the equity markets. While the Fed has direct influence over short term rates, we continue to monitor longer term rates as they will likely rise as growth expectations continue to improve in the coming quarters.

In addition to the actions taken by the Fed, Congress provided more than $2 trillion in funding through the CARES Act, which provided broad support across the American economy. Relief was provided in the form of expanded unemployment benefits and direct cash payments to individuals and families. Small businesses were provided support through the Paycheck Protection Program, while a range of financial assistance was also given to healthcare providers, state and local governments to assist in their response to the crisis. We also want to point out that since year end, another $900 billion in relief has been passed to provide continued support and there is more stimulus anticipated as the new administration comes into office.

Aggressive fiscal stimulus and a reversal of investors' flight to safety last spring has led to a weakening dollar. This is acting as a tailwind for large multi-national corporations held across our portfolios and for emerging market economies, which tend to base much of their borrowing in dollars. The dramatic decline in interest rates early in the recession fueled a surge in refinancing by homeowners, as long-term mortgage rates came down to historically low levels. At the same time, household balance sheets were strengthening as home values increased. This helped provide the basis for consumer confidence numbers to improve throughout the year. We witnessed personal savings rates hit a high of 33% in the spring, followed by strong retail sales in the ensuing quarters as individuals began to spend their growing cash balances. Consumer spending, which makes up 70% of GDP in the U.S, has bounced back strongly as confidence has increased and stimulus has worked its way through the system.

It's Finally Over… Now What?

While the incoming administration will have the benefit of a democratic majority in both houses of congress (albeit a slim majority), it is unlikely that an overly progressive tax policy or a move towards a harsher corporate regulatory environment will be on the immediate agenda considering our economy is still in the recovery phase from a sudden and deep economic shock. There are also some moderate democrats in congress who have stated publicly their unwillingness to vote along party lines for the most progressive platforms the far left campaigned on. Keep in mind, the next mid-term elections are only two short years away so the incoming administration may take a more compromising tone and be sensitive to pushing an agenda that would derail the recovery prior to the next election cycle. We do expect the democratic controlled congress to move quickly with aggressive stimulus spending, providing an economic boost for individuals and small businesses. While this spending will provide continued support for the recovery in the near term, it does not come without creating long term risks to inflation and interest rates. For this reason, our team will continue to monitor these factors closely and adjust portfolios accordingly. Simply having this contentious election cycle behind us removes a level of uncertainty from the market that has been an overhang for some time.

After a tumultuous year, we turn our attention forward and look towards brighter days ahead. We would like to express our sincere gratitude to our clients for entrusting us with their irreplaceable wealth. We wish you and your family peace, health, and happiness in 2021.

The Sloan Portfolio Management Team

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