



Summary of Sage's 2020 Market Outlook

- **2020 Review:**

- 2020 was a year that no market strategist could have foreseen. Globally, nearly all major asset classes exhibited positive returns despite extreme volatility, an unprecedented health crisis, a historic economic downturn, a hotly contested U.S. election, social unrest, and other systemic shocks.
- Despite success in the financial markets, the year tragically was one in which over 1.9 million people around the world, including 350,000 Americans, died in a global pandemic. Following the onset of the COVID-19, three major themes drove markets:
 - Monetary stimulus:
 - Global central banks decreased borrowing rates and increased asset purchases (i.e., quantitative easing) to help limit permanent economic damage.
 - The Fed reduced the Federal Funds rate to 0% in March, which effectively lowered the yield curve's short end.
 - Fed Chairman Powell kicked off a new quantitative easing program that injected massive amounts of liquidity through bond purchases and helped push down the long end of the yield curve.
 - Fiscal stimulus:
 - Most of the densely populated, economically developed countries around the globe launched fiscal measures in excess of 10% of GDP.
 - The U.S. fiscal response was the most significant one enacted since World War II, totaling 15.7% of GDP.
 - These measures provided support for economies around the globe that dropped as much as 8-12% through the second quarter of 2020 when shelter-in-place orders were widely in effect.
 - Biology (i.e., virology and epidemiology):
 - When the virus first catapulted to the forefront, the mortality rate was unclear and known effective treatments were limited.
 - In what amounted to a herculean effort by the scientific community, healthcare professionals learned how to treat the virus better and reduce its mortality rate through the use of specific antivirals and steroids, among other measures.
 - Drug companies developed monoclonal antibody treatments to reduce hospitalizations as well as multiple effective vaccines in a remarkably short time.

- **2021 Economic Outlook:**

- We expect 2021 to be a year marked by global synchronized growth, particularly in the back half of the year, assuming an orderly recovery from the Pandemic and no surprising economic developments.
- We have identified six major themes, which are driving our outlook on major asset classes around the world for 2021. We believe these themes may have the most impact on 2021 economic growth and/or investment returns:



Summary of Sage's 2020 Market Outlook

- (1) accommodative monetary and fiscal policy, (2) the vaccine rollout, (3) consumer spending driven by pent up demand, (4) the acceleration of secular trends such as e-commerce, (5) inflation, and (6) a new political administration in the U.S.
- While risks remain, our base-case scenario is that the U.S. economy rebounds from a 3.0-3.5% contraction in 2020 to post a gain of 4.5-5.5% in 2021 year-over-year. Overall, we expect global growth to exceed 5% in 2021. We think that economic activity, consumer spending, and employment will improve throughout 2021, although perhaps not in a linear fashion, with an acceleration in the second half of the year.
- **Major Themes of 2021**
 - Coordinated monetary and fiscal policy lead U.S. recovery
 - In our view, stimulus remains the most important thing to watch in terms of short-term market activity and the long-term possibility of returning to pre-COVID GDP levels.
 - Through measures targeted at the labor market and price stability, it is more likely than not that the most significant COVID-related economic headwinds have passed.
 - Vaccine rollout mitigates the COVID pandemic
 - Vaccines are currently being distributed across several countries. The approval of the Pfizer and Moderna vaccines were historic moments and likely the beginning of the end for the COVID-19 Pandemic.
 - Currently, the U.S. is administering approximately 500,000 shots per day, and recently Dr. Anthony Fauci said he expects to grow that number to 1 million per day in the coming weeks.
 - While no one knows exactly when everyone will be inoculated, the high likelihood of approaching a return to normalcy should dampen volatility and increases our confidence that the economy will grow in 2021.
 - Consumer spending is driven by pent up demand
 - Higher personal income, higher savings rates, and pent-up consumer demand suggest that there is a significant amount of cash in consumers' bank accounts to be spent when regular activities can resume.
 - We expect that normalization will occur in the second half of 2021, and consumer spending will fuel economic growth.
 - Acceleration of secular trends
 - Several secular themes are in hypergrowth phase, such as e-commerce, digital payments, and sustainable (socially responsible) investing.
 - Companies such as Amazon, Home Depot, Target, and Wal-Mart were all able to quickly meet consumers' desire not to enter a brick-and-mortar store.
 - Companies such as PayPal and Square benefitted from consumers not wanting to hold physical money.
 - Investments into sustainable funds have increased five-fold since 2018, and options for sustainable investments in the U.S. have been improving both in quality (performance, breadth, and depth) and the impact they have on companies. Sage thinks that the trend towards sustainability will continue to



Summary of Sage's 2020 Market Outlook

- pick up steam in the coming years, given the importance many people place on issues such as climate change and wealth inequality.
 - We expect many of these trends to continue in 2021, although valuations in many of these sectors elevated.
- Inflation
 - We think inflation will rise modestly in 2021, but not to the point where the Federal Reserve will need to act.
 - While some of the fiscal stimulus measures do increase the potential for inflation, it is important to note that inflation tends to be muted following recessions for various reasons, including slow wage growth and excess capacity.
- new political governance in the U.S.
 - A Biden/Harris White House and Democratic control over the House and Senate may lead to increased fiscal stimulus, including checks for individuals, state/local aid, and infrastructure.
 - There is a greater likelihood of policies favoring higher minimum wages, corporate and personal taxes, and de-escalation with China.
 - While politics can affect market returns in the short term, over time history has shown them to have been largely inconsequential.
 - The variance we see in returns when administrations change mostly depends on factors other than politics (e.g., economic growth, inflation, innovation, etc.).

Portfolio Implications

- **Fixed Income:** We believe that rates will rise modestly over the next year but largely trade within a tight range. Demand for yield will likely cap rates below levels earlier in the current economic cycle. We also think that conditions can improve to spread compression in high yield further, but historically low yields limit the upside opportunity.
 - *United States:* In the U.S., bond yields will likely rise from historically low levels but not suffer a sustained spike higher. With expanding fiscal budget deficits and the potential for above-trend economic growth, we have less duration in our portfolios than we would generally expect to have over the long term.
 - *Foreign bonds:* The persistence of low and in some cases negative bond yields in developed market countries such as Japan and Europe renders Emerging Market (E.M.) bonds, with higher yields and a backdrop of likely increasing growth, to be more attractive on a relative basis. Certain areas in the E.M. bond category offer yields above 5-6%, which we think adequately compensates investors for the risk. A decline in trade disputes should also be supportive of international assets.
- **Alternative Investments:**
 - We will continue to monitor and consider opportunities to add diversifying strategies in 2021, given the current low current interest environment, tight spreads in the fixed income area, and somewhat elevated equity valuations.
 - Incorporating non-traditional asset strategies into our current portfolios could allow for additional sources of potential return because portfolios may not be able to rely as heavily on traditional U.S. stocks and bonds for returns in the coming years.



Summary of Sage's 2020 Market Outlook

- **Equities:** Equity markets have several tailwinds, including improving economic growth and a better trade environment. However, we take these factors -- global valuation metrics and record-high optimism, and unknown risks -- as signals to investors to have more modest expectations about returns for the next 12 months.
 - *United States:* Given our outlook for above-trend (4.5-5.5%) GDP growth in this continued recovery, we anticipate maintaining our slight overweight to U.S. stocks with a relative bias for small-caps.
 - *Foreign stocks:* Based on lower valuations, we have a bias towards overweighting foreign equities. Emerging Market stocks, specifically, may present attractive return opportunities because of fast-growing populations, fair valuations, and commercial innovation.

Concluding Thoughts

- A combination of easier monetary policy/financial conditions and stabilization in trade disputes could provide a backstop that allows the U.S. economy to avoid a recession and continue to grow.
- While we believe that a recession in the U.S. is unlikely, relatively high equity valuations and the possibility of delays in the rollout of vaccines could introduce the risk of corrections.
- 2020 was a reminder that no one can predict how the markets will behave in the short term or what political and world events will unfold, and hence, it is important to focus on your long-term investment plan rather than on a shorter time frame.
- We continue to recommend a mix of bonds, stocks, and alternative investments because, over time, portfolios appropriately mixed with diversifying assets are more likely than not to help clients advance toward their financial goals in a manner that is consistent with their risk-return profile.



Summary of Sage's 2020 Market Outlook

The information and statistics contained in this report have been obtained from sources we believe to be reliable but cannot be guaranteed. Any projections, market outlooks or estimates in this letter are forward-looking statements and are based upon certain assumptions. Other events that were not taken into account may occur and may significantly affect the returns or performance of these investments. Any projections, outlooks or assumptions should not be construed to be indicative of the actual events which will occur. These projections, market outlooks or estimates are subject to change without notice. Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product or any non-investment related content, made reference to directly or indirectly in this newsletter will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. All indexes are unmanaged and you cannot invest directly in an index. Index returns do not include fees or expenses. Actual client portfolio returns may vary due to the timing of portfolio inception and/or client-imposed restrictions or guidelines. Actual client portfolio returns would be reduced by any applicable investment advisory fees and other expenses incurred in the management of an advisory account. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from Sage Financial Group. To the extent that a reader has any questions regarding the applicability above to his/her individual situation of any specific issue discussed, he/she is encouraged to consult with the professional advisor of his/her choosing. Sage Financial Group is neither a law firm nor a certified public accounting firm and no portion of the newsletter content should be construed as legal or accounting advice. A copy of the Sage Financial Group's current written disclosure statement discussing our advisory services and fees is available for review upon request.

Sage Financial Group has a long track record of citations and accolades. Rankings and/or recognition by unaffiliated rating services and/or publications should not be construed by a client or prospective client as a guarantee that s/he will experience a certain level of results if Sage is engaged, or continues to be engaged, to provide investment advisory services. Nor should it be construed as a current or past endorsement of Sage by any of its clients. Rankings published by magazines and others generally base their selections exclusively on information prepared and/or submitted by the recognized advisor. For more specific information about any of these rankings, please [click here](#) or contact us directly.

© 2021 Sage Financial Group. Reproduction without permission is not permitted.