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Dear Valued Investor,

Happy New Year!

A new year offers a welcomed turn of the calendar and a fresh start. However, it's difficult to put 2020 completely behind us just yet because the COVID-19 pandemic still presents a significant threat. Healthcare workers continue to perform heroically, while the rest of us must continue to make sacrifices until vaccines are widely distributed.

Despite the ongoing threat of COVID-19, it's important to remember the tremendous progress the US economy has made in its recovery so far:

- The US economy has created more than 12 million jobs since April 2020—more than half the number of jobs lost during the spring lockdown—and has brought down the unemployment rate from 14.7% in April to 6.7% in November.
- Holiday shopping was up a better-than-expected 3% year over year according to MasterCard data. And it shouldn't be a surprise that a 49% increase in online sales was the big driver. This growth is impressive when we remember how different the world looked in late 2019 when businesses were fully open without restrictions, shoppers freely visited brick-and-mortar stores, and unemployment was near record lows.
- The manufacturing sector has staged a strong recovery. The Institute for Supply Management (ISM) manufacturing index in December tied for its second highest reading in 15 years and has registered above 50—the dividing line between expansion and contraction—for seven straight months.

The economy lost some momentum as 2020 ended with more rapid COVID-19 spread and renewed restrictions. Still, the US economy appears poised to grow through the end of the pandemic, bolstered by the new $900 billion fiscal stimulus package passed December 27, 2020, which provides much-needed aid for small businesses, consumers, schools, and the healthcare system. US gross domestic product (GDP) is expected to grow 4.6% annualized in the fourth quarter of 2020, followed by 2.5% in the first quarter of 2021 (source: Bloomberg).

A better economic backdrop may mean better corporate earnings. Analysts' consensus estimates for S&P 500 Index company profits have been rising steadily in recent months (source: FactSet) amid the improving economic outlook. S&P 500 companies are expected to return to 2019 profit levels in 2021—a remarkable achievement if realized.

Thanks to the remarkable work of medical researchers and doctors, the end of the pandemic is approaching, and the outlook for the economy and stock market appears promising. But the road ahead may not be smooth. The vaccine rollout is still in its early stages and has significant logistical challenges. US-China tensions aren't going away any time soon. Higher interest rates and a pickup in inflation could put pressure on stock market valuations at some point. Divisiveness in America is at an extreme. And following the Georgia Senate elections, tax increases may be likely—probably in 2022.

One thing 2020 has taught us as investors is the importance of sticking to a long-term investment plan. That may be easier said than done when volatility arrives—and we had our fair share of that in 2020. Investors who stayed with their plans in 2020 benefited as volatility presented opportunities.

We wish you a successful 2021 and encourage you to contact your financial professional with any questions.

Sincerely,

Marc A. Zabicki

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