

2021 By the Numbers



2020 taught us all one thing – preparation is essential in not just sound financial advice, but every aspect of our lives. We know the market is unpredictable, but 2020 redefined the meaning of volatility for investors, advisors, and political leaders alike. So while there's no crystal ball for what 2021 will bring, a look at the numbers can help us understand the factors influencing the market and our economy, and prepare our portfolios and clients to navigate whatever may come.

The Stage for 2021 Has Been Set Through a Number of Challenges, Delivered in 2020:

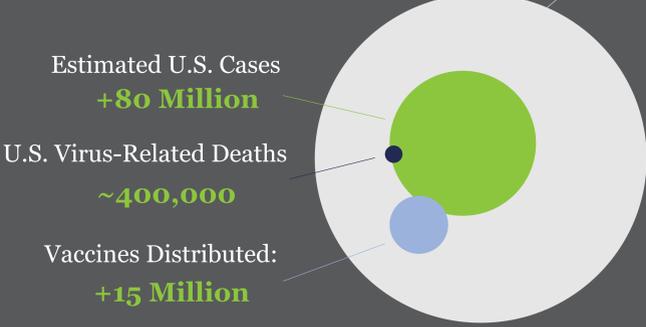
- The Coronavirus
- Market Volatility
- Economic Shutdowns
- Travel Bans
- Financial Repression
- New Social Norms
- Political Unrest



We hope 2021 will be a year of respite, but will we get it? Here is what we think about a few top-of-mind issues facing advisors and clients today.

Coronavirus

U.S. Population:
~330 Million

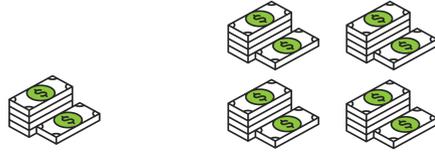


The CDC provides an optimistic outlook for the U.S., with nearly 25% of Americans thought to have antibodies. But the rise of infection rates in the U.K. due to a new, more infectious strain, provides uncertainty. We are on the right path to immunity, but 2021 will likely carry residual economic and social challenges. **The speed and effectiveness of vaccination will play a large role in our economic recovery.**

Source: CDC.gov, data as of January 20, 2021

Interest Rates & Inflation

Low interest rate policies have been adopted as a tool to stimulate economies worldwide. However, there is a point when the policies become either counter-productive or, at a minimum, less impactful. **Barring a renewed recession, we expect higher inflation near term (2021), but the debt deflationary forces to prevail in the long-run.**



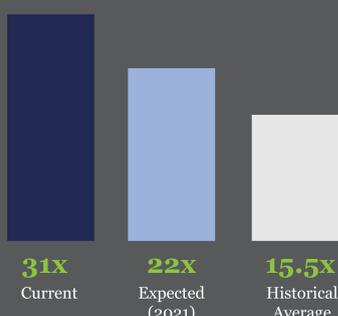
U.S. Corporate Debt: **+\$7 Trillion**
U.S. Government Debt: **+\$27 Trillion**

Estimated increase in worldwide money supply: **\$9 Trillion**

Current 10-Year Treasury: **1.10%**

Valuations

S&P 500 P/E Ratios



There is a large gap in expected earnings in 2021 and historically high P/E ratios. This gap sets the stage for a correction in 2021—as we don't expect to see anywhere near a 32% gain in earnings. **Now might not be the best time to aggressively add to equity positions.**

Concentration

The largest companies in the S&P 500 have driven overall market returns (i.e. Apple, Amazon, Alphabet, Facebook, Microsoft). And further, the technology sector now makes up around 40% of the index. In many cases, this concentration has skewed index returns, and with it, client expectations. **In broad economic recovery and a rising inflation environment, these large cap growth stocks are poised to underperform small-cap companies and equal weighted indices. Hiccups in recovery and low interest rates will perpetuate large-cap outperformance.**

18.4% 2020 S&P 500 return

8.6% 2020 S&P 500 return minus three of the largest capitalization stocks

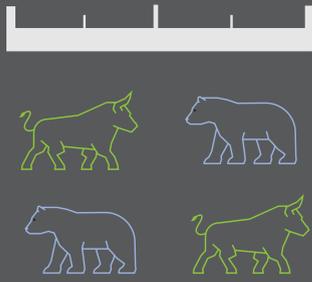


\$2.3 Trillion

Market capitalization of Apple —**5x** larger than the average GDP per country

Volatility

2018 2021



We've seen historic volatility recently, with 2 bull markets and 2 bear markets within a three year time span. **The persistence of the pandemic, coupled with high P/E levels suggests volatility will continue through 2021.**

What to Expect

2021 will undoubtedly deliver some respite to the challenges we've all faced in 2020. However, respite will not come overnight. Volatility and unexpected moves are likely to persist, with an increased focus on economic and earnings growth. All in all, we will get through this. The American people are resilient, and with sound financial advice, we can navigate the challenges posed by the pandemic. The key is being aware of the fundamental factors driving the market, and positioning your portfolios and clients appropriately.

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Want to Discuss?

If you would like to discuss this content, please feel free to reach out to our President, Bob Baker, at **614-726-3622**, or our National Sales Manager, Aaron Ploscowe, at **614-726-3627**. We'd love to speak with you.

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