ANCHOR
Investment Management, LLC

Q4 COMMENTARY 2020

January 20, 2021

Market/Index	2017 Close	2018 Close	2019 Close	2019 Change	As of 12/31/20	2020 Change
DJIA	24,719.22	23,327.46	28,538.44	22.34%	30,606.48	7.25%
NASDAQ	6,903.39	6,635.28	8,972.60	35.23%	12,888.28	43.64%
S&P 500	2,673.61	2,506.85	3,230.78	28.88%	3,756.07	16.26%
Prime Rate	4.50%	5.50%	4.75%	-0.75%	3.25%	-1.50%
10-year Treasury	2.40%	2.69%	1.92%	-0.77%	0.93%	-0.99%

The Election and Your Investments… A Follow Up

With the political turmoil since the election we think it's prudent to review a part of our third quarter commentary that stated, "One of the most pressing questions on investor's minds is "How is the election going to affect the markets?" followed closely by "Should we change our investments because of the election?" We were getting the questions so often that we decided to do a little research. Since 1932 the Dow Jones Industrial Average has, on average, gone up 1.87% in the six months surrounding a Presidential Election. The returns didn't vary much from election to election, usually within -3% to +5%. The only major difference to the downside was in 1932, the Great Depression, and 2008, the Great Recession."

Since our last commentary, Joe Biden has won the Presidential Election, the two Georgia Senate Races have been called for the Democratic nominees giving the Democratic Party control of the Executive Branch, the House, and virtual control in the Senate. The Capitol has been stormed by a mob, President Trump has been permanently banned from most Social Media outlets, Legislators from both parties are considering using the 25th Amendment to remove him from office, and the House has voted to impeach him for a second time.

How has this political upheaval and turmoil affected the stock market? It's up, way up. From November 2 to January 13 the Dow Jones Industrial Average is up **13.06%.** If the Dow stays at this level until February 1, it will be the **largest 90-day gain after a Presidential election in history**. On January 6, the day the mob stormed the Capitol, the Dow was **UP** 1.44%.

We can't take too much comfort in the current political situation, but it certainly puts a spotlight on the fact that politics do not currently drive market returns. None of this turmoil dictates how many iPhones, boxes of cereal, or prescription drugs will be sold in the future. If anything, increased stimulus packages from a Democratic administration will only add to the supply of funds looking to buy assets, pushing prices even higher.

Anchor Believes that the U.S. is Primed for a Strong Recovery in 2021 Due to Five Key Reasons:

Reason #1: Don't Fight a Sea of Money Looking for a Home

The Federal Reserve's monetary response and the Federal Government's fiscal response to the pandemic-fueled recession happened in record time and in record dollar amounts. In all, 2020's monetized stimulus amounted to more than 15% of GDP – an astounding number. Not all that liquidity has flowed through the capital markets yet, and more is on the way with a Democratic Administration. The Federal Reserve also provides a backstop of unwavering monetary stimulus in the event of further economic issues. There are no foreseeable events that will slow the flow of money to the markets in 2021.

Reason #2: Cash Reserves + Pent-Up Demand = Spending

A common reflex in an economic crisis is to build-up cash reserves. The Covid-19 pandemic was no exception for many American households. In early December, personal savings were $1.3 trillion higher than the pre-pandemic trend suggested they would be – a result of households socking away cash and not being able to spend through normal channels due to travel and other economic restrictions. The $1.3 trillion that households have in savings amounts to over 6% of GDP, and we think that money is eager to be spent. A post-pandemic economy could feel this wave of pent-up consumption demand.

Corporations have also been building cash reserves, with many taking advantage of low rates to issue bonds. The Federal government is even holding historically high levels of cash, having $1.7 trillion stashed in the U.S. Treasury's General Account. Municipalities borrowed $252 billion in 2020, the most since 2010. This liquidity is not likely to stay dormant but will be deployed throughout the economy driving profits for corporations for years to come.

Reason #3: Technological Innovation That's Profitable

Technology's role in economic development has been a persistent theme over the last 20-30 years. But the critical difference between now and 20-30 years ago is that the technology companies leading the way are generating significant cash flows. That's key.

They're also generating significant cash flows in record time. Instead of spending years and massive amounts of capital to build a network of plants or stores, they can sell a product or a service over the internet, or via a smartphone. The "asset-light" technology companies of today can spend their resources and profit reaching new customers, instead of maintaining and growing capital assets.

2020 saw rapid-fire adoption of many new technology services and ways of shopping, from businesses implementing new digital infrastructure, to retailers rolling out e-commerce channels, to consumers trying services like grocery delivery for the first time. These technological trends were underway already, but 2020 served as a catalyst propelling them forward. We expect the momentum to continue in the new year.

Reason #4: Low Interest Rates Aren't Going Anywhere, and Investors Know It

The reality of lower-for-longer interest rates is generally bad news for savers but good news for equity investors and borrowers. Low interest rates will push investors out of bonds and into more risky assets that have a higher expected return. If the options are to lose money on Treasuries or to own a portion of a company's future earnings (by owning shares of stock), investors today are being nudged to choose the latter.

Reason #5: There is a Good Chance That We Will Start to Get Through COVID-19

In our Second Quarter Commentary we were skeptical that there would be an effective vaccine for COVID-19 anytime soon. It appears that we were wrong about that and thank goodness we were. Having a vaccine gives us a faster path to herd immunity and putting this pandemic behind us. We are not there yet, but we do have a light at the end of the tunnel.

The bottom line is we feel that equities will have above average returns and bonds will have below average returns in 2021 and we are allocating portfolios accordingly. We are also keenly aware that there are risks out there that can derail the markets and we will continue to monitor the horizon for them. In the meantime, we thank you for your trust and confidence and look forward to seeing you soon, face to face, and without a mask.

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