AMB Wealth Management

Market Update December 4th, 2020

There were a lot of uncertainties heading into November, with the two biggest being the US election and the expected second wave of the COVID-19 virus. Many investors were worried that the market was set for a big drop after its torrid run from the March lows, and we fielded numerous calls from clients worried about what to do. Our advice to them was to not panic and to stay focused on long-term goals. We largely stayed invested as we believed the companies we owned were undervalued no matter the outcome of the election. This turned out to be a good decision as the US equity markets went on to post the best month of performance since 1987.

During the last few months, we have also begun to see the value trade coming back to life. In the month of November, global value outperformed global growth by 420 basis points. This has been driven by the announcement of multiple vaccine candidates that could be approved by the end of the year. We have also seen the US economy continue to improve, although we are beginning to see cracks. Another fiscal package is still needed to keep the economy moving forward as more localized lockdowns across the globe are beginning to take place. The recovery has been robust but the outlook remains uncertain.

The next big event on the horizon is the US Senate runoff election in our home state of Georgia on January 5, 2021. Currently Democrats control the House and the Presidency, but the Senate is still up for grabs. If either Republican wins their runoff – which looks likely – we will have a split Congress. In our view, this is the best outcome as neither party would have complete control over legislation. In this scenario, we would expect the next fiscal package to be smaller than the Democrat proposal, but the chances of a tax overhaul diminish, which is good for corporate earnings.

With the vaccine news over the last few weeks, we hope that the COVID-19 crisis is nearing its end and some form of normalcy will return. We believe this is a positive for risk assets and the most beaten up stocks this year should benefit the most. As we begin to see economic activity normalize, we would expect earnings estimates to improve, especially in the more cyclical sectors. We will be paying close attention to the financial sector during this expected recovery. If the recovery is strong, it's possible that banks will recognize large loan loss reserve reversals in 2021, along with this a return of stock repurchases and increases in dividends. This would lead to higher earnings and would be a recipe for higher stock prices too. However, banks are very economically sensitive and any major setbacks could alter this projection.

As always, AMB thanks you for allowing us to help you achieve your financial goals. Feel free to reach out with any questions we are always here to help. We hope everyone has a happy and safe holiday season.

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