
Weekly Market Flash

The Optimistic Case for 2021

November 25, 2020

We will shortly begin our customary year-end planning process to determine our strategic allocation models for 2021. An important part of this process involves considering alternative scenarios for the year ahead and translating those scenarios into position weights for different classes of equities, fixed income and other assets. We typically consider a handful of what might be considered optimistic and pessimistic cases, and eventually arrive at a base case set of assumptions from which to work.

Of course, events in the real world couldn't care less about the arbitrary human artifact of a transition from one calendar year to another; nonetheless, the passage from old to new affords us the opportunity to take stock of our assumptions, challenge our existing mind-sets and take action accordingly. Since this week leads us into the Thanksgiving holiday we are perhaps in more of a thankful frame of mind, which lends itself to presenting what we see as an optimistic case for next year.

A Surfeit of Vaccines

Any optimistic assumptions about 2021 have to start from the ability to scale up the delivery of one or (preferably) several approved Covid-19 vaccines. We certainly seem to have the candidates. On three successive Mondays now we have seen announcements from Pfizer, Moderna and most recently AstraZeneca attesting to efficacy rates of greater than 90 percent in their Phase 3 clinical trials. Pfizer has already moved to seek FDA approval for its drug and the others are expected to follow suit. Initial doses for the most high-priority population segments may be underway before the end of the year.

Those highest-priority cases number in the millions, though, and that needs to expand by several orders of magnitude to reach a global population in the billions. It will be a daunting task to be sure; nonetheless, a great deal of investment and preparation has already gone into the effort – much more than would normally be the case before a drug has received formal approvals and licenses. Our optimistic case assumes that this process is well underway by springtime, and that by the end of summer there is enough large-scale immunity to resume a great many of the activities that were a part of our lives before Covid.

Pragmatic Politics

No, we are not naïve about the contentious state of American politics. But this is the optimistic case – indulge us a bit. The incoming Biden administration, from the looks of things thus far (and admittedly this is still a very early look) is shaping up to be the kind of pragmatic, policy-oriented and low-drama team of experts one might expect from a leader who has been on the national political stage for nearly half a century. The question is not whether Republicans will fall over themselves *en bloc* to work with the new administration. They won't. But there is the potential for enough movement among some of the more centrist figures from both parties to cobble together enough support for solving some of the most pressing problems. These include making sure the bridge to the vaccine is sturdy enough to minimize the chance of slipping back into recession, losing more jobs and viable small businesses along the way. They include a real attempt for a broad-based infrastructure program. There are, in our opinion, viable outcomes here that do not assume it will be nothing but zero-sum trench warfare all day every day for the next four years.

While we are on the subject of politics, it is worth noting that we are only in the position to even plausibly offer up an optimistic-case scenario involving national politics because of the resilience we saw from local civic institutions during and in the aftermath of the election. Despite everything, the evidence overwhelmingly points to an election system that worked – that worked thanks to the unsung efforts of thousands upon thousands of diligent poll workers, boards of elections, state legislatures and the rest of the sprawling, highly decentralized components of the baffling contraption that is our democracy. As maddeningly obsolete and creaky as this system so often seems, when push came to shove it worked.

Changing World and New Opportunities

Of course, an optimistic case for investment portfolios is not confined by trends that take place here at home in the US. One thing became very clear to many observers in 2020: the countries with the most successful outcomes in getting the pandemic under control were not those of the European and North American West. China, the world’s second-largest economy, has had no Covid cases to speak of for many months now and is also on track to end the year with a positive run rate in GDP growth. Neither the EU nor the UK nor the US can lay claim to either of those feats. South Korea, Taiwan and Singapore also have demonstrated the ability to achieve healthcare outcomes that apparently elude most of the more prosperous developed world.

The balance of economic power has been shifting for some time, but the events of this year have arguably accelerated the trend. China’s currency, the renminbi, is up more than eight percent in the past six months as demand for Chinese assets has soared. Meanwhile the entire region – rebuffed by the US in early 2017 when we abruptly pulled out of the Trans-Pacific Partnership trade agreement – has gone ahead and formed itself into a new partnership. The Regional Comprehensive Economic Partnership (RCEP) will be strongly influenced by China, its largest member. It will also include Australia and New Zealand – but not the United States. Accounting for over 30 percent of global GDP it will be a force to be reckoned with alongside the EU and the North American successor to NAFTA.

Whether that implies a world of increasingly inward-looking regional blocs or a possible building block for a more integrated global economy remains to be seen. In the meantime it hastens the end of thinking of “emerging markets” as one asset class – there are emerging markets set to grow strongly, and there are emerging markets set to do quite the opposite. There are plenty of risks – but also new opportunities for enhancing portfolio returns.

When we come back from the Thanksgiving break we will have the chance to focus our attention on what could go wrong, rather than right, in 2021. But that is a story for another day. Today is for thinking positively and thankfully. We wish you and your loved ones a safe, happy and healthy Thanksgiving.

Masood Vojdani
President & CEO

Katrina Lamb, CFA
Head of Investment Strategy & Research

Investment Advisory Services offered through MV Capital Management, Inc., a Registered Investment Advisor. MV Financial Group, Inc. and MV Capital Management, Inc. are independently owned and operated.

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 (including the investments and/or investment strategies recommended or undertaken by MV Capital Management, Inc.), 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. 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 MV Capital Management, Inc. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. MV Capital Management, Inc. 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 MV Capital Management, Inc.'s current written disclosure statement discussing our advisory services and fees is available for review upon request.