
Weekly Market Flash

The Legacy of 2020

December 31, 2020

Well, it's finally here, the last day of 2020, and there's a popular meme going around the byways of the Internet to the tune of that timeless Ramones song "I Wanna Be Sedated": "2020-24 hours to go!" Forget all the usual year-end retrospectives and listicles that proliferate at this time of year; for most of us, the door cannot close behind Old Man Time soon enough. Unfortunately for us humans with our arbitrary temporal divisions, the world of nature and viruses does not pay any attention to the transition between the last day of December and the first day of January. To invoke yet another icon from the golden musical age of the 1970s – Alice Cooper – "We've still got a long way to go."

Plus Ça Change

2020 has certainly earned its place in the history books that are yet to be written. Much of how that history will ultimately be told depends on how the year's legacy evolves as civilization works its way past this pandemic and tries to get back to some semblance of the world we left behind back in March. There are some who believe that the pandemic will leave a lasting imprint – that things have changed well beyond our ability to ever fully recapture the Before Times. Others are of the view that the more things change, the more they stay the same; that once the dust settles and the noise of all the radical distortions has dissipated, we will quietly go back to the slow-growing, mature, post-industrial world of 2018.

We imagine the actual outcome will fall somewhere in between those two extremes. Here are a few trends we will be following closely as 2021 gets under way (and yes, despite the complete arbitrariness of calendar dates it does feel really satisfying to write "2021" in place of "2020"). How they play out will help shape our thinking about longer-term investment strategies.

Work and Technology

It is said that 2020 accelerated the evolution of workplace environments, achieving in a few months what otherwise might have taken half a decade or more. Many workplaces, of course, were devastated by the pandemic and will be relying on fiscal relief for a long time to come (if they in fact survive at all). For many others, though, the transition from office to home, from in-person to remote meetings was close to seamless. We learned that technology platforms from Microsoft Teams to Zoom to Salesforce really do deliver on much of their marketing hype. Already a number of major companies have signaled their intention to extend some element of remote work, at least on an optional basis, well past the point where mass vaccine immunity has set in.

While we were all chatting away on Zoom and sharing spreadsheets on Google Docs, though, millions of square feet of urban and suburban office space continued to rise from their foundations. One of the big themes at any pre-Covid confab for global strategists was the inevitability of the mega-city as a growth hub. These strategists had the hard evidence: several decades in which population shifts witnessed a massive migration of the educated and ambitious to the country's major urban centers in search of opportunity and quality of life. If that trend is in reverse it has profound implications for a great many asset classes from commercial real estate trusts to shares in early-stage technology stocks.

And we may only be at the cusp of the encroachment into whatever remains of our work lives that has not yet been taken over by technology. Breakthroughs in artificial intelligence have quietly worked their way into the platforms and applications we use on a daily basis, pushing the vast power of analytical Big Data out of cloud hubs to the so-called “edge” technologies where our eyeballs are trained each day.

Debt and Inflation

Another way that 2020 will likely be remembered is as a year in which a whole heck of a lot of debt was created. Debt at the federal, state and local levels of government ballooned to fund fiscal pandemic relief support as public infrastructure strained under the weight of an all-pervasive health crisis. Private sector companies unleashed a torrent of corporate bonds, taking advantage of the Fed’s low interest rate policy in record volumes of both investment grade and speculative (high yield) debt, which yield-hungry investors attacked like an all-you-can-eat buffet. Households borrowed a lot too – in many cases to pay for essentials like rent and food following employment layoffs.

All the while interest rates remained low and inflation barely budged – just about the only macroeconomic headline number that looked pretty much the same during the pandemic as it had in the many years prior. The current projections of members of the Fed’s Open Market Committee anticipate core inflation remaining below two percent – the central bank’s longstanding target rate – until at least the end of 2022. This assumption – the non-emergence of inflation – has taken root at the core of spending decisions by businesses and potentially gives the government more leeway – for example to finally embark on those infrastructure projects we were supposed to be getting four years ago.

Because the assumption of tame inflation is so fixed in the minds of business and government leaders, an unexpected inflationary surge lurks as one of the biggest near-future economic risks. An inflationary surge would catch the Fed flat-footed in its monetary stimulus programs and most likely put significant upward pressure on intermediate and long-term interest rates. That, in turn, would be an almost-immediate catalyst in reducing equity valuations and pulling the rug out from any argument that low rates justify the sky-high valuations already present in the market. Now, investors would probably not react drastically to a short-term burst of inflation associated directly with the resumption of many activities once mass vaccine immunization has been achieved. Anything beyond that, though, would be cause for concern.

Preparedness and Civic Discourse

If the history of the 2020 pandemic were to be written today it would not be kind in its assessment of our country’s ability to come together and make the collective sacrifices necessary to protect the lives of the most vulnerable among us. It is hard to imagine any future historian ascribing the label “greatest generation” to any facet of our performance as a nation in 2020. Yes – our medical and biopharmaceutical leaders did break records in developing effective vaccines, and that is no small accomplishment. But the by now more than 330,000 lives lost, many of them preventable, will be a black mark on the legacy we leave behind.

History will be kinder to us, though, if we change the story before another disaster sets in. There is no shortage of potential catastrophes that could emerge at any time in the months and years to come to challenge us again. Another pandemic is certainly not out of the question. Dramatic climate change is already clear and present in our lives. Cyberterrorism is the danger we can’t even quantify because we don’t know the extent to which our major systems are already compromised. And a world stitched together by trillions of dollars of interlinked financial products is always vulnerable to the kind of systemic failure we witnessed in 2008.

To be better prepared as a nation for future disasters means somehow finding our way back to the ability to sustain a healthy civic discourse. We don't have one now. In place of spirited debates over public policy we have competing Twitter mobs. Social media frames the entirety of our public life, and it does so in an almost uniformly corrosive fashion. Reclaiming our civic virtues will not be easy, and there is little evidence at hand to suggest that those at the top of our elite institutions are prepared to try. But perhaps if there is one enduring legacy of 2020 that provides a silver lining it will be this: a collective realization that we have to do it better next time along with the conviction that there very likely will be a next time. The time to start burnishing that legacy is now.

May 2021 be full of joy, good health and success for you and your loved ones, in all that you do.

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