

Update on the Economy and Investment Markets

Welcome to the Stearns Financial *Fireside Chat*.

Joe Biden nominated Janet Yellen as Treasury Secretary this week, signaling a positive move for financial markets. In our view, Secretary Yellen will focus her attention more on a post pandemic economic recovery rather than increased financial regulation.

The economic recovery, of course, will depend largely on the manufacture, distribution and efficacy of the several vaccines now becoming available in the U.S. (See FAQ below). While we believe a global recovery will follow suit, we remain a long way away from a globally synchronized economic expansion.

The U.S. stock market has been experiencing a rotation of who wins and who loses at historic levels. From September to today, there have been a series of massive rotations into other areas of the market outside of the large tech companies that have led the market the last few years and into the pandemic. The rotations include growth to value stocks, large-cap to small-cap stocks, defensive to cyclical stocks, stay-at-home to economy-reopening stocks and U.S. to international stocks.

Big 5's Reign Over?



Source: Charles Schwab, Bloomberg, as of 11/27/2020. Big 5 stocks include Alphabet, Amazon, Apple, Facebook, and Microsoft. Past performance is no guarantee of future results.

Looking ahead, we expect these rotations to continue, albeit with less ferocity, driven largely by pandemic news. Whenever the stock market is trading at or near all-time highs, as it is now, it's important to objectively evaluate the pros and cons for sustained stock market growth.

Key positives for stocks

1. Lower interest rates for a longer period of time.
2. Good earnings recovery potential for many companies in 2021.
3. Corporate earnings look better in the future due to COVID-19 streamlining and a lower likelihood of changes to corporate tax rates in 2021.
4. Large amount of cash on the sidelines.
5. Pent-up demand from the pandemic.
6. Areas of above average opportunity.

Key risks for stocks

1. The recovery will remain uneven and bumpy as consumers decide if and when to resume "normal" activities.
2. Valuations are not at bargain levels like we had after the Great Recession.
3. Speculation has increased to frothy levels in a number of stock areas, some attributed to the 12 million new investors that have been added during the pandemic by Robin Hood, Schwab, Fidelity and other trading platforms.
4. Possible geo-political dangers (in the Middle East and elsewhere).
5. Possibility that the vaccine programs underway experience a few setbacks from time to time.
6. The unemployment rate may not get back to pre-pandemic lows and this could weigh on consumer spending once we get beyond any additional stimulus.

Keys to Consider

- **Manufacturing data continues to be strong**, indicating a U.S. economy that is still recovering from the recession. November's flash PMI Manufacturing Index rose to a stronger-than-expected 56.7, with the service and composite indexes also showing strength.
- 7. **The Conference Board's Consumer Confidence Index fell to a lower-than-expected 96.1 this month as consumers negatively reacted to the surge in the pandemic and deteriorating household incomes.** Weakening confidence, combined with rising unemployment claims, suggest near-term economic risks. Initial unemployment claims rose to 778,000 last week, marking the second consecutive week of increases. The rise in claims is being driven by areas that are seeing virus surges, which may lead to limits on economic activity. **This reinforces the Goldman Sachs change in forecast for the first quarter of 2021, where they dropped their GDP growth estimate from 7% to 3% for the quarter.**

SFG in the News

- **Dennis Stearns, CFP®** was interviewed by the *Journal of Financial Planning*, the industry's premier peer reviewed journal, for the second year in a row for the December "look ahead" cover story, Future Tense: Post-COVID-19 Future of Financial Planning.
- Dennis also did a zoom presentation this week to the **Financial Planning Association of Metro NY** on skill sharpening needed for master planners in the uncharted waters of 2021 and beyond.

- **Haleh Moddasser** was named one of *Investment News*' 2020 Women to Watch. Follow the link for the electronic version of this special issue which was released December 2. <https://lsc-pagepro.mydigitalpublication.com/publication/?m=62585&i=684981&p=16&pre=1>

ESG News

- Stay tuned for a **special edition Live Chat Session** on Friday, December 11, featuring **Haleh Moddasser, PJ Williams** and **Dax Dixon**, with special guest **Ari Rosenbaum** of O'Shaughnessy Asset Management. The segment will focus on our four core ESG models as well as a more customizable solution for clients interested in investing in accordance with their values.
- **Haleh Moddasser**, SFG Senior Advisor, was invited as a guest panelist at the ESG Summit hosted by *Investment News* December 2-3.

Frequently Asked Questions

Q: It appears the foundation of many economic scenarios is the rapid manufacturing and distribution of the vaccines. Given the political divides, could this be a not-so-smooth process, creating more economic chaos in 2021?

A: We remain optimistic on the all-important manufacturing and distribution of the vaccines, first, because the project has **good leadership**. Rather than replace this leadership, it appears that President-elect Biden will be looking for ways to help support the existing leaders and bolster manufacturing and distribution planning.

General Gustave (Gus) Perna is Chief Operations Officer to Operation Warp Speed – he is an Army Four-Star General who served as the Commanding General of the Army's Materiel Command for nearly four years, leading 190,000 military, civilian, and contractor employees with a mission to provide logistics, sustainment and maintenance for a globally deployed Army. General Perna is a career logistician and scenario “play the movie” expert (not the only reason we like him!) who has led complex supply, distribution and maintenance operations in multiple combat tours with Army and joint forces, and has served at the national level, supporting Department of Defense supply and distribution efforts. <https://www.defense.gov/Explore/News/Article/Article/2426241/covid-19-vaccine-delivery-dry-runs-taking-place-across-us-general-says/>

Dr. Moncef Slaoui is the Chief Advisor to Operation Warp Speed. He brings to the mission extensive experience in vaccine and medicines development and production from a long career in the field of life sciences. He spent nearly 30 years at GlaxoSmithKline holding a number of leadership positions including member of the board; Chairman of Pharmaceutical R&D; Chairman Global R&D, Vaccines and Oncology; and Chairman, Global Vaccines. As Chairman of Pharmaceutical R&D, Dr. Slaoui led a restructuring to improve focus on innovation and productivity. As Chairman of Global Vaccines, Dr. Slaoui was directly involved in the company's vaccine pipeline, which led the industry during his time, with the broadest portfolio of vaccines of any company – 48 – and the creation of 14 new vaccines in 10 years.

Dr. Slaoui was recognized in 2016 as one of Fortune's 50 Greatest World Leaders for his work in under-researched diseases common in the developing world, served on the Advisory Committee to the Director of the NIH from 2011 to 2016 and has advised the U.S. President's Council of Advisors on Science and Technology.

Q: How critical is a federal government stimulus package to the recovery scenarios you discussed in your last Chat? How likely is a new package given the political divisions?

A: We believe that more fiscal-policy support from Congress and the President (either Trump in the next 60 days or Biden afterwards) is needed to create a safer bridge between today's uncertain economic conditions and when vaccines are widely available enough to allow economic conditions to return to something approaching normal. However, the progress on various vaccines combined with recent logistic updates from Operation Warp Speed (speeding up manufacturing and distribution) suggest that a **big fiscal stimulus package is important, but perhaps not critical, to the economic recovery.**

We do believe the U.S. government will provide an additional stimulus package in the next 90 days that will be in the \$1-2 Trillion range (the outcome of the two Senate races in Georgia may influence the size). As mentioned in previous *Chats*, the real key is not the size, it's the effective targeting of the money. This is where some of the messy political wrangling will continue, presumably with a split government.

Summary

We are optimistic about the economy and many investment areas in 2021, though expect some fits and starts on the path to a post-pandemic world. SFG will remain disciplined, diversified and opportunistic with regard to rebalancing.

In general, we are more defensively postured in growth and income portfolios and have been making selected shifts in growth portfolios. We will continue to monitor and analyze the many trends colliding today and diversify accordingly.

Our coronavirus investing approach can be summed up by five themes:

- Diversification with a balance of offensive and defensive measures, depending on the desired risk tolerance of our clients,
- Underweighting, or avoiding areas of higher future concern,
- A focus on higher-quality investment themes,
- Identifying and implementing buying opportunities that may be appropriate for more growth-oriented portfolios, and,
- A more defensive stance using different portfolio tools for more conservative growth and income portfolios until we are reasonably confident the COVID-19 crisis has stabilized.

~ Dax, Dennis, Glenn, Jason, John and PJ
(the SFG Investment Committee)



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