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Economic & Market Summary
January 2021

The economy continues to heal from the coronavirus pandemic. About 2/3 of the real GDP contraction and 56% of the jobs lost have now been recovered. However, we believe the "low hanging fruit" of the recovery has been picked and progress is slowing. While 8MM jobs were created between June and August, only 1.6MM were created between September and November. The slowdown coincides with the resurgence in COVID-19 cases.

We see several catalysts to accelerate growth in 2021. First, vaccines have arrived. We don't believe vaccines alone are a panacea, but they are a significant step towards ending the pandemic. Simply having vaccinated healthcare workers will reduce the pandemic's pressure on the healthcare system. Second, Congress has passed another stimulus package and more are likely forthcoming. Important parts of the economy remain very weak and probably need another lifeline to avoid widespread bankruptcies and evictions. Third, monetary policy will remain highly accommodative and provide a favorable backdrop to the recovery. Short of an inflation outbreak, it is unlikely the Federal Reserve will tighten its policy until the economy returns to solid footing. Finally, the election outcome should be neutral to the recovery in our view. While marginal increases in taxes and regulations are likely, a divided government amidst an environment of bitter partisanship implies little chance for disruptive changes.

The S&P 500 came roaring back from a severe bear market in the spring. However, there was a significant performance disparity between the pandemic "haves" and "have nots". The "haves" were technology-oriented growth companies that prospered as work, commerce, leisure, and education moved online. The "have nots" were companies across a variety of industries that struggled with the pandemic's various negative effects. Falling interest rates, rising unemployment, and pressure on small businesses impacted financial services companies. Restricted social activity crushed restaurants, brick-and-mortar retailers, live entertainment and leisure venues, and the entire travel industry. The energy sector was hurt by a sharp decline in oil prices. Healthcare spending, outside of COVID-19 treatment, weakened. The S&P 500 is a market cap weighted index which means the best performing companies become more influential over time. Consequently, the index has become highly leveraged to the largest "haves" which drove performance in 2020. Including dividends, the S&P 500 returned 18.4%. By contrast, the equal weighted S&P 500 returned only 12.8%. As the pandemic subsides we expect the gap between companies that benefited from the pandemic and those that struggled with it to shrink significantly.

We are cautious near-term on both the economy and the stock market but remain long-term optimists. We believe the COVID-19 surge will dampen but not extinguish the recovery. Vaccinations, additional stimulus, and a favorable monetary backdrop provide a path to accelerated growth as the year progresses. We think there is substantial pent-up demand for non-virtual leisure activities such as dining-out, travel, and attending live performance and sporting events. That demand will be released once the coronavirus is controlled. We're cautious near-term on the market because we believe valuations are high which makes prices vulnerable to bad news and rising interest rates. The PE on 2021 earnings for the S&P 500 is 23x which is elevated compared to the long-term averages in the mid to high-teens. We're also seeing signs of frothiness such as a hot IPO market and speculative behavior from small investors. However, one of the advantages of being bottom up equity investors is the ability to find opportunities in any market environment. Despite the challenges of 2020, nothing has changed our conviction that a portfolio of high-quality, consistent growth companies is a great way to build long-term, durable wealth.

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To request our SEC Form ADV Part II, please contact Michael L. Wise, Chief Compliance Officer, at the address above.