PETERSON FINANCIAL SERVICES

Limited Liability Company ◆ Registered Investment Advisory Firm

Fourth Quarter 2020

January 4, 2021

QUARTERLY MARKET RECAP

The final quarter of the year capped off an amazingly volatile but profitable 2020. It's safe to say that no one saw the market action of last year coming in advance. And in the depths of the late-winter decline, who knew we'd have full recovery in a matter of weeks, on the way to a stellar net year? Not us. For the last quarter, the DJIA gained 10.17%, the S&P 500 added 11.69%, the NASDAQ racked up another 15.41%, but small-caps really shined as the Russell 2000 boomed 30.99%. Foreign equities added 13.93%. With no new Fed action, having fired all their bullets with interest rates set to zero, fixed income gains were muted, with the Barclay's Aggregate Bond Index edging up just 0.70%.

Improving employment conditions continued cooling their pace of recovery, posting weak advances, but the unemployment rate for November stands at a consistently-declining 6.7%, down from 8.4% a quarter ago. Inflation is still non-existent as the Fed has stated there will be no rate increases for three years while they work toward a 2% inflation rate.

Recently reinstituted economic lockdowns in certain states will drag on growth, but the biggest risk to the economy and markets now is a return to the burdensome policies of the previous administration, with the same team coming back into the next administration.

REVERSION TO GROWTH-RETARDING ECONOMIC POLICIES WILL DAMAGE A FRAIL RECOVERY

In our last quarterly newsletter, before the national elections, we recapped some policy-induced economic successes to remind us how important government policies are to a strong economy and financial markets. Since then, Joe Biden won the presidential election but several House seats flipped to the Republicans. This indicates that while the country may have fatigued of President Trump, it didn't buy into the left-wing agenda. Right now, the next few years of economic health hinge on the runoff elections for the two Georgia Senate seats.

President-elect Biden has revealed the direction he'd like to take the economy, by his announced economic advisors roster. It isn't encouraging, as many are retreads of the slow-growth Obama Administration.

The list is populated with Keynesian acolytes like Janet Yellen to head Treasury and Jared Bernstein who will join the Council of Economic Advisors. Bernstein was a key architect of the infamous Obama "stimulus" bill and he predicted in January 2009 that it would drop the unemployment rate to 7% by the autumn of 2010. Instead, it rose to 10% and stayed just shy of that level for half a year, not dropping to that projected 7% until the end of 2013 – the end of that administration's first term. And it barely improved on that for the following four years. It was a spectacular failure. Government spending doesn't create growth. It confiscates and redistributes it, but in so doing, it bleeds off efficiency by creating unnecessary overhead and misallocation of capital. It never has worked and it never will work. We're in for much of the same coming up.

Biden's pick to lead the National Economic Council (a different executive branch bureaucracy!) is Brian Deese, another Obama veteran. He helped formulate the takeover of the auto industry, which wiped out investor capital, handing ownership interests to the auto union and resulting in significant losses for taxpayers. At the time, we wrote at length about that folly, so we won't rehash it now.

Biden's choice for budget director is Neera Tanden, who has no financial or budget director experience, but fills the bill for his desire to raise taxes. Much of what has been gained in our economy over the last four

OUR CURRENT CORONAVIRUS RECESSION RECOVERY IS AT RISK IF WE RETURN TO OLD POLICIES.

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years has been made possible by lower tax rates on both the individual and corporate side. This is now at risk of retrenchment. Raising the corporate tax rate from a very-competitive 21% to the 28% Biden has suggested would do widespread economic damage.

Tanden is on record as supporting Draconian regulations and spending trillions of dollars on unproven climate change initiatives that would burden the economy tremendously, and would do no real good, with China and India spewing out the bulk of global emissions while making it clear they have no intention of reducing them. And as budget director she will oversee reviews of all regulations across the federal government. While earning the ire of many on the right for her growth-stunting policies, she has also managed to alienate many on the left when she denounced Bernie Sanders in 2016 on behalf of Hillary Clinton. She may have trouble in the confirmation process!

These selections for the most important and sensitive areas of economic policy suggest Joe Biden's administration will make good on his assertions during the campaign that he intends to return our society and economy to the oppressive regulatory and excessive taxation environment of the Obama years. Along with that, we'll have unbridled spending that makes our recent deficits look responsible by comparison. These increased regulations and higher marginal tax rates will result in higher unemployment, lower wage gains, reduced economic growth and financial market performance, and less personal liberty. All of the positive statistics we highlighted in our last letter will regress under this policy regime.

The takeaway from these choices is that Biden is assembling a team that sees government, rather than the private sector, as the leading mechanism for growth and control over the economy. That is not validated by the historical record or free-market common sense. And when this doesn't work, they'll use lingering damage from the pandemic to justify more government intervention and spending, exacerbating the problem further.

This is why the Georgia Senate runoff elections tomorrow are so important. Former House Speaker Tip O'Neill once said that all politics are local. But this time around, these local elections are of national significance.

If the Republicans hold on to just one of these two seats, they will retain their Senate majority and provide a roadblock to these damaging policies. It could be that the few remaining more-moderate voices on the Democratic side are actually secretly hoping this will happen, as that would prevent this damage on their watch but still allow them to blame the opposition to their evermore leftist base for blocking them.

Ironically, Biden will inherit an economy that is recovering from the Covid recession much faster than any of the Keynesians predicted, and that's because of the underlying strength it had going into the virus economic coma due to the very policies he now wishes to reverse. Third quarter GDP growth final revisions were announced just last week at a 33.4% annualized rate, beating all estimates. That is sure to be severely reduced.

"If you aren't reading the newspaper you are uninformed. And if you are, you are misinformed."

- Mark Twain

ABOUT PETERSON FINANCIAL SERVICES, LLC

As an aside, we wish to remind our clients of our various services. While we've specialized in portfolio management over the last several years, we continue to provide financial planning and insurance services. Longtime clients may have forgotten this, and newer clients may not be aware of this. Additionally, we build our business through referrals, and much appreciate them. Please keep us in mind as you come across friends, family and colleagues who might benefit from our financial services. We appreciate your business.

Financial Focus is a quarterly market letter published by Peterson Financial Services, LLC, a Denver, Colorado Registered Investment Advisory Firm specializing in investment portfolio management and financial advisory services.

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