# Monthly Newsletter



## Market Outlook

Global economic growth is struggling as 2021 gets underway, with COVID-19 infection rates continuing to rise and countries accelerating the rollout of vaccination programs. With several countries having administered first-doses to only 3%-5% of their populations, lockdowns are likely to remain in place and skew economic data to the downside in the first quarter. We expect the pace of the vaccine rollout to pick up, with 50% or more of the population in major countries likely to receive the first vaccine dose by the end of the second quarter. This may begin to provide a sharp restart to growth starting in the second quarter.[1] A surge in late 2021 travel bookings have been reported. While various demographic, macroeconomic, and monetary forces may cap a general rise in the price level, shortages and price spikes in certain goods and services seem likely. Yesterday's losers could well be tomorrow's winners.[2] The Biden administration, supported by a slim majority in Congress, has laid out ambitious plans for boosting economic growth, starting with spending to address the COVID-19 crisis. Direct aid to struggling households, small businesses, and local governments are all on the agenda. In addition, there is talk of infrastructure spending and debt forgiveness.[1]

## International Equities

Since the end of April of last year, when global economic data appeared to have hit the low point for the cycle, international stocks have been outperforming U.S. stocks. If global growth resumes, as we expect, it may bolster international equities' outperformance in 2020. Market leadership tends to last for many years, even a decade, before reversing at the start of a new cycle. For example, after international stocks outperformed in the 1980s, the 1990 recession saw a shift to U.S. stock outperformance. The 2001 recession saw a switch back to international outperformance, and the 2008 recession flipped the switch again to U.S. outperformance. It is likely the start of a new cycle may once again signal a switch to international stocks.[1]

## Fixed Income

Municipals wrapped up a historic 2020, with broad market muni indexes up more than 4% for the year. The market has largely recovered from the pandemic-induced liquidity crisis that sent prices plummeting in the first quarter and rattled investor confidence. Investors poured an impressive $60 billion into muni mutual funds since May, making 2020 the fourth strongest year for fund inflows on record.[2] Solid demand allowed muni issuers to bring a record $495 billion of new-issue supply during 2020. Demand has been so strong that the muni market begins the year looking very similar to the start of 2020, with AAA benchmark yields back near all-time lows and muni/Treasury ratios well within overvalued territory. In 2021, as the availability of vaccines allows the economy to rebound, we expect modestly higher Treasury yields and a steeper yield curve. We believe the recovery will be good for corporate credit and that lower-rated muni issuers may outperform.[2]

## The Federal Reserve

The Fed continues to signal that it will keep its current policy stance in place until inflation rises above its 2% target level. Under its new framework, the Fed will not start to raise interest rates in advance of a rise in inflation. Instead, it intends to let inflation run above its target level in hopes of driving the unemployment rate lower.[3]

## Strategic Gain Recognition

Given that 92% of financial advisors believe taxes are likely to go up in the next four years (36% believe they will go up a lot), it may be appropriate for a client to consider "Strategic Gain Recognition." This concept implies that the client will make assumptions as to their forward-looking return expectation and time horizon. If a client would otherwise sell the security, then choose the best (most strategic) time to recognize the gain. For example, if I client believed that the Biden tax plan applies to them and is likely to pass the long-term capital gains rate, this client might be expected to go from 23.8% to 39.6%. If this client believed they would sell long term appreciated securities in year five, then the analysis could be run to assess whether recognizing now or later is a better option. For older investors, this analysis has generally been not to sell in the event one spouse passes away (assuming community property treatment for Washington Residents). There has been a full step up in basis at death (only 50% for Joint Tenants) for married couples. This step up in basis is under attack currently. This is an item to consider with respect to "Strategic Gain Recognition."

Sources:
[1] Schwab Market Perspective: A Narrow Path Up | Charles Schwab, https://www.schwab.com/resource-center/insights/content/market-perspective, as accessed on 1/20/2021
[2] Advisory Blog | Eaton Vance, https://funds.eatonvance.com/advisory-blog.php?since=2020-10-20&until=2021-01-20#2021-tax-policy-likely-takes-a-back-seat-to-recovery, as accessed on 1/20/2021
[3] Global Asset Allocation Views | J.P. Morgan Asset Management, https://am.jpmorgan.com/us/en/asset-management/adv/insights/portfolio-insights/asset-class-views/asset-allocation/, as accessed on 1/21/2021

Mail: Client.Service@AvantiaMFO.com | Office: 206-600-4134 |Web: AvantiaMFO.com | LinkedIn: AvantiaMFO
1201 Second Avenue | Suite 900 | Seattle, WA 98101