

The Road Ahead

11 Speculations for 2021 from MAI Capital's Chief Equity Strategist

Year-end is usually a time for celebration, but in 2020 many traditions have been waylaid. One that continues is the tendency of Wall Street Strategists to publish lists of events they foresee in the year ahead. To my knowledge, this tradition started in the mid 1980s with Byron Wien, the legendary Morgan Stanley strategist, who even now at age 87 will shortly issue his 10 "surprises" for 2021. I won't try to compete with his attempt to forecast unlikely events that come true. Instead, what follows are 11 occurrences that I think have a reasonable chance of happening in 2021. Some (like an economy that surges after COVID) may not be surprises, but would be significant. Others (like the energy sector leading the market next year) are perhaps unexpected. These are not meant to be "investible" predictions, but are intended partly as entertainment and partly to provoke further discussion. Of course, these speculations are mine, and do not represent financial advice of MAI Capital Management.

1. *The death toll from COVID accelerates as winter sets in and distribution of vaccines is slowed by logistical problems stemming from the low temperature (-95°F) needed to store them.* January and February are the worst months, and by Spring the death toll has passed half a million in the U.S., even as vaccines start to be widespread. As the pandemic subsides with the warmer weather and vaccines, President Biden calls for a National Day of Prayer. In a rare display of unity, a resolution for such a day is passed unanimously in both Houses of Congress.

2. *Starting in late Spring, as vaccines proliferate, a shell-shocked nation emerges from quarantine.* An era begins that will last for several years and will become known as the New Roaring Twenties. It surprises Wall Street analysts, corporate executives and economists in its strength. By Fall, GDP is growing at an annual rate of over 8%, its highest since 1951. Although that rate slows markedly in later years, the era is marked by record attendance at restaurants, theater and sporting events, new business starts and risk taking. As a leading indicator, the U.S. equity market reflects this newfound optimism and surges in the first half of 2021.

3. *President Trump gets vaccinated for COVID in the weeks before he leaves office on January 20, 2021.* As he emerges from the White House after his shot, he uses the moment to take credit for the amazing speed of the vaccine development accomplished under his watch. His vaccination encourages many of his otherwise reluctant supporters to roll up their sleeves and follow suit. Proof of vaccination becomes a requirement for many schools, cruise lines, businesses and even sporting events. Both because of these requirements and because of very few adverse effects, acceptance of the vaccines is more widespread than expected. By year-end almost 75% of the country has been vaccinated.

4. *One result of the nation's battle with COVID is a backlash against anti-immigrant sentiment.* Many of the half million who died were immigrants (both legal and illegal) who delivered food, worked in slaughterhouses and otherwise kept America limping along during the pandemic. After decades of inaction, Congress agrees on immigration reform, with both a path to eventual citizenship *and* a wall. Both parties take credit.

5. *Democrats fail to win both Georgia run-offs on January 5, 2021 (crystal ball cloudy on whether they manage to win one) and Republicans maintain control of the Senate.* Nevertheless, President Biden and Majority Leader McConnell eventually agree on legislation for additional COVID stimulus and infrastructure, as well as the bi-partisan immigration reform mentioned above. The way the compromises are made, each side gets its wish list fulfilled, which means even more money gets spent, and added to the deficit. For the moment, the sovereign debt markets don't care. A Democratic push to reach a compromise on drug price caps and other healthcare reforms falls short.

6. Retail brokerage firms like Fidelity and Charles Schwab, responding to customer demand, make the technological changes needed to allow clients to own Bitcoin directly in their accounts. At the same time, institutional investors and large hedge funds finally get comfortable with Bitcoin and want “just a small position,” according to one pension fund manager who runs an asset pool of over \$50 billion. Her small 0.5% position amounts to \$250 million of Bitcoin for her fund, and her fund is one of many. Because of the increased institutional and retail demand, Bitcoin soars in price in 2021, having an even better year than in 2020.

7. Even as the economy surges in the second half of 2021, the stock market starts to struggle as interest rates rise faster than expected. The 10-Year Treasury trades above 2.0% by the fourth quarter. While the Federal Reserve makes all the right noises about “lower for longer,” Congress refuses to renew COVID stimulus in the Fall. This lack of stimulus coupled with higher interest rates make investors scared of tightening conditions in 2022. Even with 8% GDP growth, the market declines in the second half, and ends the year up only modestly.

8. Cruise lines attract a record number of reservations by year-end 2021 and their shares surge. Airlines, on the other hand, continue to suffer as business travel remains 40% lower than pre-COVID rates because of the cost advantage and time-savings from Zoom and other video meeting platforms. Commercial real estate also suffers, but not as much as expected, as the dynamism of the New Roaring Twenties leads to many new business starts.

9. Former President Trump buries the hatchet with Fox News and becomes a frequent guest on the Hannity, Ingraham and Tucker Carlson shows. He continues to have huge rallies in states throughout the country, with large crowds shouting “Take it Back.” Throughout 2021 he suggests he will be running in 2024 but makes no commitment. Leading Republican 2024 presidential hopefuls like Senator Tim Scott and former Ambassador Nikki Haley tread carefully, staying safely beneath the Trump umbrella. But others with less to lose are bolder. Senators Ted Cruz and Ben Sasse start to make the case for “All the policies you love with none of the tweets.” It begins to resonate.

10. Energy is the best performing sector of the S&P 500 Index in 2021, rising from the doldrums. Even with the market slump later in 2021, the sector outperforms with the still-rising economy. Wall Street energy analysts overuse the Mark Twain quote “The rumors of my death were greatly exaggerated.” Exxon finally gives in to mathematics and cuts its dividend by two-thirds, the first cut since 1933. The company returns to profitability by mid-2021 after the largest write off in its history at the end of 2020 together with a huge cut in its capital spending budget.

11. Britain finally Brexits (if that can be used as a verb). After years of uncertainty, the British have the good fortune of leaving the EU behind just as the world is doing the same to COVID. The combination is potent and the British economy has its strongest year of growth since the late 1940s. The Pound soars, and Boris Johnson basks in unexpected popularity.

One last item that I surely hope comes true: **My best wishes for a happy – and especially healthy – new year.**

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