



## ***Ropes Wealth Sees Vaccination Exuberance***

After a month that felt like a year, we finally have answers: a new President-elect and vaccines that may free us from the grips of this pandemic. After suffering 1.5 million deaths worldwide, nine months and counting of confinement, global recession, political fractiousness, and social strife, we have hope for better days to come.

And wow have markets embraced the potential of our future. After a cautious tone ahead of the election, November proved to be the best month for equity returns in decades, with several key indices marking historic highs. The S&P 500 gained nearly 11%, and smaller companies in the Russell 2000 added 18.4% for the month (their strongest in history). Not to be outdone, international markets posted similar results with the MSCI EAFE index up 15.5%. Though emerging markets rose a relatively modest 9.25%, they have held up far better throughout the course of the year, with an 18% year-to-date gain. And while bonds held steady in the face of the risk-on rally, with yields still near historic lows the asset class is starting to suffer from waning investor enthusiasm.

President-elect Biden's victory allayed investor fears of Trump's erratic leadership style, whose market-friendly policies had become muddled by a failure to shepherd a nation struggling in the throes of this pandemic. Better yet, the blue wave that had given some investors pause failed to materialize, with Republicans seemingly holding on to the Senate and picking up seats to reduce the Democrat majority in the House. This Goldilocks scenario of a split in power, which may limit the new administration's ability to push through legislation, helped alleviate concerns about the impact of potentially higher taxes and increased regulatory oversight of certain segments of the economy. While the Trump administration continues to contest certain aspects of the results, the election overhang has largely been removed, and markets have responded positively to Biden's initial cabinet appointments. In particular, former Fed Chair Janet Yellen as Treasury Secretary, whose experience at the Fed through prior crises should lend confidence to a system that continues to provide widespread support to a battered economy.

As Washington prepares for the change in power, talks for a possible fiscal stimulus deal are also heating up. There appears to be willingness from both parties to provide a package that would see us through to the new administration. For their part, the Treasury Department decided to not extend several emergency programs that served to instill confidence in March and April, but had not seen much use since. Similarly, the Fed appears reluctant to boost the current asset purchase program, or to extend its duration in an effort to clamp down long-term interest rates. That may change quickly as the new regime comes on in a matter of weeks. In the meantime, we still have the Georgia Senate runoffs taking place on January 5th. With two seats up for grabs, there remains an outside possibility that Democrats grab both seats and VP-elect Harris would then hold the tie-breaking vote in the Senate. Having convinced themselves that a split in Congress will deliver the best returns, market participants may react poorly over the short-term to this potential outcome. For now, the Biden victory has been enough to solidify expectations for additional stimulus to see the economy through to the post-vaccine world of 2021.

Even better for the markets than the election results, investor confidence was buoyed by positive news on the vaccine front. Pfizer and BioNTech's announcement of a 90% effective rate (later increased to 95%) for their COVID-19 vaccine spurred a market rally that was shored up by equally positive news from Cambridge-based Moderna a week later. With hope that an end could be within reach, particular strength could be seen in those stocks leveraged to a return to normal, which are also those that have lagged during this recovery. Indeed, energy, financials and industrial companies saw the month's biggest gains as a rotation towards these unloved sectors took hold. While the Biden administration is expected to be anything but friendly to the oil industry, the lack of control in Congress coupled with the positive vaccine news that may get the economy and its population moving again helped revive this struggling segment. At the same time, many stocks tied to renewable energy and electric vehicles also made new highs, highlighting the breadth of the rally.

A third component supporting equity market strength was an upbeat earnings season, and positive guidance on what's to come. With 95% of S&P 500 companies reporting by the end of November, 84% of those had exceeded expectations for earnings-per-share growth. While the second quarter saw a record 23% average earnings beat based on the incredibly low expectations during the height of the lockdown, the third quarter expectations offered a much higher bar to beat – but companies responded with an average 19.5% upside surprise. Forward guidance from companies was equally impressive, with consensus estimates pointing to an earnings increase of over 22% in 2021. This was 3% higher than at the start of the third quarter as economic momentum is expected to drive earnings once vaccines are rolled out in the first half of the year and we attempt to return to some sense of normalcy. In fact, many estimates point to upwards of 50% of the U.S. population being vaccinated in the first half of next year, potentially achieving the herd immunity some experts say is necessary for the economy to get fully back on track.

Even so, none of this positive news and breathtaking equity market gains should overshadow the fact that the U.S. remains in the midst of record high infection and hospitalization rates from the virus. Health officials expect this worsening trend to continue as people gather around the holidays. Though President Trump has indicated he will not introduce another federal lockdown, we are already seeing restrictions reintroduced at the local level to attempt to slow the impact until vaccines are widely available. These are likely to be less onerous than those undertaken in March and April, but serve as an important reminder that we will feel the economic and societal effects of this virus well into next year.

And while election resolutions and vaccine headlines have built our optimism, we have to wonder what those first post-COVID years will look like. Consumers who are thriving in the current downturn will bring economic momentum, making up for lost visits and cancelled travel. But many who are on the margin will find the year 2020 to have dug them into a deeper hole. A recent Census Bureau survey found nearly six million Americans expect to face eviction in the next two months, while the majority of student loan borrowers who went into forbearance will face bills due next year. Young workers are starting their careers to find employers cautious about expanding, a circumstance that also challenged graduates during and after the global financial crisis. For sure, bringing the two tracks of the K-shaped recovery back together will not be easy.

As we enter the final month of this unprecedented year, it is as important as ever to prioritize solid financial decision making. We have advised you all year to stay focused on your investment plan; it is just as important not to abandon it now in times of exuberance as it was in times of stress. We are pleased and elated for our clients by strong equity market returns but are mindful of how rising valuations leave little cushion for the unexpected and that risks remain elevated. Keeping a disciplined hand on asset allocation, focusing on security selection that emphasizes quality companies with no or low leverage and growing earnings, and understanding your liquidity needs, near-term goals and longer term plans are the ways we strive to protect your financial health and well-being. We remain dedicated as ever to this approach and to you.

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## **Your Ropes Wealth Team**

Though the IRS provided some relief by extending filing deadlines and allowing accountholders to forgo their required minimum distributions from retirement plans this year, most other year-end deadlines still stand. Charitable giving, traditional retirement plan conversions, tax –loss harvesting and other decisions may all warrant a discussion with your team here at Ropes Wealth Advisors. As always, please do not hesitate to be in touch with any member of our team.

Please click [here](#) to access our full team contact card.

Thank you for your confidence and trust in us during this trying year. We wish you all a happy and healthy holiday season.

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