# Ropes Wealth Looks Forward to 2021

*There are far, far better things ahead than any we leave behind.* —C.S. Lewis

**THE YEAR 2020 SAW TREMENDOUS CHANGE AND SUFFERING**—not only because of the pandemic but also due to heightened concerns over racial justice and climate change. As crisis after crisis unfolded, humanity was challenged in dramatic ways that will no doubt mark an inflection point in our history. Many heroic responses inspired us, while others failed desperately to meet the moment and compounded the tragedy of loss, uncertainty and pain that for once connected us all.

As we enter these early days of 2021, we want so much for things to be, quite simply, better. We want a return to normal, or more accurately, a better normal that heals some of our open wounds. Therefore, images of front-line workers and the most vulnerable among us receiving their first doses of Pfizer-BioNTech and Moderna vaccines give us hope of better days to come.

This recovery has already been costly, both in terms of the loss of human life and the economic impact felt across the globe. 1.8 million people have perished due to COVID-19, and over 87 million worldwide and counting have been infected. Many still struggle with lingering symptoms and vulnerability, and it is fair to say all of us are coping with some degree of mental health impacts from the measures necessary to keep us safe.

The World Bank now estimates an overall loss of -5.2% of worldwide gross domestic product (GDP) in 2020, triple the severity of the global financial crisis in 2009. Among the largest 20 countries in the world representing 660 million workers, 38 million filed for unemployment insurance during the pandemic. The U.N. reports that close to 900 million people in the world have now met the definition of being food insecure.

Over the course of 2020, the year of a pandemic, lockdowns, social justice protests, natural disasters and a polarizing election, the market has soldiered on. The S&P 500 Index closed the year up 18.4%, after rallying over 67% from the March 23rd low, climbing to new all-time highs by December.

Alan Greenspan popularized the phrase "irrational exuberance" in a 1996 speech addressing the burgeoning internet bubble in the stock market, and many think it applies to markets today. We disagree. We concede that for much of 2020 it felt like the risks well outweighed the prospects for markets and the economy. But we also know that markets never wait for the "all clear" signal before discounting a more optimistic future. This is why we can say with confidence we are optimistic about the outlook for 2021 and beyond, not because our problems are over or risks have been removed, but because that more optimistic future reflects the turbocharged support coming from three key areas: unprecedented policy support fueling our comeback, technology and innovation, and the power of you.

## *Unprecedented policy stimulus*

Thanks to historic stimulus in reaction to the onset of the pandemic, the real economy that is emerging from this crisis has a tremendous amount of underappreciated momentum. Major developed market central banks have increased global liquidity by a staggering $7.5 trillion in 2020, according to data from the Federal Reserve, the Congressional Budget Office and Bloomberg, representing nearly 30% year-over-year growth from an already large stockpile. Moreover, the pandemic version of quantitative easing (QE) has facilitated direct injections of liquidity to the real economy via monetized deficits. In fact, U.S. money supply has grown by nearly 25% during 2020, shattering previous records. Direct injections of broad money by central banks are perhaps the single most potent monetary policy tool in the modern economy. It is likely that mean-reverting velocity in a post-election, and, eventually, post-pandemic world will catalyze that injected broad money to create some truly impressive nominal GDP growth going forward. It is also likely that still more doses of policy stimulus are in store for 2021.

We admit stimulus does not solve all the problems of income inequality, poverty and food insecurity we face as a global community. The humanitarian need is pervasive, complex and persistent. It will take a combination of public and private partnership, global leadership, compromise, and yes, higher taxation, to make real headway on these issues. They were issues that had dogged us for years; COVID-19 just made them more prominent.

Perhaps the way the world rallied in March and April at the height of the crisis could be a lesson for us of the value of purposeful, versus political, action. The K-shaped nature of our economy is just a crisis of another sort.

## *Technology and Innovation*

The 2020 pandemic turbocharged advances in technology and innovation in a way that will be as historic as the pandemic itself. First, consider that within months of our recognition of the COVID-19 virus, the scientific and health care community developed and continue at this very moment to refine the testing, therapeutics and vaccine protocols that are savings lives. The urgency of their efforts, and, for once, a collaboration that was truly global in nature, has created a platform and momentum that will change the way patients are tested and treated across the board. While the demands of this period are unparalleled, the healthcare industry's response has vividly demonstrated its resilience and innovation, and we suspect some of the most exciting developments in healthcare lie ahead.

Furthermore, the pandemic has forced businesses to minimize their physical footprint while maximizing their output–with undoubtedly some surprising discoveries around cost efficiencies that would have been unimaginable a year ago. It is very likely that redundant business travel, infrastructure and labor will never be fully restored now that those redundancies have been revealed. Through virtual meeting rooms, online advertising and marketing, reduced real estate infrastructure, and the like, the corporate world is figuring out how to operate with an incredibly low level of friction. All of this will drive profound increases in productivity in the years ahead.

Certainly, there are short-term winners and losers among those evolving trends, but consider the most powerful lesson we have learned from this pandemic: anyone with connectivity can communicate, advertise, transact and interface today with extraordinary ubiquity, and at virtually no cost. Imagine the possibilities.

## *The Power of You*

While it may seem hard to believe, a recovery of the labor market is in full swing. From the depths of the crisis, continuing unemployment claims have fallen 76%, representing the return of more than 18 million jobs. The labor market is already becoming stretched in some service sectors and the eventual onset of vaccine-built herd immunity will bring back millions of additional jobs, particularly in the travel, leisure and education sectors. Retail and industrial sector inventories are setting record lows and are in dire need of being rebuilt. Meanwhile, pandemic-induced transit bottlenecks have been impeding consumption, a phenomenon that will be quickly alleviated with the reopening of ports.

Further supporting an already solid economic recovery is a COVID-driven, systemic build-up of cash and savings. In the three months since the expiration of supplemental unemployment benefits, total U.S. savings have continued to grow at roughly $200 billion per month for a total increase of $634 billion. The combination of U.S. commercial bank deposits and money market assets together are now larger than the size of the U.S. economy, shattering previous record levels.

U.S. consumers have opportunistically embraced this windfall to pay down debt, and households have utilized historically low interest rate levels to reset borrowing costs to more favorable levels, with re-financings. All of these factors are durable tailwinds for 2021 growth.

## *Looking Ahead*

Some profit taking and consolidation are likely in the months ahead, as investors reposition and rebalance investments after an unprecedented year. As we have reminded you many times before, the so-called stock market is actually a market of stocks, and we strive to invest through our selected funds and chosen securities in those stocks that lead their industries, have strong management teams, low or no levels of debt, strong cash flow, and growing earnings. Even if risks emerge, including problems with the vaccine rollout, policy mistakes and tightening, unexpected interest rate increases or dollar shocks, we believe these companies can persevere.

And for all the risks we are not considering, we maintain as ever our commitment to a well-balanced and diversified portfolio that has built in liquidity and flexibility in the event of an unexpected outcome.

Thank you for trusting us with your financial well-being, and best wishes for a 2021 of health, joy and success in all parts of your lives.

## HIGHER TAXES INEVITABLE REGARDLESS OF CONGRESSIONAL CONTROL

As the Biden administration takes over this month, the lack of a Blue Wave materializing in the November elections will prove critical for any tax changes we might see between now and the mid-terms. The markets certainly reacted positively to the expected gridlock in Congress, assuming that comprehensive tax changes are unlikely to occur. However, with Republicans expected to bring the deficit discussion back to the forefront, it is still probable that we see appetite for more targeted policy changes that raise tax revenue. In particular, those targeting various corporate tax breaks as well as potentially setting a minimum overall corporate tax rate of 15%. An outside chance also remains that the headline corporate rate could increase from 21% to 28%.

Nevertheless, any broad rollback of the Tax Cuts and Jobs Act of 2017 appears out of reach, even if Democrats are able to secure a 50-50 split in the Senate following the Georgia runoffs. Getting all 50 senators to agree on such landmark changes would prove difficult, even without the ongoing pandemic. An easier path politically would be to allow that legislation to sunset in 2025. Either way, higher future taxes appear inevitable for both high-income earners (over $400k) and large corporations–many of whom have benefited greatly during the pandemic at the expense of small businesses. For now, targeted tax increases on these segments would allow Democrats to not only cover some of the cost of fighting the pandemic, but to fund future programs for infrastructure, health care, education and climate, which they believe will spur new economic growth for decades to come.

While higher taxes may be on the horizon, making such changes in 2021 appears out of reach, even for a motivated Democratic party. Biden economic advisor Jared Bernstein's statement that "tax increases are going to be very dependent on economic conditions" highlights the difficulty in passing such legislation as the economy looks to rebound this year. Still, the government will need to increase revenue, and so as these discussions get underway, there will be much talk about making any changes retroactive, even to 1/1/2021. Retroactive tax increases are rare, but not unprecedented. We have seen six major increases in the last 40 years, but only the 1993 corporate and individual rate increases were made retroactive. That legislation was passed in August, (with Democrats holding strong majorities in both the House and Senate) making a similar timeline for 2021 appear aggressive – particularly with such little room for error in the new Congress.



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