Insights and Observations: Fourth Quarter 2020

Working from home has unleashed an unparalleled period of growth for grocery goods. Global Workplace Analytics estimates that about one-quarter of U.S. workers will remain at home by the end of 2021, compared to only 4% prepandemic.

Evidently, many consumer-product companies agree that work-from-home habits will outlast the coronavirus. These companies are now expanding their facilities to make more at-home foods, paper products, and such things as beard-care supplies.

The pandemic has lasted so long that people have formed new habits and bought equipment to help them work from home for years. This gives us confidence that this isn't just a flash in the pan.

Bob Nolan, Conagra Brands Inc. – WSJ 12/27/20

Equities have generated returns of nearly 9% annually over the past three decades. Volatility has been high, with three separate occasions when stock values plummeted by 30% or more. Bond values, however, have tended to rise when stocks fall, offering some stability for balanced investors.

In today's world of low … and even negative … interest rates, there are concerns that the historical relationships between stocks and bonds will be under considerable stress. Many investors are even questioning the advantage of having bonds as part of an investment portfolio.

> **Bonds will still play a very important role in portfolios. Indeed, bonds have offered diversification … which could be especially beneficial in the years ahead as a bumpy recovery and secular shifts in the global economy create much greater volatility than the market has experienced over the last decade.**
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> **Erin Browne, PIMCO – Advisor Perspectives 12/24/20**

How can you describe what actually happened in 2020? How do you make sense of it? We had a bear market that started on February 19 and ended on March 23, and we clawed our way back to new market highs by September. In a very short timeframe, we witnessed a full market cycle and a full economic cycle. Consider the following synopsis by Charles Schwab's Chief Investment Strategist.

> **It's this monster mashup of so many periods and crises. The severity of the downturn in the economy is akin to what happened in the Great Depression, albeit hopefully much more short-lived. The speed with which the market crashed was reminiscent of 1987. It also makes me think quite a bit about September 11 because of the human toll, and the financial crisis because of the effort that the monetary authorities have taken.**
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> **Liz Ann Sonders, Charles Schwab & Co. – Barron's 12/30/20**

The proportion of Americans with a four-year college degree reached 36% last year … compared to only 9% in 1965. According to American Compass, a conservative think tank, for every successful college graduate there are four who fall short. They either do not enroll in college, drop out, or graduate and end up underemployed.

> **For millennials, *college or bust* created winners out of about 20% of the country's students, and bust for the rest. *College-for-all* has been a catastrophically bad system. It has to change.**
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> **Oren Cass, American Compass – WSJ 11/12/20**

College enrollment more than doubled between 1979 and 2010. Since then it has fallen by about 2 million, as the number of high school graduates declined and the "return on investment" was diminished. Analysts predict that many schools will close over the next few years.

> **Americans aren't turning their backs on education; they are reconsidering how to obtain it. The shift will eventually generate Americans with more education from a broader array of institutions.**
>
> **Douglas Belkin – WSJ 11/12/20**

Public school employment is down almost 9% since February, and is at its lowest level since 2000, according to the Bureau of Labor Statistics. Many U.S. schools are facing a growing shortage of teachers. The end result is teacher burnout, unhappy parents, and poorly educated students.

The staffing crunch leaves teachers educating children in person and online simultaneously, deep-cleaning their own classrooms, and taking turns as crossing guards.

School districts are recruiting parents as substitute teachers, online class sizes are soaring … and bus drivers are baby-sitting classrooms.

Bauerlein/Koh – WSJ 12/15/20

The situation is exacerbated when teachers are required to quarantine, and substitute teachers are not available. It is estimated that even without the pandemic, the pipeline of college students studying to become teachers would not be enough to offset the pace of retirement and attrition.

It's everyone. Large districts, small districts, rural, urban. A common theme is people are resigning, people are retiring, taking leave to care for sick parents, and they're not able to fill those positions.

Dr. Kristi Wilson, Arizona Superintendents Assoc – WSJ 12/15/20

Record debt levels, the result of huge monetary and fiscal stimulus, have helped borrowers get through the global pandemic. Governments and corporations have issued a record $9.7 trillion of bonds and other debt through November. Overall, global debt has risen $15 trillion to $272 trillion in the first nine months of 2020. By year end, overall debt levels are expected to reach a record 365% of world gross domestic product (GDP).

Today, aggressive fiscal and monetary policies are required to aid in America's ongoing recovery from the pandemic. It's the right thing to do. However, when this extraordinary period ends and life returns to normal, will politicians and policymakers have the discipline to rein in their programs? Recent history suggests that they won't.

Michael W. Arone, SSgA - Uncommon Sense 10/27/20

Record stock market valuations are causing analysts to predict weaker future returns for equity investors. Lower bond yields also do not bode well for fixed-income portfolios. (For example, Wilshire lowered its 10-year annual return forecast for stocks and bonds to 5.0% and 1.75%, respectively.)

What rate can I expect a dollar of my investments to grow? That's more challenging now.

Steve Foresti, Wilshire Consulting – WSJ 12/9/20

The implications are substantial for America's pension managers. Do they lower return expectations, and ask for more money from employers and workers? Or do they take on more risk, with the hope of achieving better returns?

Pensions and other retirement-benefit programs have struggled for years to figure out how to close the gap between the assets they have on hand and the cost of benefits they have promised to pay out in future decades. Their concerns continued to grow as investment returns fell. The pandemic is adding urgency to that long-term problem.

Heather Gillers – WSJ 12/9/20

A recent study from New York University's Stern School of Business concluded that the $2.5 trillion held by the 25 largest U.S. pension plans would fall about $780 billion short of the value of liabilities even if investment returns of 7.2% were achieved annually. The shortfall would double if investments returned a more conservative … and what many would consider more reasonable … 5.6% annually.

Total wages in the U.S. were only 0.4% lower in November than before the pandemic. Total income was actually 2% higher because of past stimulus. A recent study found that more than 80% of last spring's $1,200 stimulus checks were either saved or used to pay down debt.

About 2.3 million more people were below the poverty line in November than in February … and 2 million more were delinquent on their mortgage payments. Greg Ip, Chief Economics Commentator for the Wall Street Journal, estimates that it would take about $1.5 billion a month to return the 10% poorest households to their February levels. That's a far cry from the latest $900 billion stimulus package … never mind the additional stimulus that is being debated.

> **True, with interest rates near zero, money is cheap – but it isn't free. Adding that much to the national debt for stimulus of questionable efficacy now consumes political and financial breathing room that might be better saved for later.**
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> **Faced with the U.S.'s worst humanitarian and economic catastrophe in recent memory, it is tempting to assume there is no such thing as too much fiscal stimulus …There is, and we might be about to witness an example.**
>
> **Greg Ip – WSJ 12/30/20**

In just a short period of time, we have witnessed a full *market cycle* … which has left us with asset values at *nose-bleed levels*. And when this *economic cycle* has fully run its course, we will find ourselves in a world constrained by enormous levels of debt. The financial planning challenges will be widespread. Let us know if we can be of help.

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