SCHLINDWEIN ASSOCIATES
INVESTMENT COUNSEL

One Year On

Approximately one year ago, the full weight of the Coronavirus pandemic was exerted on economies and financial markets around the world. That a health crisis was at hand had become clear. The path out of the crisis and the full extent of the toll to be taken were unclear. A vaccination of some type held most promise but how and when it could be realized were conjectures at best. Monetary policies were forthcoming while fiscal policies were works in progress. One year on, thousands of lives tragically have been lost. Vaccinations now are underway with broad distribution in sight. Some highlights from this challenging time can provide perspective for investing yet ahead.

PERSPECTIVE

The broadest measure of activity for the U.S. economy, real GDP growth, is displayed in Chart I. Growth in the 2010s averaged +2.3%. 2019 growth was about average for this decade but lagged the 50-year average of +2.7%. The seismic impact of the pandemic is clear in the record-setting 2020 second-quarter collapse. As a result of swift policy enactments and promises, the third-quarter rebound set a record as well. Nevertheless, 2020 posted the largest annual decline since 1946. Robust growth now is projected for 2021 at a well-above average rate of +5.5%. Growth could move materially higher as a result of more fiscal stimulus at hand and additional expected ahead.

Reflecting relatively benign monetary policy at the time, U.S. Treasury yields drifted lower throughout 2019 as shown in Chart II. The Federal Reserve was the first-responder to the pandemic fallout on economies and markets, lowering policy rates to near zero once again. All interest rates responded in kind, and remained lower on average throughout 2020. Ample credit availability and market liquidity provided the backstop for economic recovery. Low policy rates are expected to continue while bond yields trend higher over 2021 with growth rebounding and a whiff of inflation. Bond yields well below 50-year averages (6.2% for 10-year U.S. Treasury notes) are leading investors to search elsewhere for higher returns.

Stock markets certainly provide a path to higher returns through higher risk. Chart III captures the return and risk of the Dow Jones Industrial Average ("DJIA"). As Coronavirus spread globally, the robust outcome of 2019 was reversed and an eleven-year bull market ended. The DJIA posted the largest first-quarter loss in its 124-year history. With swift and sizable policy responses, loss was countered by the fourth largest DJIA second-quarter gain, and the uptrend persisted through year-end. In spite of overwhelming health and economic challenges, stock investors were rewarded for staying the course amidst elevated risk. Improving corporate earnings and low interest rates provide support for current stock market levels. At the same time, relatively high valuations warrant a note of caution.

INVESTMENT IMPLICATIONS

The Coronavirus pandemic persists, but much more is known one year on. Investors have witnessed a systemic risk not seen in a century. Science and technology have risen to the moment and provided a path forward sooner and more effectively than most envisioned. Much change has occurred in daily life but promising "new normals" now are contemplated. Investors should reaffirm goals, horizons and tolerance for risk, the need for which has been confirmed once again.

CHART I

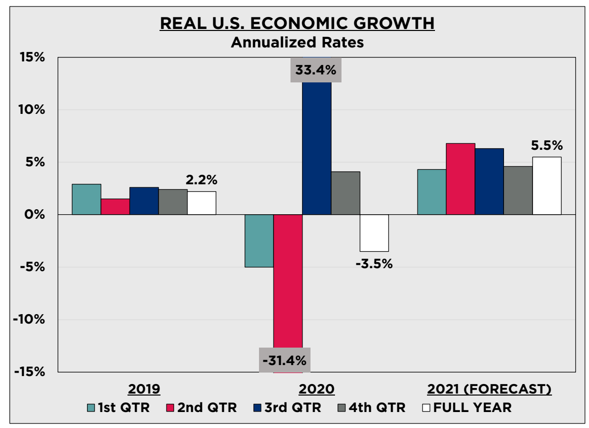

CHART II

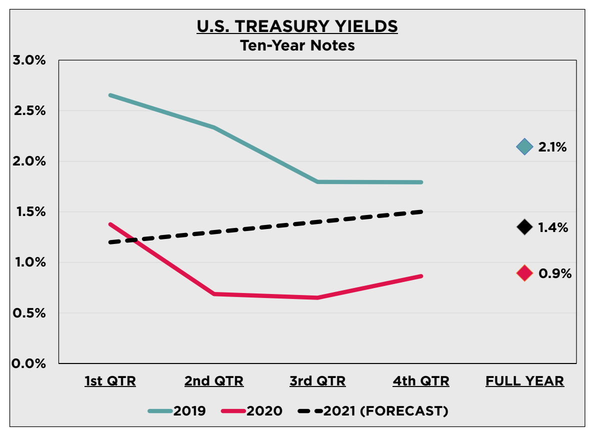

CHART III