

Financially Speaking

Could Another Roaring 20's Be In Our Future?

As the legend goes, when the Phoenix resurrects from the flames, she is even more beautiful than before.

It can be hard to reconcile the realities of 2020 with how the investment markets performed. It was a year like no other, dominated by a global pandemic the likes of which the world has not seen in a century. All of our lives have been impacted in very real ways and as governments struggled with how to cope with Covid-19 the economy was directly impacted as well. The US economy went from growing at about a 2.2% rate in 2019 to experiencing its first recession in over a decade. And despite some bounce back in the fall, economists estimate that US annual GDP growth for 2020 will be negative for the first time since 2009.

We can see the real impact of this here in our own community with businesses temporarily or permanently closed, our friends and neighbors dealing with job losses or reduced hours and long lines at the local food pantry.

In the face of this I know it may be surprising – though hopefully pleasantly so – to look at year end investment account statements and see how they performed.

When I wrote about the impact of Covid-19 on the investment markets in my column last spring I talked about how I felt that the initial stock market declines were larger than the situation warranted and that I expected some recovery in prices to occur once investors recognized that, though tragic and horrible, its impacts on the economy would likely be temporary. That proved to be even more on point than I would have predicted as the stock market reversed course in a near V shape and headed back up.

Initially the stock market recovery was concentrated largely in areas that were still able to grow during the stay at home environment such as leading companies in technology, on-line entertainment and at home shopping. Invariably though, investors started to look beyond that and think about the future and what other types of stocks could benefit when the timeframe for a return to normalcy seemed more predictable. In late November, with the announcement and subsequent approval of two Covid-19 vaccines in the US, the investment markets seemed to get the greater sense of predictability that they had been waiting for and the rally broadened to include stocks in areas that had been stagnant or even negative prior to that point.

Looking just at the investment markets, 2020 shaped up to be a pretty solid year. Not only did the broad US stock market recover the losses that occurred in the spring, but it went on to post solid gains. The end of year surge helped international stocks to do the same. Even bonds had a particularly nice year as they received the one-time benefit of price appreciation that corresponds with falling interest rates.

It is incumbent upon investors to always be forward looking because the investment markets have historically moved based on what is anticipated to happen in the future, much more than what has happened in the past or even what is happening today. Looking ahead, the optimistic case is that

Covid-19 vaccination programs are successful, and that some amount of economic normalcy is able to return later this year.

The backdrop though has changed, and largely for the better if you are a stock investor. Interest rates are at historical lows and the Federal Reserve has committed to keeping them there for an extended period; the financial system appears healthy and is awash in liquidity; and, while politicians may debate about whether even more governmental fiscal intervention is warranted, there is no arguing the fact that the two rounds that have already occurred dwarf the size of what was done following the Great Recession. As strange as it seems, there really may be a rational explanation for the stock markets being at the levels they are.

There is a possibility that we could be seeing the green shoots of an economic resurgence that could last for some time. While uncertainty abounds, the potential for pent up demand to drive a surge in economic growth seems reasonable. Already there are reports that luxury cruise lines are sold out for their 2022 sailings and there are conferences and events starting to confirm dates again. Humans are by nature resilient and social. We want to do things – go places and be with people. Once humanity feels safe doing so I don't think it is a stretch to think that many will.

Some of the greatest waves of economic growth in history have come after some of the darkest of times. It is no coincidence that one of the most robust periods of growth in history occurred following World War II. And people often credit the ending of World War I with leading to the boom that became known as the Roaring 20s but perhaps just as much of the surge came from the pent up demand that followed the world's battle with the Spanish Flu pandemic that ended in 1920.

As Mark Twain famously said, "History doesn't repeat itself, but it often rhymes."

Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties which are difficult to predict. Past performance is not indicative of future results. All indices are unmanaged, and investors cannot invest directly into an index. Diversification does not ensure against market risk.

Trisha Amdt, CFP®, is President of Wealth Strategies of Wisconsin Ltd, 951 Kimball Lane, Suite 110, Verona, WI 53593, 848-2400. Securities and Advisory Services offered through Commonwealth Financial Network, member FINRA/SIPC, a Registered Investment Adviser.