



BOB CARLSON'S

Retirement Watch
SPOTLIGHT SERIES

The Unfolding Post-Pandemic Economy

Investment and Economic Review

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2020: The Unique Year

- **Unusual cause of recession**
- **Fastest bear market**
- **Also shortest bear market**
- **Steepest recession**
- **Steepest rebound**
- **Historic low interest rates**

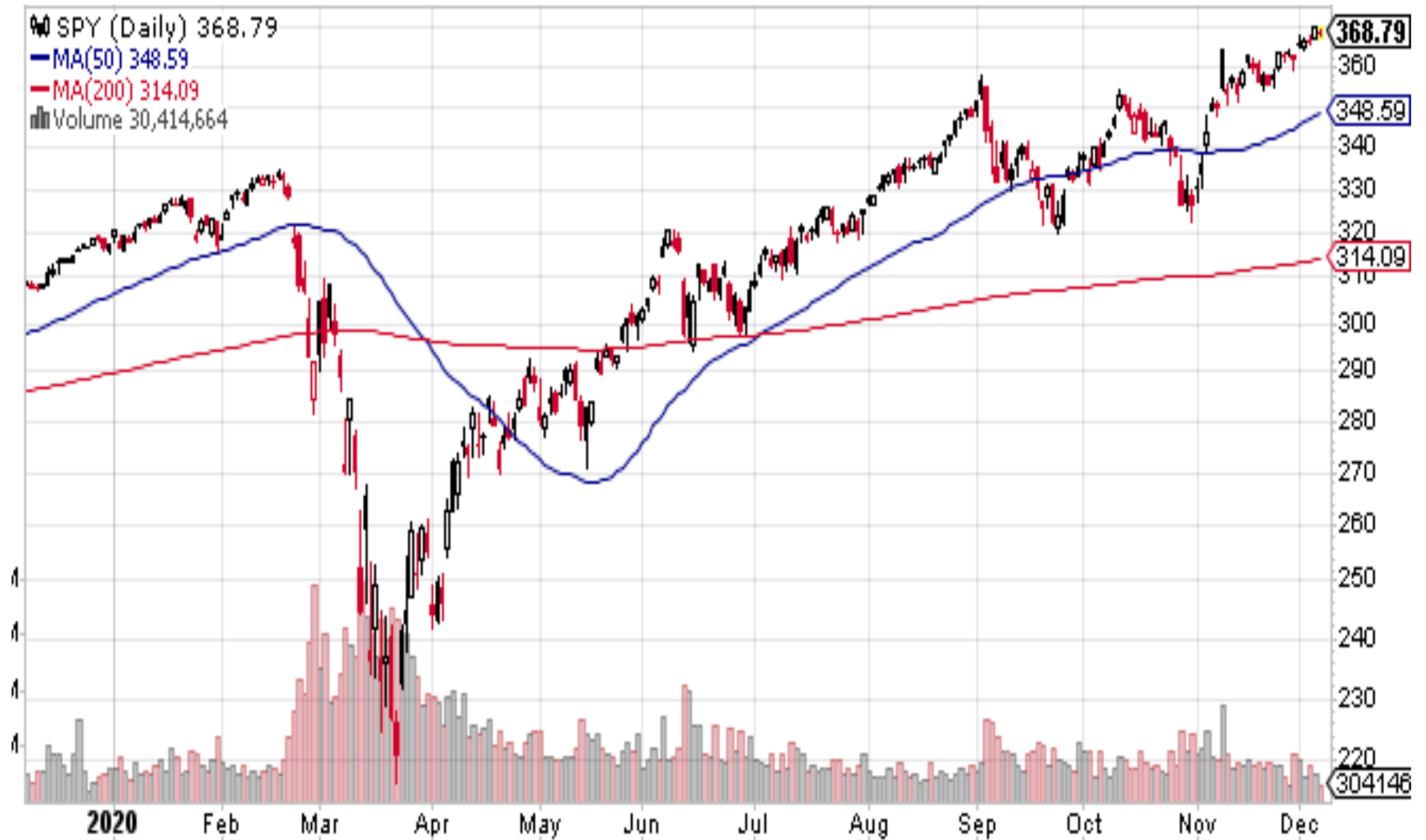
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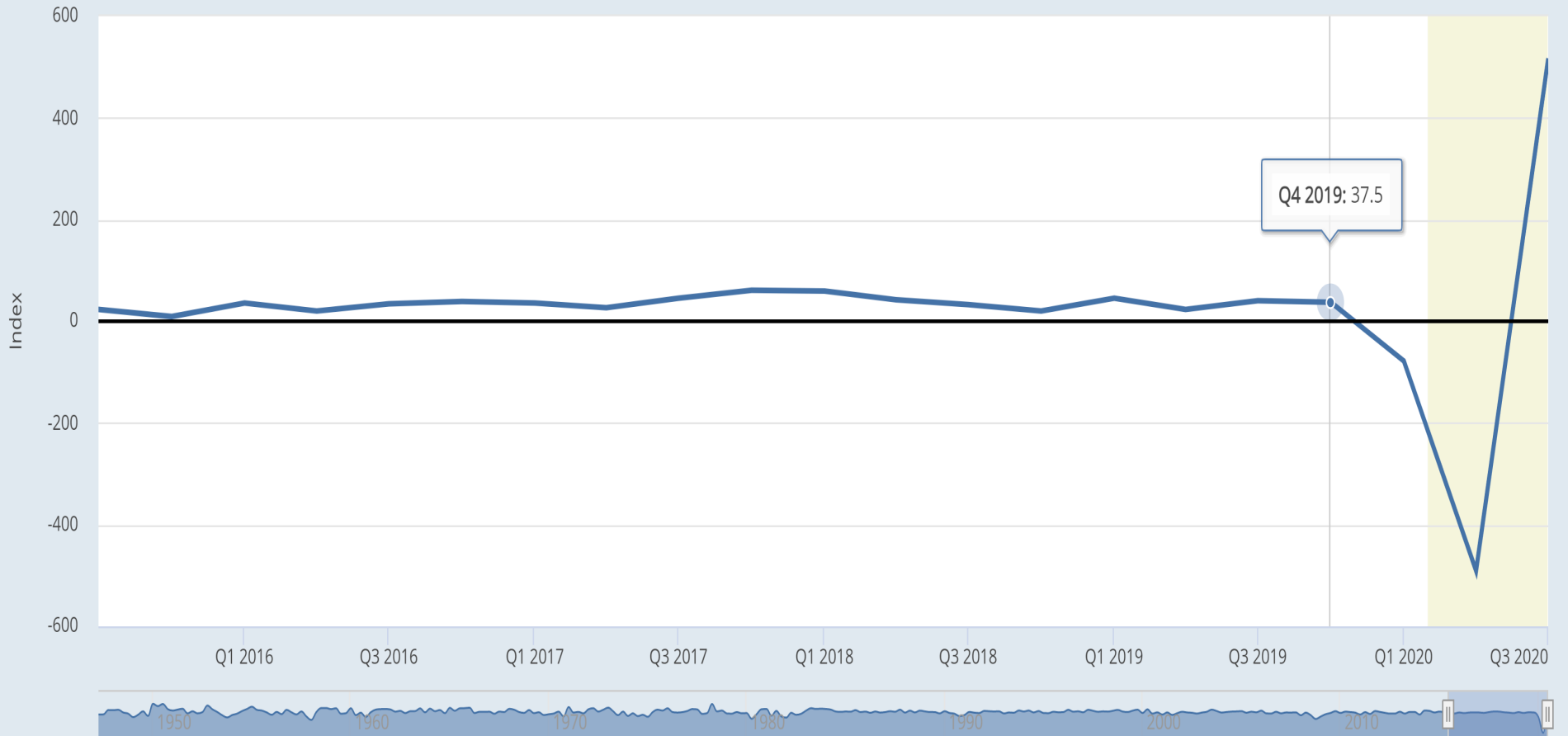


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FRED

— Real Gross Domestic Product, Q2 1947=100



U.S. recessions are shaded; the most recent end date is undecided.

Source: U.S. Bureau of Economic Analysis

fred.stlouisfed.org



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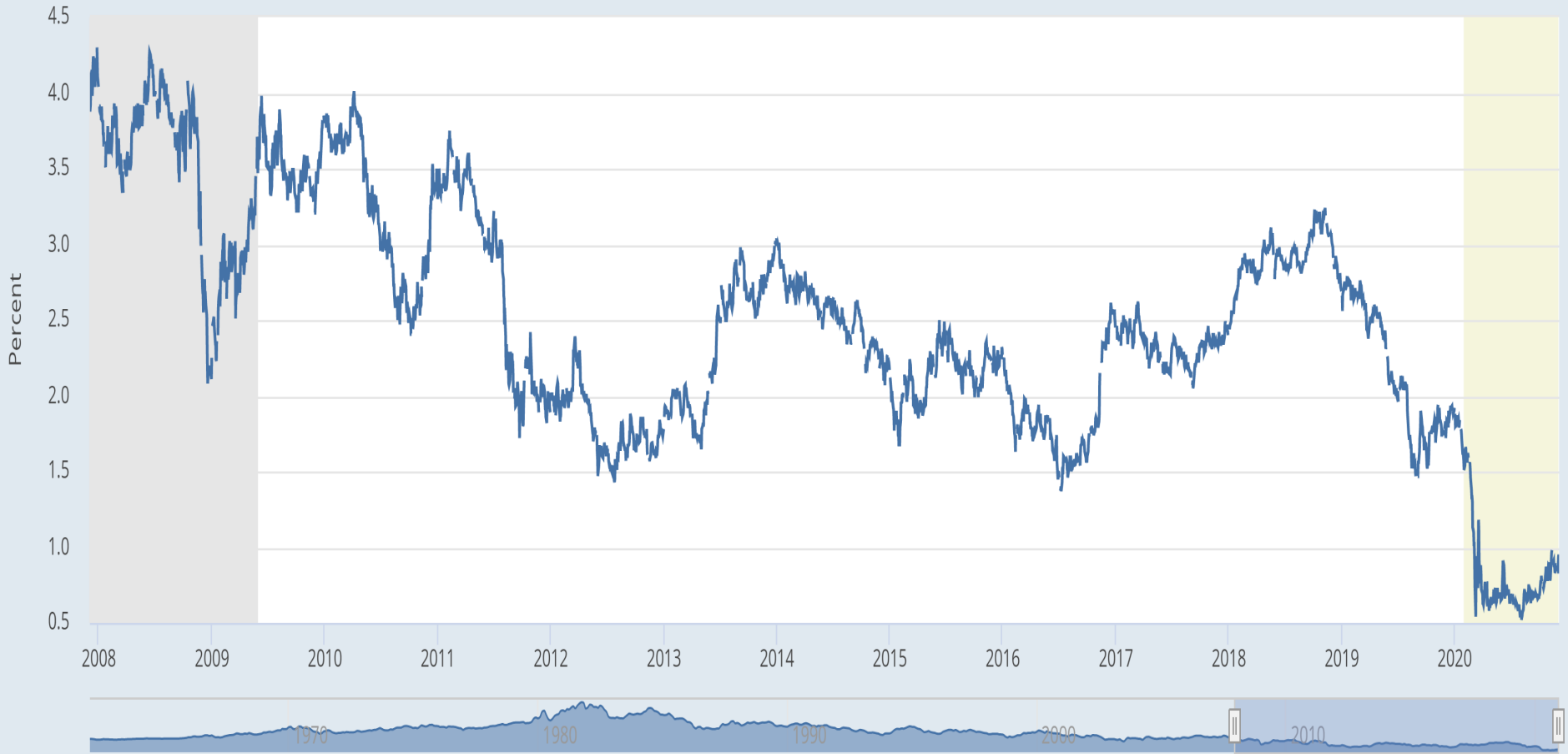
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FRED

— 10-Year Treasury Constant Maturity Rate



U.S. recessions are shaded; the most recent end date is undecided. Source: Board of Governors of the Federal Reserve System (US)

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Where We Are

- **Strong recovery from bottom**
- **Bad hasn't dragged down good**

But...

- **Economy still in deep recession**
- **Sharp divergences in economy**
- **Fiscal stimulus faded, more needed**
- **Monetary stimulus will continue**

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What's Next

- **Economy, markets reacting to virus developments again**
- **Vaccine optimism premature**
- **Retail spending stalling**
- **Employment growth stalling**
- **Timely indicators slowing**

Vaccine bounce back in mid-2021

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Don't Forget These Factors

- **High debt**
- **Reduced trade**
- **Higher international tensions**
- **Income/wealth inequality**
- **Slow growth returning**

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What Markets Are Pricing

- Little change in interest rates for years
- Little change in inflation for years
- Winners will continue to be winners
- High profit margins will continue
- U.S. will continue to dominate

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Guidelines for 2021

- **Expect higher-than-usual uncertainty**
- **Uncertainty from outside markets**
- **Low rates mean lower future returns**
- **High recent returns = lower future returns**
- **Some assets reflect high optimism**
- **Investors sought higher risk in 2020**

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Profit Margins Are Key

- **Historic average margins for decades**
- **Added about 40% to stock prices**
- **From 2007-2018:**
 - **Tech margins: 13.7% to 17.4%**
 - **Cyclical goods: 1.6% to 6.0%**
 - **Average company: 9.4% to 11.6%**



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Challenges to Profit Margins

- **Global taxation**
- **U.S. corporate and tech taxation**
- **Antitrust actions: U.S. and global**
- **Higher labor costs**
- **High production, less global outsourcing**
- **Regulations, data privacy**
- **Trade restrictions**

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More Guidelines for 2021

- **Stock selection more important**
- **Recent laggards likely to surge**
- **Look at value, small cap**
- **More volatility**

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Inflation/Stagflation Outlook

- **Disinflationary forces are fading**
- **Central banks will remain aggressive**
- **Need to pay off debt**
- **The World War II experience**

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Investment Plan for 2021

- **Diversification, balance**
- **Be tactical**
- **Look for niches, good managers**
- **Be global**
- **Asia is a good opportunity**
- **Expect inflation, weak currencies**

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