# Getting to the Other Side

> “In the middle of every difficulty lies opportunity.”
>
> – Albert Einstein

Not much actually changed at 12:01 a.m. this past New Year’s Day, but we all likely felt a sense of relief that 2020 was officially over. Although the current health crisis is still in full effect, there are green shoots signaling that we’re getting closer to normal life again (whatever that new normal looks like). Now we just need to get through the rest of winter.

The stock market clearly shares the sentiment that better days lie ahead. **In fact, the S&P 500 Index ended the year up +18.4%, which would be a fantastic year in a *normal* environment (not one punctuated by a pandemic along with social and political unrest).** However, as we’ve shared in the past, not every S&P 500 stock has performed in line with the average – there has been tremendous skew in the index performance numbers as certain stocks, particularly large-cap growth stocks, have driven much of the past year’s performance; while many of the remaining stocks have been left in the dust (energy and financials, for example). If you look at the S&P 500 Equal-Weighted Index, which better reflects the performance of the “average” stock in the index, the performance was up **+10.5%**. Still a good year, but most portfolios probably didn’t do as well as the S&P 500 unless you were willing to own a more concentrated portfolio in large-cap technology stocks. **In summary, the most pandemic-resistant companies served as safe-haven assets this year, thus rallying, while those that normally thrive on human presence languished.**

Even bonds did relatively well this year. The Bloomberg Barclays US Bond Aggregate (a proxy for the broader bond market) was up **+7.5%**, partly due to the drop in interest rates, but also because “riskier” credit bonds had a tremendous recovery as recession concerns began to wane. However, short-term rates are essentially 0% (and staying there a while); while longer-term rates, such as the 10-year Treasury Bond at roughly 1%, are very low – making it hard to see this type of performance continue as we move into a recovery mode and won’t keep getting a boost from the rate drops. For us, we care more about getting the cash flows and yield as expected based on our purchase price. We pay very little attention to the short-term moves in the interim (just “paper” gains and losses).

### Reflecting on these numbers, this is not what one would expect during a recession year. But this was no ordinary recession…

Certainly, this was a unique recession in depth and speed to recovery – as it was mostly self-inflicted due to the Spring lockdowns. The massive stimulus efforts of the US Fed and Treasury helped resuscitate the moribund economy and capital markets. As you recall, these efforts were unprecedented in scale and speed to deployment.

So, what does the new year hold for us? In general, there are several elements in place that should create a favorable environment for the economy and stock market. Given that close to 70% of the US economy is driven by consumer expenditures, the abating Coronavirus crisis should create a nice jolt in the arm as deferred spending comes back online. Add to this the fact that savings rates have been relatively high during the past year (it’s hard to find things to spend your money on during a lockdown once you've stocked up on toilet paper and cleaning supplies). **However, it is important to remember that this is widely expected to be the case (the "consensus view" as we say), so any speedbumps (and we know those are bound to happen) could create market anxiety if things don't go exactly as planned.**

Lastly, it will be important to watch how businesses and individuals evolve as a result of the events over the past year. Typically, during times of adversity, good businesses will learn how to be more resilient, and new businesses will be created to address changing needs. Many of the longer-term themes we were watching have accelerated as individuals adopt new technologies and means of doing things that they might not have done without the extra push to change. What this means is that we will continue to watch shifts in the business landscape that will create investment opportunities. Our team spends a lot of time and energy on this and is laser-focused on continuing to identify these opportunities for the wealth we manage on behalf of our clients.

## Speaking of transitions

We were pleased to launch our rebranding and new website last month. Thank you for all of the wonderful feedback! If you have not had a chance to check out our new website, please visit **www.npfinvest.com** and tell us what you think. As you are aware, we are committed to making NPF a great firm by investing in our talent and evolving our capabilities to meet the needs of our clients. Our hope is that our new brand will signify our friendly and inviting culture while staying true to the firm's original heritage and founders.

We are very grateful for our wonderful clients and team. These have certainly been trying times, but the positivity from so many of you has made each day more manageable. Brighter days are ahead, and we are truly excited to continue to be your trusted advisors to **unlock your life's full potential.**

Sincerely,

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