

CAPLAN CAPITAL MANAGEMENT, INC.

24 NORTH THIRD AVENUE, SUITE 201, HIGHLAND PARK, NJ 08904 TEL: (732) 249-8600

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Investment Review and Outlook

Investors continued to experience a state of nirvana in the fourth quarter despite many external events that normally would weigh on investor sentiment. We entered the quarter with escalating Covid-19 infections and a contentious presidential election. But the market performed consistently well throughout the quarter. Many major market indices closed the year at or near record highs. Even neglected value stocks and small cap stocks had their turn to shine, particularly post-election. The broad-based Russell 2000 index displayed particularly strong performance in the quarter, rising over 30%*, and ended the year near its all-time high.

While the toll of the Covid-19 pandemic on both humankind and the economy continues to climb, it is becoming increasingly clear that it has been unable to deflate the overall economy for very long as some believed. The power of massive monetary and fiscal stimulus ultimately overwhelmed fears of economic collapse and helped the financial markets recover at record speed. Yes, many Americans have been impacted heavily by the virus. Moreover, a number of industries have been mortally wounded. But the economy overall has survived and is expected to grow solidly in 2021.

We see the combination of the most recent fiscal package from Washington, as well as the Federal Reserve's continuing war on unemployment, to continue to support market performance in 2021. While the economy continues to grapple with the effects of the pandemic, the economy will likely see fairly solid growth in 2021, particularly in the latter half of the year, when the majority of Americans are hopefully vaccinated.

One major question for 2021 is how much of the equity market rally in 2020 has already been discounted by market participants. There is no doubt that sectors such as travel and entertainment are poised for substantial growth as Americans look forward to resuming many pre-Covid activities. That said, many ailing stock market sectors have already rallied substantially in anticipation of the expected recovery. We envision bifurcated performance in the stock market in 2021 and believe stocks with more modest valuations will lead the market as the economic recovery unfolds.

Investing in the Biden Era

In less than two weeks, the inauguration of President-elect Joe Biden will take place, along with a hopefully peaceful transition. We are encouraged that the new administration will be led by seasoned and generally pragmatic Washington veterans such as Janet Yellen, who will be heading the Treasury Department. While it is not clear how policy will unfold, especially given a dysfunctional and divided Congress, we are anticipating certain likely policy legislation that could affect a number of sectors of the market. We see the Biden administration focusing on two key policy changes in the coming year:

1. **Tax Increases:** The Democrats will likely entertain raising taxes on the ultra-wealthy and corporations. Yet, we believe that the Biden team understands that a complete rollback of the corporate tax rate could snuff out an economic recovery. We expect any tax increases to be modest and targeted and will likely have little adverse impact on the economy and the financial markets.
2. **Infrastructure Deal:** While the Biden administration will be prodded by the left wing of the party to promote a massive "Green New Deal" spending plan, we believe that future fiscal stimulus will be targeted to infrastructure spending. An infrastructure deal will likely find broad bipartisan support. Sectors including industrials, materials and energy would be the likely beneficiaries.

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