Investment Environment & Outlook

January 2021

Volume 8, Issue 1

Sabal Trust

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Market & Economic Environment

Even as another COVID-19 wave exerts its influence across the world, 2021 brings optimism due to the development of a successful vaccine and the current distribution activity that is underway, which should aid the road to recovery. Policy support from both Congress and the Federal Reserve will continue this year, especially with a new Administration taking office in January. After the markets experienced extreme bouts of COVID-induced volatility, the start of the year is an excellent chance to review portfolio asset allocations to ensure they properly align with long-term investment goals and risk tolerances.

POLITICAL ENVIRONMENT

Democrats picked up the coveted Georgia Senate seats, which dramatically changes the political landscape in Washington D.C. and gives the incoming Biden Administration greater flexibility to implement various policy initiatives. Even with a Blue Wave, the 60-seat majority in the Senate remains elusive, which means the budget reconciliation process will be a tool used to shepherd policy initiatives through the legislative process.

CONSUMER PRICE INDEX

While inflation remains stubbornly low, pricing in goods and services continues to rebound from the pandemic-lows. Over the last several years, inflation has run below expectations allowing policy makers to be more accommodative with their engagement in the economy. As the economic recovery continues and cyclical pressures build, we could see an uptick in the inflation readings.

LEADING ECONOMIC INDICATORS

Leading Economic Indicators, including the Purchasing Managers Index, durable goods orders and consumer confidence, are highly correlated to the economic cycle. The LEI index continues to rise, but at a slower rate of increase, which could indicate an economy that is stalling. The likelihood of additional fiscal stimulus measures are designed to aid the economic recovery process.

RETAIL SALES

Increased case counts and hospitalizations, coupled with newly announced lockdowns and restrictions on mobility have negatively impacted recent retail sales. High frequency data including hotel bookings, OpenTable reservations, miles driven, and other granular measures confirm this broader weakness. Grocery store sales remain positive, which indicates a less-mobile consumer. The key question is whether this spending slowdown extends into 1Q21 and ultimately impacts the trajectory of the economic recovery.

INDUSTRIAL PRODUCTION

The economic dislocations caused by COVID-19, disrupted supply chains and adversely impacted inventory levels. Recent Industrial Production data, driven by robust auto production activity, signaled that companies continue the process of rebuilding and replenishing inventories. The production of business equipment remains depressed, but due to a strong consumer, consumer goods production is strong. When combined with positive manufacturing data, this signals continued production activity which should be supportive of the economic recovery that is underway.

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Fixed Income Observations

During December's FOMC meeting, Federal Reserve officials slightly altered guidance on their asset purchase program. Specifically, they announced targeted measures for inflation and unemployment instead of solely offering a timeline for the program. Against the backdrop of a challenged economic environment, another COVID-19 wave, and new lockdowns, Monetary Policy will remain highly accommodative for the foreseeable future. Longer-dated yields moved higher as the drama on the political front played out with the Democrats taking the two Georgia Senate seats giving them a Blue Wave that will change the spending calculus in Washington D.C. for the foreseeable future.

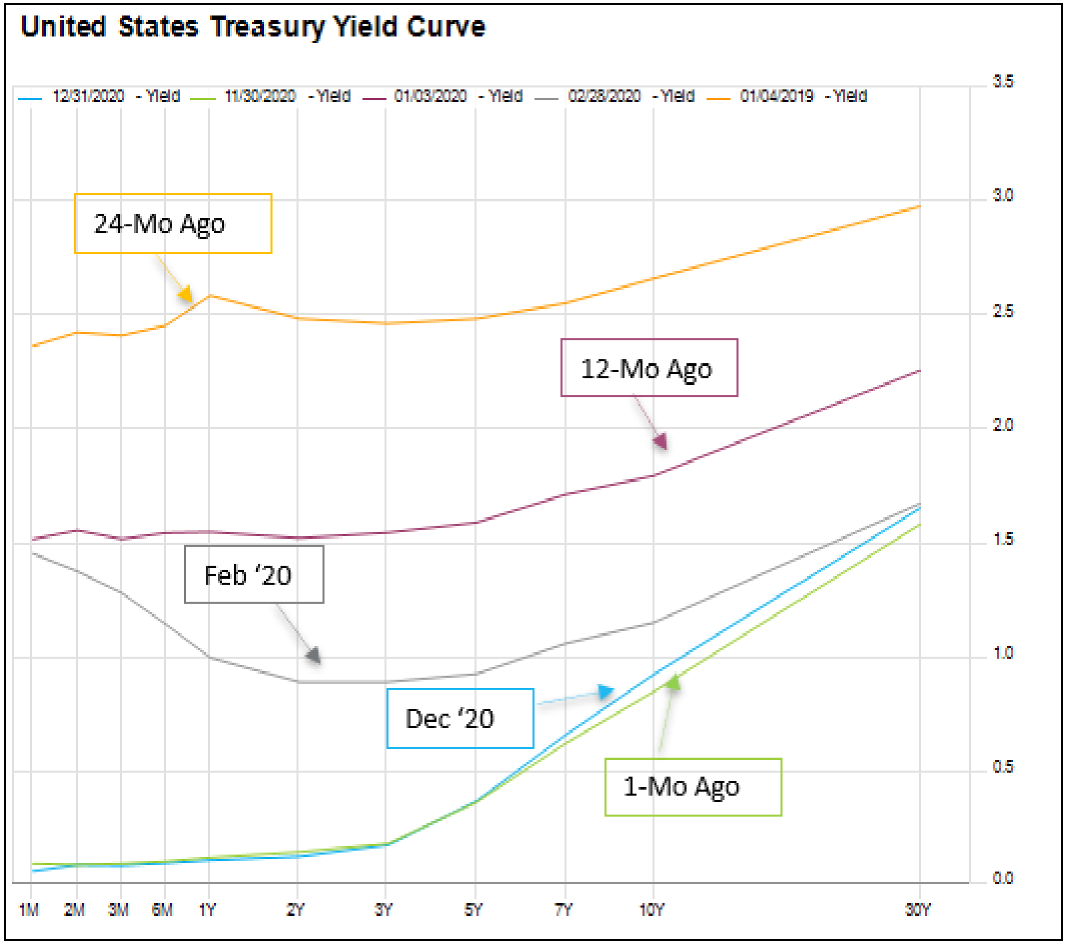
YIELD CURVE

- Since the Pandemic's onset, the Federal Reserve has been highly accommodative. Policy makers anticipate keeping interest rates low until unemployment recovers and inflation pushes consistently above 2%. The minutes of the latest Federal Reserve policy meeting indicate no changes to benchmark interest rates until 2023.

- In December, the Federal Reserve made no adjustments to the average maturity of their asset purchase program. They are committed to current levels of purchasing activity.

- December yields closed steeper due to positive news on additional stimulus measures. 10 yr. yields increased 7 bps and closed at 90 bps. 30 yr. also rose by 8 bps as the 2s-10s spread steepened by 11 bps.

- January opened with a firm tone and a steepened yield curve due to the political reality of a Blue Wave. A key risk in 2021 will be a sharper steepening of U.S. Treasury curve, which could lead to negative total returns.



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