2021 Van Leeuwen & Company Market Outlook

Outlook Predictions	2020 Outlook Estimate	2020 Result	2021 Outlook Estimate
Risk of Recession	Low	Recession Occurred	In Recession Currently
Federal Reserve Actions	No Fed Action	0 Rate Cuts	No Rate Increases
Inflation Expectation	2.0%	1.4%	2.0%
U.S. Gross Domestic Product Growth	+2.2%	-3.5%	+4.2%
U.S. Earnings Growth	+5% - 8%	-14.9% (estimated[2])	+5% - 8%
U.S. Stock Returns (S&P 500)	Mid-to-High Single Digits	+18.4%	Mid-to-High Single Digits
Fixed Income Returns	Low Single Digits	+7.7%	Low Single Digits

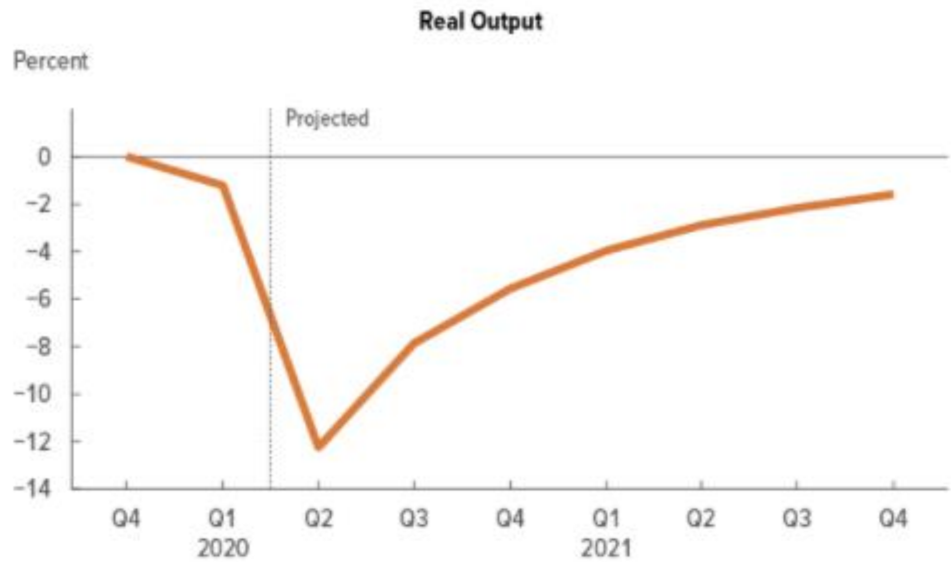
Adjectives abound to try and capture the upheavals of 2020 – "unprecedented," "unpredictable," "incomparable."

But after this tumultuous year, the momentum in the market continues into early 2021. It is probably fair to say that no one saw 2020's volatility in advance. One of the worst pandemics in our lifetime is still with us, but we are optimistic about the future.

The U.S. economy experienced a sharp recession, mostly due to the pandemic and lockdowns, but it is expected to continue to rebound in the second half of 2021. We are through the election cycle and President Biden begins his term with a focus on vaccine distribution and economic recovery. Many Wall Street analysts and economists expect U.S. Gross Domestic Product (GDP) growth to increase much more than it did in 2020.

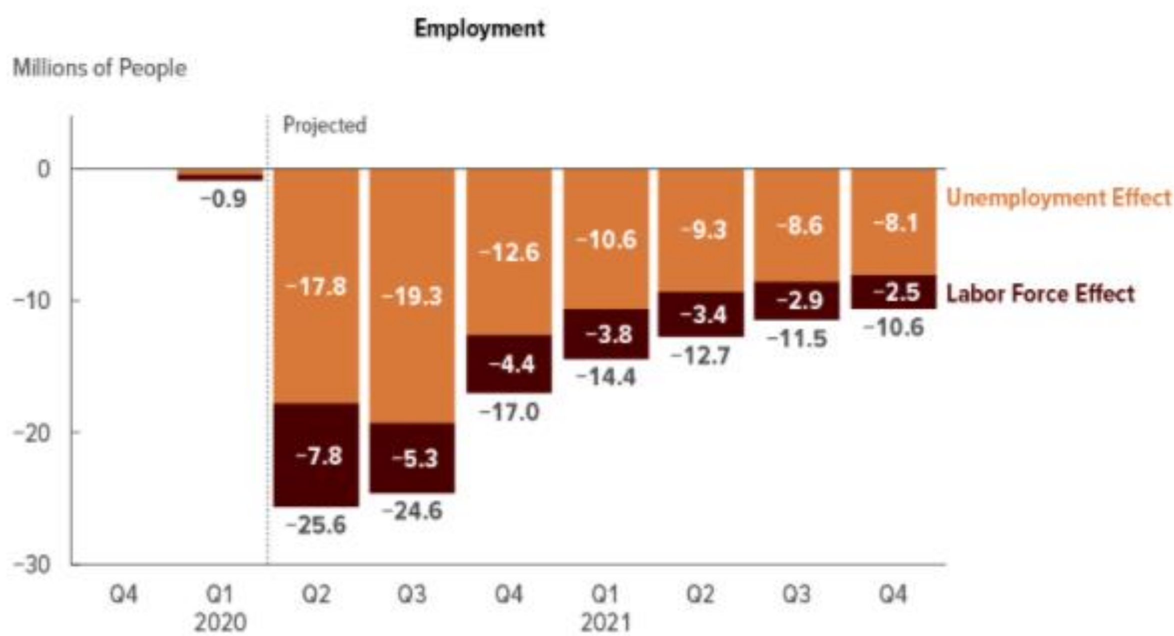
At Van Leeuwen and Company, we are focused on fundamentally strong companies that have time-tested track records of successfully navigating different economic environments.

We estimate that U.S. GDP growth will increase by 4.2% in 2021. Economic indicators suggest that our economy is in expansion mode after such a disruptive 2020. Unemployment was at historically low levels pre-pandemic and we anticipate these levels to slowly return to historical averages. Employment numbers are expected to get stronger as we go through 2021.



Source: CBO

[*“Real GDP expands rapidly over the coming year, reaching its previous peak in mid-2021 and surpassing its potential level in early 2025."*]() – Congressional Budget Office



Source: CBO

After a historic election cycle, we have some clarity on key political issues. President Biden began his administration and is working on filling key cabinet seats. The President has stated that his primary focus will be on getting the American people vaccinated to control the pandemic. We are hopeful that the administration's plans will speed up the rollout of vaccines and get businesses back open.

President Biden enters his administration with a 50/50 split Senate and a Democratic majority in the House of Representatives, which could help in passing new policy, such as a stimulus package. One of the largest questions that remains of this administration is what will be done with taxes.

Tax reform could contribute to volatility if passed in 2021. It does not seem that the Administration will be too quick to change taxes until it gets the economy back up and running. It is unknown how long the recovery will take before taxes are brought into question, but the timeline is short given 2022 is a mid-term election year and Congress has historically been hesitant to pass major tax law changes close to an election.

Expectations for U.S. stock market returns are mid-to-high single-digit growth among many Wall Street analysts. This would be a much lower return than the S&P500 had in 2020, but without the recession. The U.S. economy still needs some help to get back on its feet, and we believe that growth will be seen as we progress through 2021.

Many of the S&P500 gains from 2020 came from more growth-oriented companies, specifically in the technology sector. There was a stark difference in returns between the heavily technology weighted S&P500 and the more industrial Dow Jones Industrial Index last year, and this may present some opportunities in the market.

Estimated 2021 earnings growth for U.S. companies is difficult to determine based on what occurred in 2020. Last year, we saw two different outcomes in earnings due to the pandemic. Those companies that thrived in the pandemic environment saw tremendous growth, while many other companies saw negative earnings growth. In 2021, it is estimated that earnings growth will somewhat normalize to historical averages. There is still uncertainty regarding some companies and their earnings due to the ongoing pandemic.

The U.S. economy is recovering, and we expect to see strength build as we progress through 2021.

Many analysts estimate fixed income markets to be flat or grow in the low single digits throughout 2021. U.S. Treasuries will be impacted the most by interest rates. 2020 was a great year for the bond index, but it is possible that we will not see the same returns in 2021. We have been seeing bond yields rise towards the end of 2020 and into the beginning of 2021. This could continue through 2021, which would put pressure on bond prices going forward.

We believe that high-yield bonds will outperform their investment-grade bond counterparts in 2021.

It is estimated that the Federal Reserve will not raise rates in 2021. While the Fed did not change rates in 2020, it did step in to provide liquidity to the market during the pandemic. This helped keep the bond market stable, and even grow, during such unprecedented times.

While many do not think the Federal Reserve will raise rates in 2021, it is possible. If the economy really starts to grow, then the Fed may try to raise rates. This possibility could slow markets if that happens.

The general expectation for inflation for 2021 is hovering around 2%. This estimate is similar to the goals of the Federal Reserve. Inflation was even lower than expected in 2020, mostly due to the pandemic. It is possible that inflation could be higher in 2021 for the same reason as it was low in 2020. There is pent-up demand for certain goods and services brought on by the pandemic. When vaccines are widely available and people can get back to a new "normal," we expect people to spend on all the things they couldn't during the pandemic. This consumer demand could drive inflation higher than expected.

"Over the course of the coming year, vaccination is expected to greatly reduce the number of new cases of COVID-19, the disease caused by the coronavirus. As a result, the extent of social distancing is expected to decline. In its new economic forecast, which covers the period from 2021 to 2031, the Congressional Budget Office therefore projects that the economic expansion that began in mid-2020 will continue." – Congressional Budget Office

In summary, we are entering 2021 on a generally positive note but volatility could possibly be seen depending on the vaccine rollout. We saw a recession in 2020, but we do not expect that kind of volatility to return in 2021. Van Leeuwen& Company continues to favor fundamentally strong and financially stable companies that could withstand volatility that may creep up in 2021.