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CAPITAL MANAGEMENT

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Market Outlook for 2021

The presidential election circus is over! **To begin his political honeymoon period, Joe Biden has proposed a $1.9 trillion stimulus bill, intent on adding more punch to a bowl already overflowing.** So stocks have been making new highs, with the good vaccine news making nearly everyone more optimistic about the direction of the economy and the market.

An environment like this should continue to be a bonanza for the high-momentum growth stocks, especially for the S&P 500, with Tesla having been added to the index and now the largest weighting. **But you might be surprised to learn from the chart below that the Value stocks have dramatically outperformed the S&P 500 and the Russell 1000 Growth indexes in the three months following news about the Covid vaccines*.**

Value / Growth
Since the Vaccine News on 11/6/2020

Performance 11/6/2020 – 2/17/2021

		Value Outperformance
Schafer Cullen High Dividend:	**+19.12%**	
S&P 500:	+12.55%	+657
Russell Growth:	+10.47%	+865

Also, this year's powerful start to 2021 would seem to favor the growth stocks, but so far (12/31/2020 – 2/17/2021) our High Dividend Portfolio is handily outperforming the S&P 500: +6.75% versus +4.88%.

In our year-end, November 18, 2020, market letter that we titled "A Turn for Value in 2021," we gave readers two reasons why 2021 should be good for value. First, the possibility of a flip year after the extreme divergence in performance that we saw in 2020, and second, the history of the election cycle, which shows that the first year after a presidential election is historically the most difficult for the market, but a good one for value.

The Flip Year

We have seen in the market's past that once the divergence between growth and value becomes extreme, the year that follows produces a flip, with the underperforming sector becoming a dramatic outperformer. This is what happened after 1999 when beginning the next year value dramatically outperformed growth for most of the next ten years.

The Election Cycle

Market history shows that after a usually short honeymoon for a newly inaugurated president, the reality of problems facing the economy start to appear. **The record shows that the year after the election has been the worst in the four year cycle; there were 14 recessions over the last 70 years and they all started in the first year after a presidential election**. Also, during those 14 recessions, value outperformed growth in every case.

Market Momentum

Valuations are at record levels and warning signals abound, such as the monstrous daily trading volumes, hot new issue markets, obsession with Robinhood day trading, etc. But of course you can never underestimate how long these speculative periods will last. **What comes to mind is the quote from the famous scientist/mathematician Isaac Newton, who was wiped out in the speculative aftermath of the South Sea Bubble. He said "I can calculate the movement of stars, but not the madness of men".**

Dealing with the Market

There are two distinct kinds of equity markets and it is important not to confuse the two. One of them is a speculative momentum-driven market like the one we now have in which fundamentals are completely ignored. In such a market, value's performance will tend to trail and attract very little media attention. On the other hand, in more mixed or challenging markets, fundamentals such as a P/E discipline, earnings and dividends are the key. There were two major periods in my experience that illustrate how a disciplined approach can perform, even in a difficult environment.

The first period was the Dead Decade of 2000-2010, one of the worst decades in market history. In 2000, stocks were hit with the collapse of the Tech Bubble, followed in 2001 with the World Trade Center bombing, and then the disastrous Financial Crisis of 2008-2009. During the decade, the S&P 500 was down 5%, while our High Dividend Strategy, which benefitted from attractive valuations and growing earnings and dividends, was up approximately 100%.

The second period was even more tumultuous, the time between 1968-1982 when in the 1969-1970 recession, margin accounts, conglomerates and speculators were wiped out. This was followed by the 1974-1975 recession, which ended the Nifty Fifty bubble that had been driven and pumped up by institutional investors. During the 14-year span, the Dow Jones, which hit 1,000 in 1968, did not break through 1,000 again until 1982. **So the market was basically flat over the entire time. But because corporate earnings and dividends were up over the 14 years, the value stocks (the bottom 20% of stocks on a P/E basis) were up over 1,300%**.

Earnings – Catalyst for the Turnaround

The year 1999 featured a market very much like ours today. At the time, we researched market history in an attempt to learn what might bring value back into favor. **We discovered that value stocks performed best historically when corporate earnings were growing.** So it seems to us now as then that regardless of the performance of the overall economy and the market, the potential for earnings growth should be substantial as companies recover from the Covid-19 pandemic.

Summary

The message is the same. To quote Ben Graham: “Be a long term investor, be disciplined to price and forget all the other stuff”.

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P.S. In our year-end 1999 market letter “Outlook for 2000” we made an extensive case for the recovery of value. Let us know if you would like a copy.