FIVE QUESTIONS TO CONSIDER FOR INVESTING IN 2021

We are hopeful that 2021 will be a year of promise. However, much depends on vaccine distribution and we recommend watching this progression closely.

WHAT IS THE IMPACT OF A BIDEN ADMINISTRATION?

- We do not look at investing based on politics; however, we believe it is important to understand how regulations and policy initiatives may impact the economy at large.
- Under a Biden administration we expect a stronger push into renewable energy, and anticipate higher government spending, as well as increased taxes.

DO WE SEE A CYCLICAL REBOUND IN 2021?

- The pandemic impacted businesses and their respective sectors very differently. Not only have technology-related stocks dominated U.S. equity performance, but weakness has also been disparate, with many cyclical sectors suffering the worst declines in earnings.
- Stimulus or improvements in economic conditions that allow weak small cap stocks to survive often lead to outperformance of weaker companies. This was witnessed in 2020. With improvements in economic conditions only partially improved, further progress may aid small cap equities.

HOW SHOULD INVESTORS APPROACH TECHNOLOGY AND LIFE SCIENCES?

- For those with the ability to withstand illiquidity and a higher risk tolerance, private equity may be a feasible way to invest in technology and life sciences. Private equity funds invest across the spectrum, from small venture capital funds to some of the largest private equity firms in the world, all focused on technology-related companies.
- Scientific advancements in genomics, immunology, and other areas are creating a new wave of drugs coming through the approval pipeline. Acquisitions of life science companies in pre-clinical companies rose from 6% in 2011 to 29% in 2020, and the time to exit has dropped from 4.2 years in 2015 to 2.9 years in 2019.

HOW SHOULD YOU INVEST IN FIXED INCOME WITH RATES AT 0%?

- With interest rates near all-time lows, high interest rate sensitivity – duration – in core fixed income presents risk to investors' ability to preserve capital if rates rise. For investors wishing to protect against rising rates, they can mitigate rate risk by reallocating core fixed income assets into strategies managed against the intermediate aggregate index, with only a marginal decline in yield. Conversely, duration in the realm of declining rates is often one of the most effective diversifiers of equity risk. Reducing duration also reduces the effectiveness of this equity risk mitigator.
- Private debt yields tend to be "sticky," and once or twice during the past decade, allocating to public high yield in lieu of private debt provided comparable yields. The opportunity favoring public high yield that developed during the initial onset of the pandemic evaporated quickly and private debt is more compelling.

SHOULD INVESTORS BE CONCERNED ABOUT INFLATION?

- Although stimulus and dollar weakness fuels further inflation risks, the pandemic has been strongly disinflationary, limiting expected 10-year inflation to tepid numbers despite the Fed's willingness to let inflation run above its 2% target.
- While we may see a few inflation scares, we do not believe we will see sustained high inflation.

We encourage investors to consider their missions, unique investment needs and objectives, and current portfolio construction when evaluating the varied opportunities and risks available in today's markets. What works for one, may not work for all.

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