Stocks Have Performed Well After Recovering Bear Market Losses

Bear Market Bottom	Decline	Months to Return to New High	Market Return in Next 12 Months After Reaching New High	Number of 5% Pullbacks During Those 12 Months	Number of 10% Pullbacks During Those 12 Months
2020	-34%	5	?	?	?
2009	-57%	34	21%	2	0
2002	-49%	38	-7%	1	0
1987	-34%	14	9%	2	1
1982	-27%	2	20%	3	0
1974	-48%	48	13%	3	1
1970	-36%	15	8%	1	1

Source: FactSet, S&P 500 index performance.

QUARTERLY MARKET OUTLOOK: **FIRST QUARTER 2021**

Equity Outlook

Even after heading into 2021 on the back of a 60% rally, we think equities have more gas in the tank, thanks to a bourgeoning economic recovery and government policy stimulus. That said, we think the market is vulnerable to bouts of volatility due to policy uncertainties, pockets of exuberance and potential disruptions in the vaccine timeline.

Stocks likely to remain focused on the post-vaccine recovery – We expect a durable expansion over the next few years, setting the stage for an extended bull market. As the cycle advances, we anticipate a rotation in investment leadership. Periodic economic setbacks and vaccine disruptions could spark bouts of volatility, and we suspect tax and regulatory policy proposals under the new administration may grab the market's attention later in the year.

Stimulus will be a tailwind – We think the Federal Reserve will keep monetary policy settings extremely accommodative in 2021 and beyond. Historically, markets have performed well during phases when Fed policy is loose. The addition of fiscal stimulus will, in our view, keep a wind at the market's back, even amid virus-driven restrictions. We think additional fiscal aid and increased government spending will offer a lifeline to GDP until the economy can regain its stride in the second half of the year.

Full valuations suggest more moderate returns – We think equities have further upside ahead, but we expect more modest returns this year, compared with the 25% annual average over the past two years. Earnings growth of 20% in 2021 is likely and we expect stretched valuations to normalize somewhat. The current forward price-to-earnings ratio above 22 is already pricing in a fairly healthy economic and earnings rebound, in our view. 2004, 2010 and 2018 each experienced 20% earnings growth and a contraction in the P/E multiple, with the S&P 500 delivering an average return of 7.2% in those years.

▶ *Action for Investors*

As the economic expansion gains traction in the second half of the year, the bull market should broaden to economically sensitive investments that have lagged, including small caps and international stocks. We also expect sector leadership to rotate beyond technology and growth stocks to include cyclicals and value investments.

Investing in equities involves risks. The value of your shares will fluctuate and you may lose principal.

Special risks are inherent to international investing, including those related to currency fluctuations and foreign political and economic events.

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