VAN LIEW TRUST COMPANY

as we see it

Winter 2021

THOUGHTS FROM OUR CHAIRMAN

I just received my first COVID-19 vaccine shot. While mine was the Moderna vaccine, my wife received the Pfizer vaccine a few weeks ago. Both of us are looking forward to getting our second doses. There is a significant number of the population that, for one reason or another, refuse the flu vaccine and are likely to avoid the COVID-19 shot. The government and vaccine manufacturers make no significant promises as to the long-lasting protection we gain from the vaccines, but those of us who gladly accept them believe we, and those near us, not only have another layer of protection but may also enjoy some psychological benefit - helping us to begin to function a bit as we did before this pandemic.

Will those of us who are vaccinated and the abstainers move closer to normal activities, hopefully getting the economy back to a level that supports current investors' enthusiasm? Fear and greed influence investors. Right now there appears to be plenty of both.

My fellow founding partner of the firm, who still awaits his shot, provides an overview and our guarded long-term optimism.

Alfred B. Van Liew

All in the Numbers

Samuel H. Hallowell, Jr.

I imagine everyone has breathed a sigh of relief that 2020 is over. What a dramatic mess the year turned out to be, full of extreme high and low points. As a global pandemic emerged, quarantine protocols worldwide led to near total business lockdowns and massive unemployment numbers that triggered recessions in much of the world. Faced with that scenario investors hit the panic button. The value of the S&P 500 fell 34% in 33 days. With surprising speed, stock prices stabilized at the end of March and began rising with the major indexes reaching new highs towards the end of the year. Investor sentiment transitioned from fear of a depression to cheering as world monetary authorities eased borrowing costs by dropping interest rates (below zero in many cases), governments floated massive stimulus programs to provide monetary support to populations and businesses and drug companies rushed to develop vaccines in what turned out to be record time. Furthermore, implementation of those actions led investors to conclude that the pandemic and its economic impacts would be over by mid-2021. All that mixed in with a contentious US Presidential election percolating in the background. Whew, what a year!

As the New Year arrived, hopes for good times ahead continued to push stock market indexes higher. The main impetuses for the enthusiasm appear to be increasing vaccine distribution rates, anticipation of additional fiscal stimulus, and the expectation that

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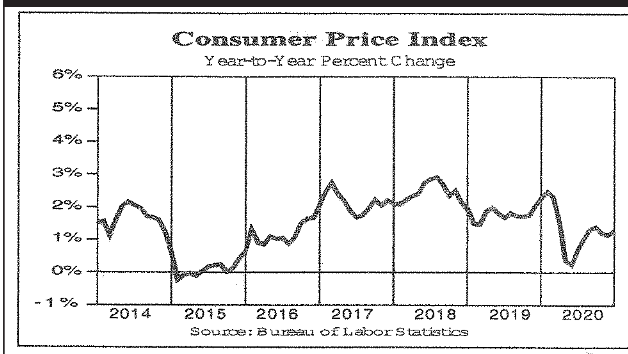
low inflation and interest rates will last well into 2022 or later. Investors cheered strong fourth quarter 2020 operating results, especially those from business sectors such as technology, autos, farming, banking and housing. Meanwhile, the Bureau of Labor Statistics announced that the US unemployment rate dropped to 6.3%, a number that is still well above the pre-pandemic low of 3.5% but improving. Although that may be worth cheering, roughly 19 million people in the US are still unemployed. The bulk of them are in the travel, leisure, hospitality, lodging and restaurant sectors as well as many small and medium sized businesses. Although life feels better to many people, there is a long way to go before vaccination levels reach herd immunity allowing those industries to recover.

The International Monetary Fund projects that the world economy will grow 5.2% in 2021 after the 4.4% decline in 2020. The consensus estimate for US growth is around 4% for 2021, also a strong bounce up from the 2.3% contraction in 2020. A recent report by financial data firm FactSet Research Systems indicates stock analysts are projecting a strong re-opening too. They estimate that S&P 500 firms will report a combined earnings-per-share growth of 23.4% and revenue growth of 9% in 2021. That means the Index is now trading at about 22 times earnings, a premium of 39% above its trailing 10-year 15.8 average. While easy money, low inflation and the expectation of another fiscal stimulus may justify the premium now, double-digit earnings growth for 2021 has to happen for stock prices to continue rising although movement may be very volatile.

So what do we expect for the investment markets in 2021? As long as interest rates stay low, stocks will likely continue to outperform bonds. The push up on interest rates will come from increasing vaccine dispersion and funding from Congress and the Fed. Though long-term forecasts are shaky at best, we believe Mr. Market can produce a 10% return while bond yields remain range bound at comparatively low levels.

T R E N D L I N E S



The recent rise in commodity prices, the US 10 year bond yield and levels of government debt has some investors concerned inflation may be right around the corner. Yet, inflation, as measured by the Consumer Price Index, still shows only modest increases. We continue to watch this Index and the PCE Price Index for telltale signs.

We would be delighted to meet with you to share comments about this article, or to review your portfolio in detail.

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