HEFTER, LESHEM, MARGOLIS

CAPITAL MANAGEMENT GROUP

The Hefter Report – January 2021

As we've previously mentioned, in our view global equities were poised to go up regardless of who would reside in the White House and which party would control the Senate. Markets are currently focused on the likelihood of additional stimulus. This likely trillion dollar plus influx of funds should help contribute to the simultaneous world-wide economic recovery we believe will take place once COVID vaccinations reach critical mass and economies reopen.

On a macro level, we believe it's full speed ahead. Our bottom line bull case even after the huge appreciation of the last nine months is that consensus estimates for S&P 500 earnings, global GDP growth, job growth, income and spending are all tooLOW. We think the already massive fiscal and monetary stimulus, the estimated $5 trillion dollars in money market funds currently held by investors, low interest rates as well as a declining dollar should lead to better than expected US and foreign spending. This, in our opinion, should lead to greater income, job growth, and ultimately profits and GDP growth in the US. We think these surprises to the upside should also lead to higher stock prices.

By late 2021 we can foresee 2022 S&P 500 projected earnings estimates at approximately $200 per share. We think a 22 multiple is reasonable given projected low interest rates. That would mean an S&P 500 at 4400 which is about a 14.2% increase from today's levels. We also forecast GDP growth near 6%, another potential upside surprise to the current 4-5% consensus estimates.

The Fed recently stated that interest rates would be kept low for at least one year after inflation hits 2%. As the economy recovers we feel interest rates may rise gradually but will be held down by the Fed. As money market and short term bonds continue to lose value for investors relative to the cost of living, we foresee significant outflows from fixed income into stocks, further propelling prices higher.

When this new bull market began on March 23, 2020, it was led by so called "stay at home" stocks such as Zoom, Peloton, Netflix, etc. Today those companies are still doing well but so are stocks in many industries that were underperforming prior to the announcements this past November regarding the strong efficacy of the Pfizer and Moderna vaccines. We see thisbroadening out of stock market gainers as another indication of the sustainability of this bull market and the potential for higher prices than previously forecast.

We anticipate the likely trillion dollars in additional stimulus to further exacerbate the negative impact on the value of the US dollar, thus we expect the dollar decline to continue. This along with other indicators lead us to believe the long underperformance of international and emerging markets in particular may be coming to an end.

For now, we like international stocks as well as small capitalization stocks. History has shown that as global markets emerge from recession, small cap stocks generally outperform in these early stages. In addition we think that certain industries hit hard by COVID should outperform as the virus fades away. These include industrials, transports and materials as well as travel and leisure. *(continued on page 2)*

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Furthermore the blue wave of Democrat control in Congress and the White House should help companies on the forefront of clean energy and infrastructure. We also continue to like the innovative technologies of the future including 5G, artificial intelligence, genomic cell replacement therapy, cyber security, e-sports and others.

In addition to focusing on the areas mentioned above, we are lightening positions in fixed income. Although we don't foresee an immediate surge in rates, we are confident that the period of declining rates is ending as economies recover. Consequently, we are becoming more focused on floating rate income as an alternative.

While we remain optimistic for 2021 and beyond, we are well aware of possible corrections along the way. It is very difficult to time these so we expect to stay invested as long as the fundamentals remain intact. The main concerns that could affect our positive outlook include an unforeseen geopolitical event, natural disaster, health of the President and Vice President, and other black swan factors we cannot predict. As always, we will closely monitor interest rate spreads, earnings and multiples, Congressional legislation, currency fluctuations, and other indicators, making adjustments in portfolios as needed. Equity markets are at or near all time highs yet we are not selling just because of the rapid rise in stock prices. We remain focused on the fundamentals and believe we are still early in what we think could be a second coming of the "roaring twenties".

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