



The Longer View

Comments & Outlooks from Longer Financial

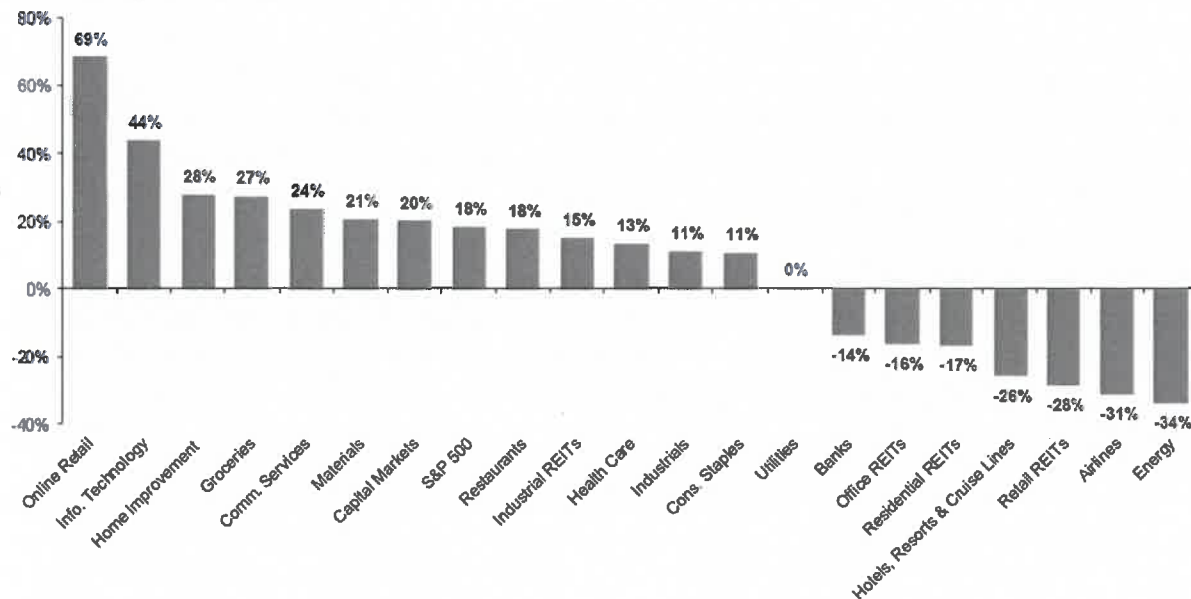
January 8, 2021

Stocks Reach for New Highs to Close out a Tumultuous 2020

Despite a contentious election season and the continued escalation of COVID-19 hospitalizations and deaths, many of the major stock indices approached or hit new all-time highs as we closed out the year. The S&P 500 and DJIA delivered impressive returns of +18.40% and +9.72% for the year, respectively. However, many of the more value and dividend focused sectors of the market significantly lagged their growth and technology focused peers. The Morningstar Dividend Yield Focus Index returned -6.40% and the CRSP Large Cap Value Index earned just +2.26% for the year. The incredible disparity between winners and losers for the year is illustrated in the chart below.

Returns since December 31, 2019

Total returns by sector and industry



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of December 31, 2020.

It's worth noting, however, that the sentiment in the marketplace has appeared to shift in recent months and even in the early part of 2021. Value has started to take leadership again, driven by further fiscal stimulus and prospects of an economic re-opening later in the year. If this trend remains intact, we could see a nice rebound in some of the asset classes that struggled so much on a relative basis in 2020.

COVID-19, Vaccines, and Politics

As referenced above, the COVID-19 pandemic continues to bring suffering around the world, hitting very close to home for many of us. The continued daily loss of life is tragic, as is the situation in many hospitals here in the United States that are simply being pushed to the brink. We are very encouraged, however, that the vaccines



from Moderna and Pfizer have such a high efficacy rate, or effectiveness in preventing the spread of the virus. We are hopeful that a more streamlined roll-out in the coming months will help the country make notable progress on the medical front, but also economically. This hopefulness has been illustrated in markets recently as well, as some of the more depressed sectors such as Energy and Financials have started to rebound in expectation of a broader re-opening, or resumption of normal activities later in the year. An eleventh-hour stimulus package from Congress was signed into law just before year end, providing another \$600 direct payment to many households across the country, as well as an extension of enhanced unemployment benefits. It now appears that Democrats have regained control of the Senate after the Georgia run-off, which we expect to bring forth even broader stimulus and spending measures in the next few months. Potential obstacles remain, such as the threat of higher tax rates as well as new variants of COVID-19 popping up around the world, but the combination of an economic reopening and the support of the Federal Reserve in the form of ultra-low interest rates gives us reason for optimism as we move ahead.

Looking Forward

As noted above, the Georgia Senate races will have a significant impact on the political agenda over the next few years. We will continue to closely watch any material changes in tax policy, both at the corporate level, but also at the individual level as it pertains to key items such as capital gains rates, social security taxes, and estate taxes. The immediate reaction in the market has favored the value sectors in which our portfolios carry greater exposure, which is helpful. We have also started to build a small position in international equities, where we believe forward valuations provide an attractive opportunity for diversification. As always, we will remain disciplined in our approach to portfolio construction, with a focus on delivering consistent long-term results. We look forward to visiting with you in person again soon, but in the meantime, know that we are also available for virtual meetings or reviews by phone, should you have questions or concerns about your portfolio. Thank you for your continued trust, and we wish you a wonderful new year!

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