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THE TEMPO VANTAGE

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Accelerating Trends

If you were only looking at the stock market, you would have no idea that we are still in the midst of a pandemic that has thrown millions of people into unemployment and has caused tens of thousands of businesses to close.

The stock market gained 12% in the fourth quarter, as measured by the S&P 500 (large cap stocks). Small cap and international stocks were up 31% and 16%, respectively. For the first time in quite a while, large cap stocks were the laggards.

How can it be that stocks are doing so well when people and businesses aren't?

First, the stock market measures publicly traded companies. When the gift shop in the center of town or the local gym closes, the stock market is not affected.

Second, as you may recall from the 2Q Tempo Vantage, although some sectors have done poorly (energy, travel, retail, restaurants, etc.), the so-called stay-at-home stocks (online businesses, food service, home comforts/improvement) have been booming.

Finally, the stock market is forward looking. Returns today reflect investor sentiment about the future. What does our future hold? Though many of us may not be vaccinated until the middle of 2021, the fact that we have a vaccine (more than one!) means that there is an end in sight, and the stock market is trading as such.

Moving forward I believe the drivers of the stock market will be two impactful trends that the pandemic has accelerated: the trends toward online business and working from home.

Prior to the pandemic, it was no secret that more and more commerce was occurring online at the expense of brick-and-mortar businesses. According to a McKinsey study, the pandemic has accelerated the trend to digital transactions by as much as seven years.

At the risk of seeming insensitive, it is quite possible that many of the businesses that have shuttered their doors were essentially spared a years-long downward spiral to the same outcome.

Did you really think Macy's and Lord and Taylor were going to survive? The writing was on the wall. It is likely that the trend that caused Sears, JC Penny, Kmart and a host of others to go out of business prior to the pandemic would have eventually taken down Macy's and Lord and Taylor as well.

Americans are a resourceful bunch. Many of the businesses that have managed to stay afloat have done so by adapting much faster than previously thought possible.

The McKinsey study showed that the times required to implement changes (i.e. work from home, online offerings, curbside pickup, etc.) have occurred 18 to 43 times faster than projected. Changes that were expected to take 500 days to implement have only taken 21 days!

According to YELP, in addition to retail, businesses that have been hit hardest include restaurants, beauty/spa, bar/nightlife and fitness. Many of these will never re-open.

But when the pandemic is over, new restaurants, spas and fitness centers will open and other new businesses will spring up better able to function in this brave new world.

The trend that people know about but have yet to fully appreciate is the increase in people working from home. We all see it happening, but what does it mean for business?

Say you own a company that has 10,000 employees and you realize that half of the people that used to come to work every day can now just as effectively work from home all or part of the time.

You decide to reduce the amount of office space you lease accordingly. Not only that, but the space you still lease is now at a lower rate due to the imbalance in supply relative to demand. These are huge savings.

Productivity measures the rate of output per unit of labor, capital or equipment. With lower rent, your company productivity will increase because you will be able to produce the same output of good/services for less money.

This is bad for you if you own commercial office space, but for the rest of us this will be a huge wind at the back of stock market returns.

From an observational standpoint, I am also encouraged by what I saw at the mall this past weekend.

What did I see? It was very busy and even took me a few minutes to find a parking spot! Inside I saw 100 percent of the people wearing face masks and most people carrying shopping bags.

When I consider the two accelerating trends, combined with very low interest rates, which I believe will stay low for quite a while, and crowded shopping malls, I conclude that the stock market will be in good shape for the near term.

Of course, there are always exogenous (or not so exogenous) events that could trip up even the rosiest of scenarios. The one that comes to mind right now is continued civil unrest.

Tempo Financial Advisors' 4th Quarter Investment Performance

Tempo's Lifestyle Program had a terrific quarter. Returns ranged from just under 10% for conservative accounts to just under 15% for more aggressive accounts.

Across the board returns were 1% to 2% better than benchmarks. The reasons are twofold: Our alternative and fixed income holdings did a bit better than the bond benchmark (which returned under 1% for the quarter), and our equity holdings included mid-cap stocks, small-cap stocks, and technology stocks, all of which outperformed the overall market.

Our newest investment program, **Tempo Diversified Income**, also had a terrific quarter, gaining 3.5%. This was over 3% better than its benchmark. Even though this program is now just two years old (Happy Birthday!) it has shown a lot of promise and has thus far delivered on its goals.

Tempo Dynamic Income also had a good quarter. Our return of 1.1%, while the lowest among Tempo's investment programs in the fourth quarter, was still half a percent better than its benchmark.

Last up is the **Tempo Dynamic Growth Program**, which returned 4.1% for the quarter. Although this was our second highest returning program in fourth quarter, it was the only one that failed to better its benchmark. In fact, we trailed by over 3%.

Due to the volatile markets, Dynamic Growth spent most of the year at its minimum equity allocation, which did not help in up markets such as we had for the last nine months of the year.

For 2020 as a whole, **Lifestyle** was in line with its benchmarks, **Diversified Income** was ahead of its benchmark, and both **Dynamic Income** and **Dynamic Growth** trailed their respective benchmarks significantly.

Most of the issues with Dynamic Income and Dynamic Growth stem from the extreme underperformance in the first quarter. Since then, accounts have been moving in the right direction.

Both Dynamic Income and Dynamic Growth accounts have been rebalanced for the fourth quarter and, for the first time in quite a while, both strategies experienced 100% turnover.

Dynamic Income is now invested in emerging market bonds, high yield bonds, and convertible bonds.

Dynamic Growth is at its maximum equity allocation (60%) and is invested in technology stocks, emerging market stocks, and international small-company stocks.

Reminder

Please contact us if there has been a change in your financial circumstances that would warrant a fresh perspective on your portfolio.

Dan

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