



*The Decade of the 2020s. We are 1 year in. 2020 was an unforgettable year.*

It was a year people want to forget. Science won the day and the year. The question now is what 2021 and beyond might look like. The Post-Covid World is uncertain. The biggest problem remains. Covid is not yet in the past. Until the virus is contained, and the vast majority is vaccinated, recovery time will be extended. Operation Warp Speed brought a vaccine in record time. Unfortunately, the actual vaccination is proving just as challenging. America's democracy faces unprecedented challenges too. The Market sure seems to be looking beyond the present and is optimistic about the future.

What will the Post-Covid World look like? It's on everyone's mind. It remains unclear. Only one thing is certain: It will look different. The rate of pace to a return to normal and the reality of a new normal has the greatest focus as 2021 begins. One thing was clear in 2020, digital trends that were already in place got accelerated, big time. Seemingly everyone is more comfortable using technology, in some shape or form, now than a year ago. Employees quickly learned how to work without offices. Retailers had to learn to operate without stores. Global meetings took place without hotels and airplanes.



The global pandemic of 2020 triggered the sharpest recession on record and also the fastest-ever rebound. The crisis forced workers and businesses to change up their routines and come up with new ways of doing things. It altered consumer behavior and upended the housing market.



Fear of losing money last Spring was replaced by a fear of missing out in the Fall. As the new year began, stock prices were at all-time highs and valuations historically excessive, by most measures. It continues in the new year. There are bubble-like conditions in certain segments of the Stock Market, but not everywhere.

Trillions of Dollars worth of aircraft, cruise ships, gyms, shopping malls, office buildings, hotels and convention centers sat idle in 2020. They may not re-open because they might not be needed even after it is safe to use them. Conversely, communication software and e-commerce infrastructure can't be built fast enough to meet the digital transition and growing demand. Money flowed from so many segments of the Physical Economy into the Digital World.

Work from home will have some semi-permanence. The hybrid model of working part-time in the office and part-time at home will have legs. Companies will spend less on office space and more on software. Full offices on a daily basis will be a thing of the past in many industries. In fact, the term hybrid could become standard, as it applies to work. Life experiences will be layered between physical and virtual environments.

Americans left the city and headed to the suburbs and the country in droves. Both coasts experienced an exodus. California and New York were common departure states, while Texas, Idaho, Florida and Tennessee were popular landing spots. The premium placed on extra living space went way up. That used to come at the cost of a tougher commute but moving one further highway exit or train stop from the office is more palatable if you work from home frequently. Vacation homes also became more desirable. Many Americans quarantined at the beach or in the mountains, with plenty of socially distanced outdoor experiences just steps away. The housing markets in those areas reflected the increased demand. Many will continue with that plan in perpetuity, if fortunate enough to be able to pull it off.



Many other old habits and routines may change as well. Having actually learned how to cook, families and groups will likely continue making dinner at home more often. That is good news for supermarkets and packaged food companies, but not necessarily for restaurants. Taking it a step further, that food is more likely to be bought from the comfort of our homes online and delivered as grocers do whatever it takes to keep their customers.

Some of the changes during the pandemic have been seismic. They've been driven by the Digital Economy. It's not going back. Much of life has become location agnostic. It's Work 2.0. It's permeated Finance and Fitness. The Digital Economy has completely disrupted the Entertainment industry. Theme parks

were closed. Movies are bypassing the theater and are going straight to consumers. They're not just landing in the living room. New release films are landing on phones and other mobile devices. Hollywood has learned what retailers already know; You can no longer count on the Consumer coming to you. You have to go to them.

There is such a major divide between Wall Street and Main Street. Those who work in some of the hardest-hit industries, such as restaurants and hotels, could have the hardest time recovering. The longer they remain out of work, the more their skills erode and the harder it is for them to find work again. That, in turn, can lower the pace at which the Economy is able to grow.



Many jobs continue to go away in the Digital Age. The virtuality of everyday life is storming through the physicality of America. The income inequality will widen. This is a major issue in America. It was a center point in the election. It's been the case for a while. It needs to be addressed.

Corporate travel has been turned upside down. The days of getting on an airplane for a one-hour meeting are over. The businesses and industries tied to corporate travel are failing. It's been felt throughout the chain from transportation and hotels to dry cleaning and corporate catering. This hits squarely on Small Business. Small business employs over 60% of American workers. These trends are job crushers. The future of employment continues to be at risk.

Those best equipped to respond have done so. Next-generation stores and restaurants are being rolled out to serve the growing demand for on-the-go services. Retailers and restaurants have set up systems for customers to bypass wait staff and order items with their devices as a way to increase social distancing. There will be more drive-thru and curbside pickup stores. Starbucks, as an example, expects nearly half of its stores to provide this efficient takeaway format by 2023.



Cash has largely been abandoned too, with consumers using credit cards and simple taps on digital devices to pay for just about everything. Over the long haul, these changes will help some segments of the Economy. Efficiency gains will allow workers to produce more in less time. That will also mean fewer jobs created in service-oriented small businesses. It's that double-edged sword.

Americans have replaced the gym with home fitness solutions. Dog walking and hikes in the parks saw a return big time. Schools went virtual. Online education is not a total solution. But elements are here to stay and will irreversibly grow over time. American workers are going to need to continue to develop their skillsets to remain competitive in the Digital Age. Online courses and industry-specific certifications will play a big role in the Corporate world. That is very investable.

The Stock Market is at record highs and home prices grew at the fastest rate on record. Lockdowns held back the consumption of services but not goods. After a temporary shutdown in the Spring, retail spending bounced back sharply, aided by the Congressional CARES Act. Home improvement was a big theme. People spent a lot of time at home in 2020. We enter the new year with a seeming pent-up demand for travel, entertainment and other services in the Economy, which should return to some normalcy. But that timing seems to keep getting pushed out. The virus continues to make the timeline. The vaccines take time too.



## 5G

The hype was huge. The rollout for this 5th generation network has been slow. In fact, some 5G networks have been slower than 4G. It is starting to pick up speed though. 5G's importance has grown since the pandemic, with much of the world switching to remote working and requiring faster, more reliable data speeds and network management in order to continue operating efficiently. The world is moving to the cloud at a fast rate. Networks are expected to be as much as 3X faster a year from now. It's not the 100X faster speed that is ultimately expected, but it's moving in that direction. The 5G rollout will expedite the expansion of the Internet of Things in every industry as well as the home. Smart devices are getting smarter and have become essential everyday equipment.

With the expanded rollout of 5G comes additional risk. Cybersecurity is essential. The world is a dangerous place. Companies, as well as governments, will need to invest in greater and more sophisticated levels of monitoring and controls for their networks. Secure networks are essential for commerce, communication and general functionality in the Digital Age.



## ARTIFICIAL INTELLIGENCE

Artificial Intelligence applications thrived in 2020. Here's one way AI is having a meaningful impact real-time in the fight against Covid: As the vaccine rollout continues to be bumpy, digital solutions are assisting in the complexity of logistics. Getting the nation vaccinated is a tough task. Artificial-intelligence developers are helping hospitals and medical providers manage jammed phone lines, as Americans race to secure a place in line for the vaccine. AI speaks multiple languages and can efficiently route requests to the proper destination. It will also call you back, so you don't have to wait and won't lose your place in that virtual line.

### ARTIFICIAL INTELLIGENCE CONT.

Robots have been deployed to speed up the check-in process for patients arriving at drive-through Covid testing services around the country. This has been a major improvement from medical staff crossing multiple lanes of parked cars searching for patients who matched the hard-copy documents. The advancement of robotic process automation software facilitates medical visits. As patients arrive, the tool calls up data they filled out online when scheduling the appointment. This is replacing that old clipboard paperwork patients typically fill out in hospital waiting rooms. This is but an example. The robotic opportunities throughout industries are limitless.

Facial recognition software continues to advance. It's another form of Artificial Intelligence. The system maps, analyzes and confirms the identity of an individual. It is very helpful to unlock your phone or securely access a private app or account online. It's being used in a broader sense by companies and governments for both validation as well as surveillance. Facial recognition tactics come with their share of controversy. Cameras are everywhere these days. It can come in handy to access a locked ATM when you need money. It can also protect you from someone else accessing your money. But there are some natural privacy concerns, which is the case for many Artificial Intelligence solutions in this Digital Age.



### VR AND AR

Covid has accelerated the Virtual and Augmented Reality world. It was already growing fast. Shelter in place forced the theme of virtual interaction, which might continue to evolve, particularly with younger generations. The pandemic has limited physical interaction, giving way to virtual communication and interaction. Virtual birthdays and holiday celebrations took place in 2020. Geographies were connected by video. This will become the new-normal for generations ahead.

Video games are a big player. But it's moving beyond. Microsoft

introduced a headset for doctors to wear while treating Covid patients. The digital helmet allows other clinicians to see a live video feed and study the doctor treating the patients from a remote location. This approach reduces the number of people exposed to danger, allows medical professionals to learn real-time and reduces the need for additional PPE (Personal Protective Equipment). You can see where this is headed. There are so many possibilities.

The Virtual and Augmented Reality business is expected to be a \$30 Billion industry by the end of the decade. Major investments are happening there. What used to seem so futuristic is already happening. The future is now.



### INFLATION, RISING RATES & THE FED

The 10-Year Treasury yield stayed stubbornly below 1% in 2020. That ended in the new year. The lockdown in the Spring was very deflationary. The recovery has been the opposite. Inflationary pressures are already showing their heads. You probably noticed it at the grocery store. It's reflected at the gas pump. It's also impacting building materials and other commodities we consumers consume. Inflation also occurred in asset prices, as evident in Housing and the Stock Market. These inflationary pressures might force the Fed's hand, who have indicated they might resort to capping yields on longer-term bonds to keep rates low.

Inflation risks appear greater than deflation for the first time in years. The Fed's new policy approach suggests they plan to let the Economy run hot. That could swing from a Market tailwind to a headwind. The US hasn't seen significant inflation in almost 40 years. Since the 2008 financial crisis, the Economy has experienced very low inflation. America has imported deflation for 2 decades from China's emergence as an export economy. Technology is also quite deflationary. These forces have contributed mightily to the lack of inflation. The low rates and coinciding

**INFLATION, RISING RATES & THE FED CONT.**

low bond yields are reflective of very weak growth and no inflation. It's also suggestive of weak earnings growth too. The Street expects strong. Something's going to give.

The Fed has pulled every known lever it has in attempts to stoke inflation. It has taken interest rates to zero, injected liquidity into the system and actually bought bonds in the open market. Rates have still stayed low and remain negative in many places overseas. A record \$17 Trillion of global debt has a negative yield. Just think about that! It is not that Bond investors don't believe money printing is inflationary. They don't seem to believe in inflation.



A little inflation isn't bad. A moderate level occurs naturally in a growing economy. Higher prices encourage businesses to invest. Interest rates tend to go up and wages rise. The Fed has said they will tolerate inflation levels higher than 2% to juice the Economy and get back to full employment, but if the number rises at a faster rate, it could be harmful for investors and force the Fed to tighten policy sooner than expected. It's a debated issue. The Fed's policy is to be accommodative for quite a while. But if things start running super-hot, they will have to switch gears quickly. The Market won't like that.

The Fed balance sheet doubled to \$7 Trillion last year. There is a Mountain of Debt, to the tune of \$27 Trillion. Central banks are likely to control the yield curve for a while. Japan and Europe have been doing it for a few years now. It hasn't really worked. The US is joining the club with its aggressive monetary policy.

When will debt and deficit matter? It's currently at an unsustainable rate, which was already the case before the virus. Low rates make it serviceable. Presently at 3%, it's the lowest in decades. Higher rates will make a difference. Then there's the

deficit, which is essentially the annual mismatch of what's coming in and going out. Right now, there's faster debt growth than economic growth. That presents tremendous financial burden. Growth is needed to get out of this ditch. A continued weakening of the Dollar is likely the result. It's certainly been the case so far. The Dollar is at a multi-year low. That's good for exports. But it also reflects poorly on the state of America.

Rising interest rates are generally bad for the Bond Market. After a 4-decade run, the Bull Market in Bonds might finally be coming to an end. Conservative money can't count on the traditional defensive characteristics of the Bond Market while yields are so low and on their way up. A 1% increase in the 10-Year Treasury would result in a 10% decline in price. That's 10 years of income with the current 1% yield. Fresh money will be looking elsewhere. It's finding a home in Gold, Silver and cryptocurrencies as alternatives.

Rising rates are also bad for Growth stocks. Tech is atop that list. Many of these companies have a clear path for growth for the foreseeable future. But their stocks already reflect it. Very expensive valuations have been priced in. 2021 might shine brighter on more economically sensitive areas that experience a strong recovery from the 2020 lockdown.

**AROUND THE GLOBE**

Asia continues to expand its economic strength versus the western world. The virus started in China and China had a much different response. Due to the contrasting recoveries from the pandemic, China is now expected to overtake the US to become the world's largest Economy in 2028. That is 5 years earlier than previously estimated. Given its strict early lockdown and methodical re-opening, China appears set for average economic growth of nearly 6% per year through 2025. That growth is expected to moderate to 4.5% per year for the second half of the decade.

**AROUND THE GLOBE CONT.**

The US is also expected to see a strong post-pandemic rebound in 2021, to the tune of 5%. But that growth is likely to slow towards 2% per year to close out the first half of the decade, followed by 1.6% economic growth to 2030.

Further cementing Asia's economic power, Japan will remain the world's third-largest Economy for the decade but is expected to be overtaken by India in the early 2030s. That would push Germany down from fourth place to fifth.

American supremacy for decades has likely led to a great deal of complacency. The US is no longer viewed as home to the safest and most stable political institutions. That is quite a statement. Unfortunately, it's true. America is struggling to govern its own citizens, let alone the rest of the world. This is a pivotal time for our 245-year-old nation. The sense of patriotism isn't as wide across the American population. Or perhaps it's that patriotism means different things to different people.

The pandemic challenged the will of the people to sacrifice for the common good. The Politics of Covid divided our nation even further than it already was. And the divide was the widest in a century and a half. Institutional establishments and status quo have been under fire for years and not just here. That's what the Arab Spring was about. That's what Brexit was about. French yellow vests came out. Hong Kong pushed back. Citizens of Planet Earth are less and less willing to support systems that do not help them back.

**SUPERPOWERS**

Increased government roles in Technology and economic growth are showing no signs of slowing. The Trade War with China showed how important government involvement is going to be for free markets and innovation. Intellectual property is essential for competitive purposes and a single set of rules is required for fairness. That's the challenge. China

doesn't always play by the rules and dominance in the Digital Age will have a profound impact on all things economic, political, geopolitical and militarily. It's that big. The US was the clear dominant power in the Post WWII era. China has emerged as the second Superpower. The 21st Century has seen a shift. It's becoming a binary choice around the world for certain standards. Both China and America want to control the global platforms. Both are in it to win it.

President-elect Biden has made it clear he plans to stay tough on China. It's a tactic that has support from both political parties at home as well as many around the globe. The most obvious way to add pressure would be to bring allies like Europe and Japan back onto America's side. Biden has pledged to re-embrace our allies with a multilateral approach to make China play fair. But what exactly these allies are prepared and able to do remains unclear. The European Union lacks the strong executive powers that Trump employed to set tariff levels. Besides, the investment deal that China and the EU just agreed to, in principle, raises questions as to how willing the Europeans are to confront Beijing.

**COLD WAR OR SOMETHING ELSE?**

President-elect Biden has pledged to get tougher with Beijing on human rights abuses and concerns over Hong Kong. His administration will likely seek greater Chinese cooperation on climate change and environmental issues. Balancing these will be difficult. A less hectic approach with fewer surprises from the White House would likely be welcomed by Beijing as well as Corporate America. Minimizing the disruption to business planning and financial markets is key to business leaders. Making negotiations less painful for global commerce would be well-received. At the same time, a tight focus on intellectual property and technological security stands the best chance of winning over allies and achieving positive results over the long term.

**COLD WAR OR SOMETHING ELSE CONT.**

What to expect from Washington: Here's an optimistic thought: After perhaps hitting rock bottom to start the year at the Capitol, both political parties recognize the need to govern. An infrastructure bill should be widely embraced. Congress needs to address funding for highway construction since a traditional source of revenue, the gas tax, is becoming a less effective revenue generator as drivers move to electric vehicles.

**GREEN DEALS**

Climate change will be a priority issue for the Biden administration, but the Green New Deal is a non-starter. Even with the slight majority in the Senate, getting big things passed will be hard. Some easy steps the new administration will likely take on environmental policy will include a return to the Paris Climate Agreement. The Market implications for such a move are limited due to the lack of enforcement mechanisms.

A carbon tax is not only a revenue generator but is seen as a deterrent to pollution and a tool in fighting climate change. But the proposal is deeply unpopular among Republicans in Congress and probably will not be enacted. Rather than punitive measures like a carbon tax, Congress might look to subsidies like tax credits for carbon recapture initiatives. The regulatory approval process for energy-related projects is likely to slow down and financial regulators are likely to push companies to disclose more about their exposure to climate risks.

For the Earth and the Economy to fully function in harmony, comprehensive energy solutions are needed. That means Renewable Energy and Traditional Energy sources. Renewables are the future. In fact, they are very much the present too. But Crude Oil and Natural Gas still fuel the globe and will be a large factor in a sustainable global economic expansion. The real key is storage; Batteries. That's where the investment is going to pay off.

The reality of 2021 is more divided government. Being a deficit hawk has become an issue of political convenience. Republicans will likely block many of Biden's spending policies. Gridlock has been the theme for the 21st Century on Capitol Hill. It fails to get much done. Congress struggles with its most basic functions, like consistently keeping the government open. It's no wonder the Congress approval rating is back in the cellar at 15%.

The likelihood of any tax increase seems to be pushed out. The razor-thin margin of Democrat control won't be able to pass anything big on taxes. The earliest would likely be 2022. The gift tax and capital gains tax rates are highly unlikely to get changed this year. Even some Democrats aren't on board. It is possible that corporate tax and the highest individual bracket gets a bump, but not likely.



So to summarize our forecast for we investors in 2021, let's try this: Here is a Stock Market metaphor comparing it to a Dogsled. Bear with me here. In 2020 it was the Tech Titans who led the charge most of the way. They're like the big, strong and healthy huskies. As the rally broadened out and the year ended, it was Small Caps that led the charge. The Fed wind was at its back and the thoughts of more stimulus ahead made for an unabated ride. Entering the new year at all-time highs, it's hard to see a pack of chihuahuas carrying the overall Stock Market load throughout 2021. It's going to be a long year. After taking a well-deserved rest, we expect Tech to rejoin the rally, ultimately consisting of a broad puppy participation in 2021.



A background graphic consisting of a blue line chart with circular markers and a blue bar chart, both showing an overall upward trend from left to right. The line chart is positioned above the bar chart.

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