

HUDSON ADVISOR SERVICES, INC

OUR VIEW OF THE MARKET

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We like the idea that one big takeaway from 2020 was the concept of resilience. The economy, the stock market, and Americans have persevered to various degrees from the unexpected shock of the pandemic. People are resilient and try to do the right thing to the extent possible.

So we focus on the things that did go right in 2020: the federal stimulus packages, the massive amounts of liquidity from the Federal Reserve, and the rapid development of multiple COVID-19 vaccines. As result, after declining 40% in the spring, the stock market surged back over 70% from its market lows and ended the year in record territory. As one analyst said: "It goes to show that the stock market is pretty tough to take down."

We will stay with the theme of resilience for 2021. We are optimistic about the path of economic rebound as the vaccination program moves forward and the virus recedes. But we are realistic about the recovery of economic health and public health. We will see new obstacles and setbacks before we get to "normal times." In this environment, we are positive but more restrained than many of our Wall Street colleagues about the outlook for the market. We think growth will be more subdued in 2021 than it was in 2020.

We will be taking the long view, as always, when suggesting stocks for client portfolios. Much of the market's gain in 2020 was concentrated in a small group of growth stocks that prospered in the pandemic. With the prospect of normal times, we will be looking at lower value stocks that can prosper as the economy fully reopens. We note that rotation into those stocks and sectors is already occurring and we will manage along with that trend in the year ahead.

MARKET TRENDS

The accompanying table summarizes stock and bond market performance in 2020. Stocks plummeted and then recovered and reached record levels on some indexes. Meanwhile, investors rushed to the perceived safe haven of U.S. Government bonds and drove yields to unprecedented low points.

Volume 86

January 2021

Equity Market: The market was strong in the first six weeks of the year, continuing the bullish trend seen in most of 2019. Then the coronavirus panic hit as business around the world came to a standstill. The overall market lost nearly 40% of its value in a five-week period. The low point for the S&P 500 was on March 23. Then investors regained confidence as the Federal Reserve and Congress responded with massive packages of monetary and fiscal stimulus. The market leaped back in April and May and then fluctuated in subsequent months, especially September. The fourth quarter was strong with the announcement of vaccine developments. The vaccine news overpowered the political controversies about the outcome of the November elections.

Both the Dow Jones Industrial Average and the S&P 500 ended the year in record territory. The Dow moved ahead 7.7% to 30,606. The S&P 500 as up 16.3% to 3,756. The Nasdaq Composite index was ahead 43.6% for the year – its best performance since 2009. The Russell 2000 index of small stocks was up 18.4% for the year. So far in 2021, the market has slowed based upon some tough economic news and the high level of virus cases.

Fixed Income Market Prices of Government bonds rose as investors sought some place to stash their assets. The yield on the 10-year Treasury note had remained below 1% for most of 2020. (Yields move inversely to prices.) Government bond funds showed over 8% growth for the year. In recent weeks, however, the yield was above 1.1% based upon some concern over future inflation.

MAJOR MARKET INDEXES

	YTD Return
Dow Jones Industrials Composite PR	7.69
S&P 500 Index PR	16.26
Russell 2000 Index PR	18.36
NASDAQ Composite PR	43.64
EAFE Index NR	7.82
Barclays Aggregate Bond Index TR	8.00

source: Morningstar® as of December 31, 2020

THE OUTLOOK

The Economy: Consumer habits and whole industries may forever be altered by the pandemic. But, overall, economic activity has been staging a remarkable comeback.

After experiencing its worst recession since the Great Depression, the U.S. generated a record 33.1% annualized GDP growth in the third quarter of 2020. Can the American economy continue its strong rebound in 2021?

The current COVID-19 flare-ups across the country suggest that the virus has yet to be contained and will likely continue to impact near-term growth. Most growth forecasts depend on the trajectory of the vaccines. A slower rollout of vaccines could result in uneven growth for a few quarters, whereas quicker distribution could drive GDP growth above 3% in 2021. We believe that both the fiscal stimulus packages and accommodative Federal Reserve policy will assist sustained recovery.

A look beneath the surface reveals that major sectors of the economy have moved in sharply different directions, reflecting the disparity between companies that have benefited from the pandemic and those that have been crushed by it. For restaurants, hotels, retailers, airlines and small businesses, it has literally been the worst of times. At the opposite end of the spectrum, the stay-at-home era has been a boon for e-commerce, cloud computing, video streaming, digital payment processors and home improvement stores.

The Market: Most Wall Street analysts are quite positive. CNBC did a recent survey in which the average forecast was for the S&P 500 to end 2021 about 9.5% above its current levels. Some analysts are predicting a gain of 15% almost comparable to 2020. This bullish view is bolstered by the expectation that average corporate earnings in the S&P 500 will exceed 20%.

At Hudson Advisors, our prognosis is more restrained. First, the current S&P 500 10-year price/earnings ratio is 34.3 – compared to the modern-era market average of 19.6. Stocks are rich at the moment and the highly favorable views of corporate earnings will need to be realized in order to lower the P/E ratio. Second, we have concern that setbacks in vaccine implementation and longer than expected lockdowns may cause the market to stumble in the months ahead. Third, investors may get nervous over

Democratic ideas to increase the capital gains tax rate. Given these caveats, we think it more sensible to assume S&P growth of 5% to 8% in 2021.

OUR STRATEGIES

Asset Allocation: For the most part, clients should stick to portfolio strategies previously identified. Of course, as always, we will look at appropriate re-balancing based on the recent equity gains -- or at changes in individual client circumstances.

Preferred Equities: We have always been supporters of value stocks. Compared to growth stocks, they often have higher quality balance sheets, trade near or at a discount to their book value, and are less expensive to buy. Many of these stocks will do extremely well in the post-pandemic period and we are looking now at those opportunities. Some sectors have our special attention:

CONSUMERS: The consumer staple companies are a base in this situation. The discretionary companies have promise as more people eventually get back to work. The Federal stimulus payments should assist consumer confidence.

INDUSTRIALS: President Biden supports infrastructure investment which should create opportunity for certain industrial companies – especially those that enhance productivity and power management.

HEALTHCARE: We are very interested in the developments in biotechnology.

TECHNOLOGY/TELECOMMUNICATIONS: Most technology companies have next generation products in development. But we must be careful with certain tech names that are in “bubble territory.” Our focus is on non-bubble names.

ENERGY: Clean energy companies have growth potential.

INTERNATIONAL: Emerging markets may come out of the pandemic with renewed vigor and growth trajectories.

Other Assets: Our aversion to long-term bonds remains. The likelihood of future inflation is not good for long-term bond prices. The problem of the growing Federal deficit is also an issue for bond prices. We like maturities under two years and cash and alternative investments such as municipal tax liens.

Dow Jones U.S. Sectors Total Return
(Percent Change for YTD, Ending December 31, 2020)
Source: Morningstar®

Oil & Gas	-33.23	Consumer Services	29.76
Basic Materials	18.32	Telecommunications	-5.92
Industrials	17.92	Utilities	-0.61
Consumer Goods	33.18	Financials	-0.53
Health Care	15.96	Technology	47.32

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Top 25 Performing Stocks 2020 (12/31/2020) - US Listed companies with a market cap above \$5 Billion. Source: Telemet ®

Issue	Name	Last	Mkt Cap	Net Pct YTD (%)	S&P Industry
API	Agora Inc.	39.56	5,426	9,790	Software
RPRX	Royalty Pharma	50.05	18,519	7,370.15	Pharmaceuticals
CNCN	Chun Can Capital Group	100	9,782	4,247.83	Technology Hardware, Storage & Peripherals
NVAX	Novavax Inc	111.51	6,864	2,701.76	Biotechnology
DTSRF	Digital Shelf Space Corp	2.81	149,410	1,920.13	
NIO	NIO Inc. ADR	48.74	59,005	1,112.44	Automobiles
PLUG	Plug Power, Inc.	33.91	12,404	973.1	Electrical equipment
TESLA	Tesla, Inc.	705.67	668,905	743.44	Automobiles
FVRR	Fiverr International Ltd.	195.1	6,883	730.21	Diversified Consumer Services
APPS	Digital Turbine, Inc.	56.56	5,017	693.27	Software
TWST	Twist Bioscience Corporation	141.29	5,251	572.81	Biotechnology
ENPH	Enphase Energy, Inc.	175.47	22,168	571.53	Semiconductors and Semiconductor Equipment
FTCH	Farfetch Ltd. CI A	63.81	21,963	516.52	Diversified Consumer Services
JMIA	Jumia Technologies AG	40.35	6,498	499.55	Internet & Direct Marketing Retail
RNWEY	REC Silicon ASA Corp ASA ADR	1.85	9,111	492	
PTON	Peloton Interactive, Inc	151.72	36,326	434.23	Electrical equipment
MRNA	Moderna Inc.	104.47	41,340	434.1	Biotechnology
RUN	Sunrun Inc.	69.38	13,705	402.39	Electrical equipment
ZM	Zoom Video Communications, Inc	337.32	96,476	395.77	IT Services
SE	Sea Ltd ADR	199.05	97,761	394.9	Software
DNLI	Denali Therapeutics Inc.	83.76	10,044	380.83	Biotechnology
PDD	Pinduoduo Inc. ADR	177.67	212,594	369.78	Diversified Consumer Services
TGTX	TG Therapeutics, Inc	52.02	6,588	368.65	Pharmaceuticals
FATE	Fate Therapeutics, Inc.	90.93	7,897	364.64	Pharmaceuticals
BILI	Bilibili Inc ADR	85.72	30,114	360.37	IT Services

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Issue	Name	Last	Mkt Cap	Net Pct YTD (%)	S&P Industry
CEO	CNOOC Limited ADS	91.65	40,919	-45.01	Oil Gas & Consumable Fuels
AAL	American Airlines Group Inc.	15.77	8,021	-45.01	Airlines
NOV	National Oilwell Varco Inc	13.73	5,331	-45.19	Energy Equipment & Services
BP	BP PLC ADS	20.52	69,259	-45.63	Oil Gas & Consumable Fuels
SLB	Schlumberger Ltd.	21.83	30,388	-45.7	Energy Equipment & Services
AZUL	Azul SA	22.82	28,720	-46.68	Airlines
FANG	Diamondback Energy, Inc.	48.4	7,646	-47.88	Oil Gas & Consumable Fuels
SU	Suncor Energy	16.78	25,590	-48.84	Oil Gas & Consumable Fuels
NTTY	Nippon Telegraph & Telephone	25.7	105,983	-49.11	Diversified Telecommunication Services
OKE	ONEOK Inc.	38.38	17,056	-49.28	Oil Gas & Consumable Fuels
MRO	Marathon Oil Corp	6.67	5,265	-50.88	Oil Gas & Consumable Fuels
UAL	United Airlines Holdings, Inc.	43.25	12,585	-50.9	Airlines
DUO	Fangdd Network Group Ltd. ADS	7.54	11,467	-51.42	Real Estate
ET	Energy Transfer LP	6.18	16,660	-51.83	Oil Gas & Consumable Fuels
GLPG	Galapagos NV Spon ADR	98.98	6,459	-52.14	Health Care Providers & Services
CLR	Continental Resources, Inc.	16.3	5,953	-52.48	Oil Gas & Consumable Fuels
PAA	Plains All American Pipeline	8.24	6,003	-55.19	Oil Gas & Consumable Fuels
NCLH	Norwegian Cruise Line Holdings	25.43	7,009	-56.46	Hotels Restaurant & Leisure
PSXP	Phillips 66 Partners LP	26.41	6,395	-57.15	Oil Gas & Consumable Fuels
CCL	Carnival Corporation	21.66	15,608	-57.39	Hotels Restaurant & Leisure
OXY	Occidental Petroleum Corp	17.31	16,101	-58	Oil Gas & Consumable Fuels
MOMO	Momo Inc. ADS	13.96	6,320	-58.33	Software
SSL	Sasol Ltd ADR	8.86	5,474	-59	Oil Gas & Consumable Fuels
CUK	Carnival PLC	18.74	13,503	-61.09	Hotels Restaurant & Leisure
ICAGY	International Consol. Airlines	4.36	9,557	-73.66	Airlines

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