



## First Quarter 2021 Capital Markets Forecast and Perspectives

### Overview

Despite the great COVID-19 pandemic that greeted 2020 and that led to lockdowns in large parts of the world and enormous changes to the way we live, work, and learn, the global economy has been resilient. This strong resilience should not be surprising given the major stimulus provided by fiscal authorities and central banks throughout the world. COVID-19 has acted as a natural force of creative destruction on the economies of the world, generating opportunities to jump start new technologies that allowed people to work more productively from home, use telecommunication more effectively, and introducing new patterns of personal and business behavior.

Despite this turmoil of global proportions and the uncertainties created by the U.S. elections, equities markets also proved resilient after the major swoon in the spring. The DJIA, the S&P 500, and the NASDAQ all registered gains by the end of the year. As we all know, the NASDAQ is largely composed of technology companies that were major beneficiaries of the pandemic impact and transformation. In fact, about 50% of the NASDAQ overall return was due to the advance in a handful of tech companies, including Facebook, Apple, Amazon, Google, Microsoft, Zoom, DocuSign, and PayPal.

Looking ahead to 2021, we anticipate a strong backdrop for the economy and equities due to: 1) progress with global COVID-19 vaccinations that will allow businesses, particularly small businesses that cannot operate remotely/virtually, to slowly begin to re-open, 2) decreased political uncertainty post-election, 3) massive fiscal stimulus likely to pass through the Democratic-controlled White House and Congress, and 4) a highly-accommodative U.S. monetary policy regime with ultra-low interest rates persisting. While equities have run up quite strongly since the depths of the COVID-19 recession, equity valuations in comparison to interest rates and any other investable alternatives remain reasonable, despite being elevated in a historic context. This is particularly true with respect to equities that stand to benefit from a public health recovery from COVID-19 outside of the aforementioned technology out-performers. Finally, we expect the current rotation from growth to value equity to continue and accelerate in 2021 as the economic recovery strengthens.

With all due respect to Nostradamus, we would also like to highlight below a few unique trends that we believe will shape the economic and investment landscape this year and beyond.

### Trends

In 2021 we will be keeping an eye on new trends that should provide us with great investment opportunities for both the short and long term. Assuming funds are available, reasonable equity prices can be found, and sufficient margin of safety exist in the target equities, we will look to invest a portion of available capital in companies that we believe will benefit from the important trends outlined below.

- I. **5G.** The impact of 5G innovation will be enormous for our future. This next generation communication network is estimated to be at least 100 times faster than the current 4G network. It will eventually produce more than \$13 trillion dollars of global goods and services.



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The future of many industries, tech, medical services, travel and manufacturing will depend heavily on the connectivity speeds achieved with 5G.

- II. **The New Industrial Revolution** sparked by 5G will impact and promote new technologies such as artificial intelligence, 3D printing, the Internet of Things, the Cloud, autonomous vehicles and more. The potential total economic impact of this new revolution could be as much as \$60 trillion dollars over the next decade.
- III. **Electric Vehicles.** More and more consumers, particularly the younger generations, are turning to electric vehicles. The EV market is expected to capture more than 16% of the total automobile market and be worth more than \$13 trillion dollars near the end of the decade.
- IV. **Cybersecurity.** With the increase in the number of connected devices as a result of the 5G Revolution, the need for cybersecurity will jump exponentially (the recent Solar Wind incident is only the latest example). This market is expected to reach over \$330 billion by the end of the decade.
- V. **Precision Medicine.** With the aging of the population worldwide and the prevalence of cancer, Alzheimer and other deadly diseases, the healthcare industry is experiencing a dramatic growth. The lack of latency provided by then new connectivity speeds will allow long distance surgery in both hospitals and outpatient clinics. This market is expected to reach \$120 Billion by the middle of this decade.
- VI. **Renewables.** Old power generation provided by oil and natural gas will give way to renewables in the form of wind, solar, energy storage and possibly even nuclear by the middle of the next decade, by which time the clean energy sector could reach an astounding \$16 Trillion dollars in new investments.
- VII. **Plant Based Foods.** With the increased health awareness of younger generations, the plant food market is about to explode from \$12 billion dollars today to \$140 Billion by the end of the decade, with vegetable meat replacement offering the best opportunities for investment.

We believe that the trends enumerated above are exciting events that will dominate the economic and investment environment in 2021 and beyond. We intend to fully participate and invest in these changes that will be taking place in the U.S and abroad. We will do so at the appropriate time, with the proper allocation, and with the strict company selection procedures we always employ in all our clients' equity investments.

Our fearless forecast for 2021 follows: DJIA = 33,300; S&P 500 = 4,160; NASD = 13,300

As usual all comments are welcome.

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