SAGE
CAPITAL ADVISORS LLC.

Market Recap, Portfolio Analysis, and Review

The 4th quarter marked the end of a tumultuous year and showed that people are gaining hope for the future. Although we have seen a recent spike in Covid-19 cases, the vaccines from Pfizer and Moderna are getting distributed (although not at the pace that we expected), and there is hope of turning back to normalcy in the coming year. Although we will not be completely back to normal for some time, it seems as though we are on the back half of the pandemic.

The US Presidential election is behind us. The markets fear of President Biden's possible tax increase on corporations, was outshined by potential growth as the economic reopening process continues. The stock market pushed forward, gaining over 12% in the fourth quarter. While we do not expect market growth to continue at this high level, low interest rates for the foreseeable future and additional Covid-19 related stimulus should help keep the equity markets testing new highs.

THE US $ and Interest Rates

Interest rates remain at very low levels. Based on communications from the Federal Reserve, we feel these conditions will continue beyond the next year. This should continue to keep market valuations at the high end of the historical range as investors feel they can achieve higher returns through stock appreciation and dividend yields, than by purchasing low yielding bonds. Although the yields on the 10 Year Treasury notes did tick higher in the fourth quarter, they yielded less than 1% at year end.

The low rates and added stimulus have led to further weakening of the US dollar as foreign investors continue to search for higher yields elsewhere. A weakening dollar benefits US companies with global distribution as it allows for US goods to be more affordable to those in foreign countries and makes imports more expensive for US companies, which stimulates demand for buying US materials.

Other benefits for the low rates are lower mortgage rates which has helped the housing market as borrowing costs for mortgages are more affordable than we have seen in decades.

We continue to be very cautious on bond investments as new purchases will yield very little, and when the interest rates do increase, the increase will cause existing bond prices to decline. As such, when we do purchase a bond, we are keeping the maturity short term in the hopes of rolling that money over into higher yields in the future and providing protection from interest rate risk.

Unemployment

For the year of 2020, we saw a wild swing in the number of people who were unemployed. The year started with the lowest unemployment we had seen in decades, with it getting as low as 3.5% in February. That number skyrocketed with the pandemic of Covid-19 hitting 14.7% in April of 2020. Since that time, the rate has declined significantly and sat at 6.7% at the end of the year.

Of those people that are working, many are working from home. Nearly 20% of employed people telecommute due to the pandemic. This is up from about 3.5% before the spread of Covid-19.

We remain surprised at the quick turnaround in both the unemployment rates and equity markets given the year that we just experienced. It is a testament to the strength of the underlying economy and the ability of the markets to look forward to post pandemic times.

Sector Analysis

Financials – Interest rates remain at extremely low levels leaving banks in the unenviable position of having to squeeze out profits on very thin margins. We continue to have no investments in financial companies but could reenter the sector if interest rates rise significantly above their current levels. Although, Financials had a good quarter, they ended the year with a negative return.

Energy – As a reminder, we sold our positions in energy at the start of the pandemic due to a glut of oil and a decrease in demand. The weakening dollar has helped oil prices over the quarter, however the continued lack of demand, makes us cautious in reinvestment to this sector for the foreseeable future. Energy was down nearly 40% on the year, despite a very good fourth quarter.

Information Technology - Technology did extraordinarily well in 2020, advancing over 40% on the year, and ten percent in the fourth quarter. As more people find themselves working from home, companies continue to spend in this area. This sector remains our largest holding by portfolio weight. Names like Microsoft, Apple, and TE connectivity continue to perform well as demand remains strong. We may see opportunities to pare back positions in some companies in this sector. In the fourth quarter, we pared back our position in Nvidia due to price appreciation in that name over the year. We added one new IT name in the quarter in Leidos, an IT solutions company in the area of defense and intelligence, as it has shown significant revenue and earnings growth over the last few years.

Consumer Discretionary – Discretionary spending remained strong in the fourth quarter, with returns in this area of nearly 8% in the quarter and 32% for the year. We added two new positions: Home Depot and Etsy. While we are sure you are familiar with Home Depot, Etsy is an on-line retail platform for homemade goods. With the number of people shopping from their computers continues to grow, and more people making products to be sold, the growth in this area is solid, and expected to continue in to 2021 and beyond.

Health Care – As one can imagine health care has fared well overall, and we continue to believe in the sector long term. Having returned nearly 8% in the quarter and just under 12% for the year, we continue to hold high quality names such as Pfizer, Bristol-Myers, and AbbVie. These companies pay above average dividend yields and have reasonable multiples compared to the broad markets.

Summary

We had a strong 4th quarter, and in this crazy year, it is hard to believe that the equity markets finished in positive territory. With the elections behind us, and the vaccine being rolled out, we believe the economy will continue to strengthen in the coming year as we begin to get back to a "normal" environment. We believe the employment level will continue to grow and consumer confidence will also increase as more certainty and relief from the pandemics end becomes clear. The equity market is at very high levels, and the performance will sure rely on companies' ability to continue to grow income.

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