

Four Market Factors to Watch in 2021

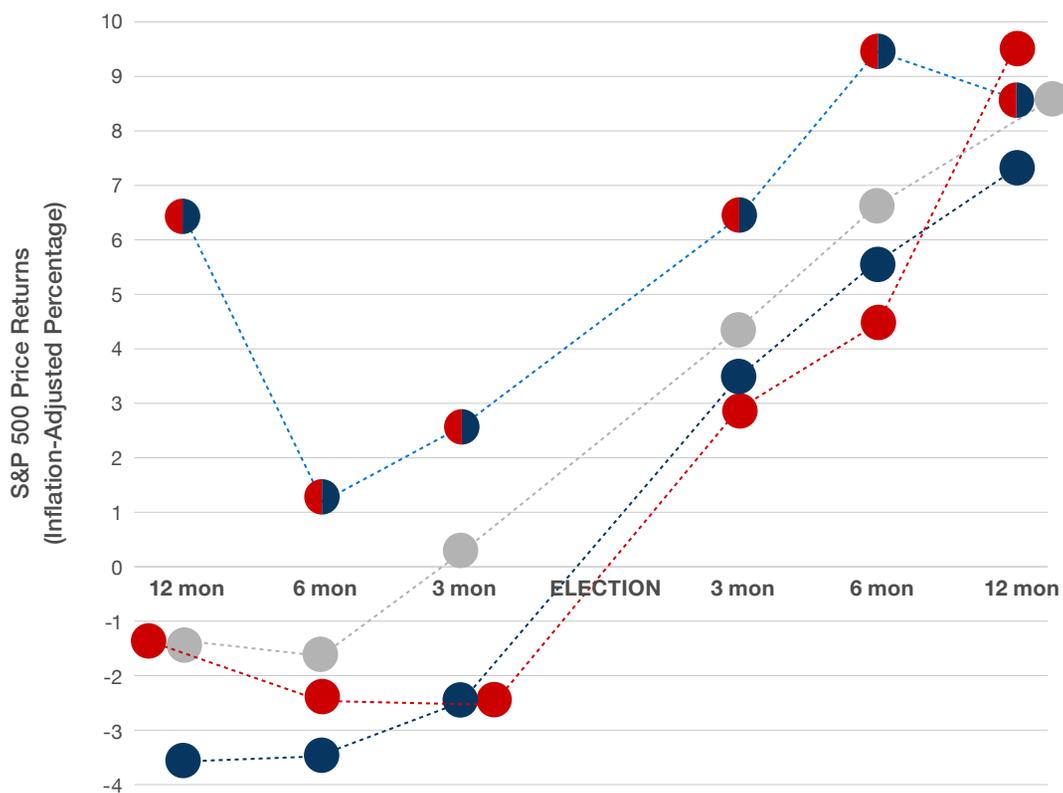


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Lord Abbett Partner and Director of Multi-Asset Strategies **Giulio Martini** looks at four factors driving a recovery in financial markets in 2020, how they might influence 2021, and related considerations for investors.

- 1 Multiple Vaccines for COVID-19.** A key factor, and potentially the most important, is the development of COVID-19 vaccines. The unexpected reliability and protection against virus contraction are both very strong. In our view, that could promise a return to more or less normal economic activity by the end of 2021.
- 2 The Resolution of the U.S. Election Cycle.** With a strong prospect of divided government, that means we believe extreme factions in either party will very likely be neutralized--and the market likes divided government historically, as this illustration shows.

A Look at Market Returns Before and After Elections



Source: Lord Abbett analysis of Bloomberg data tracking S&P 500 price returns from 1948 through November 2017.

<p>20 Divided Government</p>	<p>11 Undivided Democrat</p>
<p>14 Change in Composition by Party</p>	<p>5 Undivided Republican</p>

Real (inflation-adjusted) S&P 500 price returns are inconclusive when it comes to measuring election impact.



- 3 Strong Corporate Earnings.** We've had two straight quarters of unexpectedly strong earnings from U.S. listed companies. In fact, these two quarters have featured the most strongly positive earnings surprises versus analyst estimates that we've ever seen. We believe that the underlying earnings power of listed companies has not been damaged by this crisis, and that we can expect it to be restored over time.
- 4 China Recovery.** A very robust recovery in China, the second largest economy in the world and a critical part of global supply chains, is something we believe bodes well for the global economy.

Bottom Line

To be sure, these four factors are all positioned against a backdrop of ongoing challenges, including rising COVID-19 case counts in the United States and uncertainty over additional U.S. fiscal stimulus programs. Still, in our view, even if Congress falls short and economic growth hits a pothole in the first half of next year, investors should be reassured by the prospect of a full recovery by the end of the year. So while the healthcare crisis itself is peaking, and while new worries are sure to surface, 2020 is ending with extreme uncertainty in retreat, and a return to something resembling normal on the horizon.

Talk to your financial advisor about investment opportunities for 2021 and beyond.

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