DELTA
FINANCIAL ADVISORS
Investment Counsel

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Market Comments

The year 2020 will not be soon forgotten, for many reasons. The stock market both started and ended the year with a bang. As we all know, the middle of the year, though, would have made even a seasoned sailor queasy. The beginning of 2020 showed record highs for the broad stock market before the world came to a halt. Until the pandemic hit, 2020 was showing many promising signs with falling interest rates, low unemployment and good GDP growth, all of which lead to a record high for the DJIA. Then the crash happened, which fortunately ended almost as quickly as it started.

The fourth quarter pleasantly surprised many. With promising news on several viable vaccines and the beginning of the end to the election process, the year-end delivered stunning numbers for the overall stock market. The S&P 500 closed 12.15% higher for the quarter alone and 18.40% for the full year. As of December 31, by one report, the stock market had set over 30 new highs during the year. All very impressive to most investors and beginning to worry others.

Being discussed more often now are high P/E ratios, levels of margin debt and a newer generation of investors (traders) using services like Robin Hood, fractional share trading and other commission free ways to speculate in stocks. These factors could lead to higher volatility. All in all, though, there are good reasons to remain optimistic about the new year for stocks.

	Close	Month	QTD	1 Year
Dow	30,606.48	3.41%	10.73%	9.72%
S & P 500	3,756.07	3.84%	12.15%	18.40%
NASDAQ Comp.	12,888.28	5.65%	15.41%	43.64%

	Year-end yield	Prior Year end yield
10 yr. U.S. Treasury	0.92%	1.92%

Looking Ahead

The beginning of the new year has started well for the stock market, which is currently up over 1.5% for the first week and a half of January. This is honestly a little surprising when considering some recent news and events. Certainly, the recent reports from Capitol Hill have been difficult to witness. Vaccinations are starting around the world but at a much slower pace than expected, partially due to the holidays but also due to some reported medical staff refusing to get vaccinated. Jobless claims are increasing, and personal income numbers are coming in lower than previous periods. This has led to lower consumer spending along with fewer new and existing homes sales. Additionally, cities and states have been reinstituting lockdowns and reverting to previous tighter restrictions and curfews.

Despite the negative headlines, these early issues should soon be yesterday’s news. The changes in control in Washington will certainly lead to more stimulus from the government. The Federal Reserve has plenty of leeway to remain accommodative with interest rates at historically low levels. The yield on the U.S. 10-year treasury has recently gone back above 1% but is not a concern at this time with inflation expected to remain low. Continued easy monetary and fiscal policies will be well needed to help get the economy moving again. The threat of higher taxes may be somewhat premature due to the current difficult economic times.

The stock market usually looks ahead by at least six months, and the second half of 2021 seems to be promising. As more people get vaccinated, the state and local governments should loosen restrictions again. Americans have been saving a significant portion of their income since the beginning of the pandemic. This should lead to future consumer spending as things improve. With stock valuations reaching higher levels, though, there is little room for error. For now, we remain optimistic for the stock market, obviously in proper proportion to each investors’ needs and risk tolerances.