Where We Stand

John Stoltzfus, chief investment strategist at Oppenheimer Asset Management, explains his top-down view of markets, the economy and asset allocation.

First Quarter 2021 *Current View*

Economic Growth

U.S. economic growth should accelerate in mid-year 2021 with monetary policy, fiscal stimulus and infrastructure spending supporting growth. Still, near-term growth may stall in the first quarter due to a resurgence in the virus or lingering effects of earlier congressional gridlock.

Equities

Monetary and fiscal policy should support stocks but bouts of volatility are likely as uncertainty over virus containment, vaccine distribution and growth persists. We established a year-end price target for the S&P 500 price target of $4300 with expectations of $175 in earnings.

Fixed Income

U.S. Treasuries could come under pressure on concerns about inflation tied to massive fiscal and monetary stimulus. While yields are likely to rise further, the underlying rate of inflation should keep rates from sticking at levels high enough to negatively impact the stock market.

Inflation

While the pandemic has been broadly disinflationary, the eventual reopening of shuttered segments of the economy suggests a reflationary period when the economy reaccelerates. We expect the Fed to accommodate a period of higher inflation.

Employment

The requirements of social distancing and restrictions on indoor gatherings have limited hiring and re-openings in many sectors (restaurants, taverns, arenas) and has resulted in a period of high unemployment that could persist through mid-year.

Oil

OPEC agreements to limit production have brought firmer and more stable prices since mid-April of 2020. If these agreements hold firm and demand rises and global growth accelerates, then oil prices could return to pre-outbreak levels—$60 to $70 a barrel range.

Currencies

Unprecedented levels of economic stimulus and rescue spending have helped soften the U.S. dollar We expect this trend to continue on a successful rollout of the Covid-19 vaccine.

Monetary Policy

The Fed's unprecedented support for the U.S. economy remains a key underpinning for financial and real assets.

Public Policy

Stimulus and economic rescue policy spending is likely to increase with a potential for higher infrastructure outlays as the Biden administration assumes the leadership with slim majorities in both houses of Congress

International Markets

We expect international markets to follow the United States in a global economic recovery when the Covid-19 virus's grasp on the world subsides.

Positive Neutral Negative

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ASSET MANAGEMENT

Keys to Allocation

1
Core-Satellite Approach
We advocate combining individual securities and actively managed portfolios around a core of other broadly diversified and strategically allocated investments.

2
Broad Market-Cap Exposure
We favor exposure across large-, mid- and small-cap equities when making stock- and sector-specific allocations as global markets remain prone to frequent rotation and rebalancing.

3
Know What You Own
Understanding how different investments interact with each other and how they behave in certain market environments is critical for investors to help achieve their long-term investment goals.

Sector Views

Sector	Rating	Sector	Rating
Technology **Rationale:** Broad-based innovation wave, net cash and low debt. New technologies to boost productivity across sectors.	Outperform	**Consumer Staples** **Rationale:** This defensive sector remains attractive while Covid-19 uncertainty persists.	Perform
Financials **Rationale:** Low deposit rates, high credit-card rates and strong fee policies, and a steepening yield curve offset regulatory risk as Democrats assume leadership.	Outperform	**Energy** **Rationale:** An agreement by producing nations has led to a firming in prices; rising demand as global growth improves may boost prices further if cheating doesn’t undermine the pact.	Underperform
Health Care **Rationale:** Covid-19 elevates focus on health care. Longer-term fundamentals remain intact for pharma and biotech.	Perform	**Utilities** **Rationale:** Attractive yields offset by sector’s role as bond proxy as interest rates move toward more normal levels.	Underperform
Consumer Discretionary **Rationale:** The prospects for a positive outcome from the vaccine offer opportunities in currently shuttered segments.	Outperform	**Real Estate** **Rationale:** Negative impact of Covid-19 on commercial and residential subsectors present near and longer term risk.	Underperform
Industrials **Rationale:** Infrastructure programs to bring more opportunities for the sector. Tech innovation offers productivity-enhancing upgrades	Outperform	**Materials** **Rationale:** Sector likely to be major beneficiary when Covid-19 risk subsides and global growth reasserts.	Perform
		Communications **Rationale:** Fierce price competition between dominant players and regulatory risk among social media companies dull attractiveness.	Perform