Investor Insights & Outlook

February 2021 4th Quarter Concorde Investment Management

Domestic and International Economic Overview

Election Note:

President Biden was inaugurated on January 20th and Democrats have control over both houses of Congress. The margin on the Senate is 50/50 with Vice President Harris having the tie breaking vote and the House being split 222 D to 212 R. This narrow majority by Democrats means that centrists will be the tie breaking votes on legislation which is partially why equity markets have remained calm during the transition of power.

Outside of politics, the main story line in the 4th quarter as it relates to economic activity was the FDA emergency use authorization of two vaccines, one from Moderna and one from Pfizer, respectively. Both vaccines are messenger RNA vaccines which differ from historical vaccines in that they activate immunity response by invoking the spike protein of the coronavirus versus injecting the patient with live virus. Both are double dose vaccines and both have efficacy rates of 95%. To put the efficacy rates in perspective, the flu vaccine is typically around 44%, chickenpox vaccine is 92%, measles is 97% and polio is 99%. The efficacy numbers for the two approved vaccines are effective enough to end the pandemic once widely utilized. The only obstacle with them is their difficulty to transport given they each require being kept at extraordinarily cold temperatures (Pfizer -70 C and Moderna -8 C) and manufacturing quantity given they are double dose vaccines. There is a third vaccine, created by Johnson and Johnson, that will hopefully have emergency use authorization by the time this letter has arrived. That vaccine will be a single shot and much easier to transport given its storage temperature requirements. Regardless, these vaccines will facilitate an opening of the economy where individuals will feel (more) comfortable eating out, being around people, traveling, and going to work. Hopefully, they will also encourage more in person/classroom learning given remote education has been a total and complete abject failure. As of January 25th, 41.418 million does have been delivered in the U.S. and 23.461 million have

continued on next page

The Concorde Team

A Registered Investment Advisory Firm

(972)701-5400
www.concordeco.com

Gary B. Wood, Ph.D.
President

Greg B. Wood
Vice President

John A. Stetter
Principal, Sr. Portfolio Manager

Barbie E. Spicer
Dir. of Portfolio Administration

Marisa A. Parrott
Office Manager

CONCORDE
Concorde Investment Management

Domestic and International Economic Overview (continued)

been administered. The rate of administered doses is increasing with over 1.25 million shots per day on average over the last 7 days. We suspect that the issues around vaccine distribution and administration will improve as time passes, not unlike the testing issues that were ubiquitous at the beginning of the pandemic. Outside of the U.S., 44.692 million doses have been administered.

In our last quarterly letter we discussed some of the 'high-frequency economic activity' index. What we wrote in October: "seated dinners are down 43%, air travel is down 70%, hotel occupancy is down 32%, credit card transactions are down 4%, and mortgage applications are up 22%"

There has not been much of a change in the data during the last quarter. From the pre-pandemic activity, seated dinners are down 64%, air travel is down 56%, hotel occupancy is down 33%, credit card transactions are down 9%, and mortgage applications are up 26%. The U.S. continues to make progress on getting individuals vaccinated and our expectation is a robust recovery beginning in Q2 and increasing throughout the balance of the year. That said, the pandemic is not over, in spite of all of the optimism about the near future, and there is always a possibility of surprise given the actual limited longitudinal understanding of this virus.

Fixed Income

Broadly speaking, fixed income markets continued to recover from the shock that hit all markets last February and March. Recovery in fixed income securities generally means higher overall bond yields (not good for total returns) and narrowing of spreads to Treasury rates for credits outside of Treasuries (good for performance). Therefore, since the bottoming of yields in Treasuries in August, returns on asset classes such as mortgages, corporates, and municipals have been good and better than comparable Treasuries. The yield spreads on corporate issues is actually lower than at the beginning of 2020 despite the large widening as the pandemic uncertainty appeared in Q1 2020, reflecting a large rebound in investor confidence that the nascent recovery will continue into 2021. With these current market valuations, no real bargains are apparent although some pockets of value are available. Within the fixed universe we see attractive purchases to be found in agency and non-agency mortgage-backed securities, select lower investment grade corporates, short-term revenue-based municipals, and some institutional floating rate preferred stocks. With regard to Treasury investing, we believe the increase in yields, for example in the ten-year maturity that has risen from around 0.50% last summer to 1.07% at this writing, could move modestly higher during 2021 if the recovery continues but will be range bound and limited by risk asset (read primarily stocks) reaction if yields begin moving higher too quickly. In conclusion, investors should keep maturities of government bonds short and be very selective with short to medium term maturities of other bond asset classes.

Equity Markets

After a quick sell off in October of around 8%, the domestic stock markets continued the rally that began at the pandemic induced bear market low in late March. Most indices were hitting all-time highs around year-end. As we mentioned last quarter, the value and cyclical oriented sectors of the market have begun to catch up and, in some cases, outperform the growth segments that have dominated in recent years. Many of the quality large growth stocks such as Apple, Microsoft, and Amazon have actually traded sideways during the quarter, underperforming after highs reached around September 1. We think this may be healthy for the market along with the shift to many stocks that have good prospects in a recovering economy. Travel and real estate-oriented equities have recovered to a degree, but still lag the broad market recovery as uncertainty exists as to the time frame when consumer activity will reach 2019 levels.

International equity markets, although also recovering, continue to lag U.S. indices and some ended the year with negative returns. The Chinese markets were among the best performers reflecting the earlier damage and recovery from the pandemic and the U.K., Brazilian, and Russian markets ended with negative calendar 2020 returns. The broad emerging markets index did very well as the weaker dollar and recovery in commodity-oriented sectors supported progress.

Looking forward, the U.S. stock market has certainly discounted some level of continued recovery in 2021. We believe that individual selection will continue to be important as volatility creates both good entry and exit opportunities. Despite the large stock rebound, valuations are still reasonable for many quality businesses, even while incorporating modest growth beyond the likely 2021 gains in revenue, earnings, and cash flow. Our valuation work includes the likelihood of an increase in interest rates over the next several years. As discussed in recent quarters, we are focusing a higher percentage of exposure to U.S. businesses, although we still maintain some international exposure through the non-U.S. revenues of large domestic multi-national businesses.