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A Review of 2020, US Elections, and Our Outlook for the New Year

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A Review of 2020

As we begin the new year, we would like to reflect on the work done by our firm on behalf of clients in 2020. The list below details our thoughts on what we did that worked, and what didn't work, from a wealth management perspective. On balance, we are satisfied with how GYL's tactical portfolio adjustments performed and how they are allocated at this time.

What Worked

- During the market lows observed in Q2 2020, we suggested taking advantage of tax-loss harvesting opportunities and overweighting portfolios towards growth stocks. This proved beneficial in the subsequent market recovery.
- We took advantage of the March rally in bonds and concurrent selloff in stocks and rebalanced portfolios. The timing of this was particularly fortuitous as it occurred prior to the market rebound.
- We introduced preferred securities and private credit in portfolios where client investment mandates allowed, providing unique return profiles that hold low correlations to the broader U.S. equity market.
- In Q4 2020, we made the decision to rebalance portfolio weightings and feather back the growth trade in anticipation of a mean reversion in the valuation of growth equities versus other segments of the capital markets. Much like the shift to growth, the timing of this was fortuitous in that we participated in the post-election rotation to value.

What Didn't Work

- The early weeks of COVID-19 brought significant unrest to the bond market. As a result, other than Treasuries, most bonds and other interest-rate linked credit securities struggled during Q1.
- 2020 was a difficult year for the energy sector. In April, an oil price war between Russia and Saudi Arabia saw the price of oil future contracts fall below zero for the first time.[1] This, coupled with a COVID-19 induced destruction of demand, led the energy sector to underperform during 2020.
- During Q1 2020, REITs saw a decline of -23.5%, underperforming the S&P 500's drop of -19.6% in that same period.[2]
- For most of the year, value-centric portfolios underperformed until the Q4 2020 rotation began. Fortunately, due to the changes implemented by us earlier in the year, most clientele had their

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[1] Bloomberg, *Oil for Less Than Nothing? Here's How That Happened.* (Link)
[2] UNIPLAN, *REITs – Everything Was Good Until It Was Bad.* (Link)

respective portfolios allocated with more of a growth tilt. Depending on the timing of your investment, the aforementioned sectors and strategies rallied respectably following their March lows.

- Credit rallied back after a Q1 rout in 2020, but from Q2 through Q4, more conservative bond portfolios were not able to fully capture opportunities.

US Elections

"Anti-intellectualism has been a constant thread winding its way through our political and cultural life, nurtured by the false notion that democracy means that 'my ignorance is just as good as your knowledge.'"

— Isaac Asimov

January 6, 2021 was an unprecedented day for US elections. Predicated upon, and incited by, a false narrative that the 2020 Presidential election was stolen through fraud, individuals from across the country arrived in Washington DC to protest the outcome. As Congress prepared to certify President-Elect Biden's Electoral College victory, roughly a thousand of these protesters stormed the Capitol Building, shattering windows, vandalizing property, and occupying the House floor. Members of Congress and Vice President Pence were forced to evacuate for their own safety, and one protester was shot and killed by Capitol Police. The National Guard and law enforcement were able to eventually restore order, and Congress reconvened late Wednesday to continue counting the Electoral College ballots, confirming Joe Biden as the winner. [3] On Thursday, a Capital Police officer died from injuries that were sustained during the conflict.[4]

President Trump had every right to challenge vote counts in states where he believed that the election was tainted by fraud. Since the election, dozens of lawsuits have been filed in numerous courts. These courts have been staffed by both Republican and Democratic jurists, and every court has concluded that while certain irregularities may have been present, President Trump did not present evidence to support these very serious allegations. Therefore, the suggestion that the election was stolen is without merit.[5]

"It has been said that Democracy is the worst form of government except all those other forms that have been tried from time to time."

— Winston Churchill

We are living through a very polarized moment in American history. And yet, despite this, the actions taken by the rioters on January 6th have reminded many of our elected officials that, although our democracy is not perfect, it is the best option of governance we have available. Perhaps this week's actions will help individuals on both sides of the political spectrum re-orient themselves and return to the axiom that "with great power comes great responsibility."

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[3] New York Times, *Today's Rampage at the Capitol, As It Happened.* (Link)
[4] NBC News, *Capital Police officer dies from injuries after clashing with pro-Trump mob* (link)
[5] Wall Street Journal, *Election Fraud Claims: a State-by-State Guide (*link*)*

Georgia Senate Runoffs

With Joe Biden winning the White House and Democrats retaining control of the House of Representatives, all eyes were on the runoff elections for Georgia's two U.S. Senate seats, which were necessary for Democrats to attain unified control of the White House and both chambers of Congress. On January 5th, Democrats Jon Ossoff and Rev. Raphael Warnock defeated incumbents David Perdue and Kelly Loeffler to secure a Democrat majority in Washington D.C.[6] And, despite the chaotic events of January 6th, President-Elect Biden will be sworn in on January 20th. From our perspective, the most pressing question is what a Democrat-controlled White House, Senate, and House of Representatives will mean from a policy standpoint.

Policy Implications

The Democrats controlled both the legislative and executive branches during the first two years of President Obama's first term — a period that paved the way for ambitious policies like the Affordable Care Act. Similarly, President-Elect Biden is expected to push for a massive infrastructure investment early in his presidency. We also expect a push from the Biden administration for a bill addressing and combating the effects of climate change. The infrastructure and climate change policies may be strategically rolled into a single bill. Biden will also likely push for expanding both Medicare and Medicaid under the Affordable Care Act.[7]

However, with COVID-19 cases surging nationwide, the primary focus for the Biden administration will be getting the pandemic under control as we continue to vaccinate the public. We do not expect a return to the across-the-board lockdowns of last year, but nationwide mask mandates are likely, as are efforts to accelerate the vaccination program that is currently underway.

From a fiscal standpoint, we expect to see a tax increase for the top tax brackets, with top marginal tax rates moving from 37% to 39.6%. Biden also intends to tax capital gains as ordinary income, meaning capital gains currently taxed at the top rate of 20% would instead be subject to taxes of up to 39.6%. Corporate tax rates are also expected to rise from 21% to 28%. The table below shows how Biden's proposals differ from current rates.[8] It is important to note these are simply proposals from the campaign trail and are subject to change, modification, and negotiation.

	Current Rates	**Biden's Proposals**
Individual Income Tax	• 37% maximum rate through 2025, reverts to 39.6%	• 39.6% maximum rate
Corporate Taxes	• 21% corporate rate • 20% pass-through deduction for QBI • Territorial style regime with BEAT,	• 28% corporate rate • Repeal 20% pass-through deduction for QBI for taxpayers >$400K in income and for REIT dividends

[6] CBS News, *Ossoff Projected to Win in Georgia, Delivering Senate Control to Democrats* (link)
[7] PEW, *Biden Likely to Help States Increase Health Care Access* (link)
[8] Andersen Global, *Biden Hits the Campaign Trail With Tax Policy Proposals* (link)

	10.5% GILTI rate	• Double GILTI rate 15% minimum global book income tax • Repeal like-kind exchange deferral for real estate • 6.2% payroll tax increase on employee wages over $400K (see below)
Estate & Gift Tax	• Top rate of 40% with exemption of $11.58 million through 2025, reverts to $5 million (indexed from 2011)	• Return to “historical norm”, perhaps this means restoring the $3.5 million exemption • Eliminate the step-up in basis for inherited assets
Investment Income	• 20% maximum capital gains rate • 3.8% net investment income tax	• No preferential rate for capital gains for taxpayers over a $1 million income threshold • No financial transactions tax

Democrats may control the White House and Congress, but Republicans are far from powerless. The Democrats and Republicans will each hold 50 Senate seats, with incoming Vice President Kamala Harris serving as the tie-breaking vote in the event of a deadlock; this razor-thin majority means that Democrats cannot afford even a single dissenting vote on any legislation. Additionally, the November 2020 elections were certainly not the “blue wave” event that some expected. While the Democrats did pick up key Senate seats, they saw their majority narrow in the House of Representatives, indicating that the country is still generally centrist and the more progressive ideologies advocated by some within the Democratic Party may lack widespread support.

Republicans can also use a variety of procedural tactics to slow down the Biden administration and their opposition in Congress. Over the next two years, we, as a country, will likely need to re-familiarize ourselves with cloture motions, filibustering, and the so-called “nuclear option” as was employed in 2013 to abolish filibusters for certain judicial nominations.

Our Outlook for 2021

The Georgia election result and the violence on Capitol Hill could be a catalyst for elevated near-term market volatility. Longer-term, we expect the following in the new year.

- The 10-year Treasury yield may rise, but will likely cap out at 2%
- The dollar will continue to weaken (to the advantage of oil and overseas investments)
- A steeper yield curve — meaning low near-term rates and higher long-term rates — will likely benefit banks, as a steeper curve widens the spread they make on loans.
- The value trade will likely be a near-term winner, especially if an infrastructure bill passes.

In addition, we believe tech companies and other growth-centric investments that saw gains in 2020 will face near-term headwinds. In addition to a resurgence of interest in value-centric portions of the capital markets, we feel the pullback in growth will be driven by profit-taking following a very strong 2020. Further, a greater focus on privacy and more scrutiny of the enormous power of our personal data and how it is used by technology companies (as seen in the Netflix documentary "The Social Dilemma") will almost certainly be a high priority of the incoming administration and Congress. With that said, these companies are not going away and will continue to be strong from a fundamental perspective.

Closing Thoughts

The volatility of 2020 was a valuable reminder of how unpredictable markets can be, and also a reminder that a well-diversified portfolio is the best way to minimize your exposure to market volatility. When market turmoil inevitably occurs, the most effective way to weather the storm is to remain disciplined and trust your long-term investment strategy. Our team remains committed to you, your family, and your wealth, and we will be here to support you in 2021 and beyond — regardless of what the future holds.

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