LIBERTY CAPITAL MANAGEMENT

QUARTERLY OUTLOOK

Vol. XXIX- Number 1 First Quarter 2021

THE ECONOMY

What are the implications of the Democrats' victory?

The election is over; Joe Biden is the new president. Just like four years ago, we will explore what Biden's victory does and does not mean for economic and financial outlooks.

The Biden election platform promised an ambitious spending agenda, funded by higher taxes on high-income Americans and corporations. However, implementing this agenda will require Congress's cooperation. The razor-thin margins in Congress will act as a brake on Democratic ambitions. With narrow majorities in both the House and Senate, the incoming Biden administration will have more freedom to pursue its policy priorities than it would have facing a split Congress. But the narrow margins–a single-digit majority in the House and the narrowest-possible majority in the Senate–as well as the lack of Democratic unanimity on many issues will curb most of the campaign proposals of President Elect Biden. Markets will likely take comfort knowing the administration may need to scale back its plans in areas like climate change, health care, and tax increases.

Still, Democrats are optimistic they can succeed in certain areas. Expect another economic stimulus/coronavirus relief package to top the priority list. There was already growing bipartisan support for increasing stimulus payments to $2,000; that could be a core feature of the next package. The contenders for inclusion in another round of stimulus and Democratic priorities include: aid to state and local governments, increased funding for vaccine distribution, a further extension of enhanced unemployment benefits (currently due to expire March 14), an extension of the moratorium on evictions (currently due to expire at the end of January), and further student loan relief.

Tax increases are also on the table. Some may be more realistic than others. Such increases are likely to be used to offset the cost of the new administration's spending plans. Ideas, such as a modest increase in the corporate tax rate and returning the top individual tax rate to 39.6%, have the highest chance of success. But there is far less agreement among Democrats on other ideas, namely estate tax and/or capital gains and dividends for wealthier filers. Those may be tougher to get through Congress, even with Democrats in control of both chambers.

Biden's win is good news for Europe. His administration is likely to lift the threat of automotive tariffs, remove (or reduce) aluminum and steel tariffs, and reach a Boeing-Airbus deal with Europe. Still, there will be pressure from Biden on Europe for more NATO spending. And tensions with France and other European countries will continue to simmer over plans to impose digital taxes on American tech giants, such as Amazon, Apple, and Google.

Bottom Line

What we said four years ago is still relevant today. Since Biden has yet to be inaugurated, much less put any real policies into action, the current conditions surrounding the economy is based on the perception the President Elect can deliver. Time will tell!

Fixed Income

Interest rates in the US are not too bad.

"Expect a continued increase in longer-term yields "

Starting off this year, let's look back on interest rates movements in 2020. The fixed-income market went on the same, crazy ride the equity markets experienced. The 10-year US Treasury note started last year around 1.90%, then fell steadily as the effects of the pandemic spread worldwide. By mid-summer 2020, the unemployment rate had more than doubled to over 10%, and the Federal Reserve cut rates to zero while buying any available fixed-income security. By March, Fed activity dropped the 10-year T-note to .50%. The low rates hung on during most of the year but started a minor climb as of late December 2020, finishing out the year at .92%.

After the first of the year, the 10-year Treasury note jumped over 1.00%. Recently, yields have been as high as 1.12%. At Liberty Capital, we suspect the yield to stabilize in a range somewhere between 1.00-1.50% during 2021. As always, there are many factors that affect interest rates and financial markets—the most significant being the pandemic, particularly the distribution and uptake of vaccines. In its latest policy statement, the Federal Reserve said: "The path of the economy will depend significantly on the course of the virus. The ongoing public health crisis will continue to weigh on economic activity, employment, and inflation in the near term, and poses considerable risks to the economic outlook."

Short-term interest rates are another story. The Fed has indicated it won't raise rates from their current 0-0.25% range before 2023 and has pledged to maintain that range until the economy has achieved maximum employment with inflation averaging 2% for a period of time.

While we wait for higher rates in the US fixed-income markets, look around the world to gain a global perspective on yields. The chart below indicates just how good we have it.

Interest rates in the US are not too bad. Yields in the US are still positive.

Global interest rates (%)

	2yr	3yr	5yr	7yr	10yr	30yr
Switzerland	-0.86	-0.84	-0.84	-0.84	-0.60	-0.39
Finland	-0.75	-0.75	-0.73	-0.63	-0.45	-0.08
Germany	-0.75	-0.81	-0.78	-0.72	-0.61	-0.21
Belgium	-0.74	-0.73	-0.71	-0.59	-0.41	0.29
Netherlands	-0.74	-0.76	-0.75	-0.67	-0.53	-0.15
Austria	-0.72	-0.71	-0.71	-0.65	-0.46	0.05
France	-0.71	-0.71	-0.69	-0.59	-0.36	0.33
Spain	-0.63	-0.59	-0.43	-0.28	0.03	0.85
Italy	-0.42	-0.28	-0.01	0.21	0.55	1.41
Sweden	-0.40	-	-0.35	-	-0.03	-
Japan	-0.15	-0.14	-0.14	-0.11	0.01	0.63
UK	-0.14	-0.12	-0.10	0.00	0.18	0.72
US	0.12	0.17	0.36	0.62	0.90	1.64

The chart shows major market interest rates are largely negative. The US Treasury note market is practically the only market with positive yields. While other central banks have employed all their stimulus methods available, they have cut rates and pushed returns into negative territory.

In the municipal bond market, 2020 saw major swings in valuations. Municipal issues from hospitals, universities, stadiums, and nursing homes saw a significant fall in pricing during the early portion of 2020. Those securities have stabilized after the Federal Reserve increased their municipal bond buying program early in the pandemic. Some municipalities, including the State of Michigan, have recently increased their projected revenue predictions for 2021, based on increased consumer economic activity.

As we move thru 2021, expect a continued increase in longer-term yields and the same very low rates on short-term maturities.

Equity Markets

New Year Same Course

"Who would have thought 9 months later markets would be hitting new highs?"

2021 is poised to be a critical turning point on several fronts—the vaccine-assisted defeat of COVID-19, the resurgence of global economic growth, or the transformation of how we live and work in the digital age. Back in March, when the markets fell 35%, who would have thought 9 months later markets would be hitting new highs? We still have a long way to go, and there is still a lot of suffering around the world, but we think we are clearly seeing the end of this crisis and the foundations of a sustainable recovery. We are hopeful.

For the record, the DJIA, S&P 500, and NASDAQ indices were up for the fourth quarter 10.73%, 12.15%, and 15.41%, respectively, and for the year are up 9.68%, 18.32%, and 43.43%.

CNBC's survey expects an average 2021 year-end target on the S&P of 4,056, or about a 9.5% gain from current levels. But some strategists, like Fundstrat's Tom Lee, expect a rally more in line with 2020. Lee sees a surge in the S&P to 4,300 from its current level near 3,700, or about 16% gain.

The first quarter is historically the toughest from a GDP perspective. With the beginning of earnings season, there is the potential for some negative outlooks. In almost every quarterly outlook for the past 2 years, we have stated we are due for a correction at some point in the first quarter. "One step back two steps forward" A run-of-the-mill correction should expect a 5% to 10% pullback. Maybe it happens, maybe not. If it does, remember corrections are a healthy part of any market.

2020 should have proven once and for all the pointlessness of trying to make accurate market predictions. For our part, we believe stocks will continue their march higher in 2021. Indeed, this once-in-a-generation global health crisis was met with an almost unprecedented globally coordinated fiscal and monetary response, both of which have led to historically low interest rates that are likely to remain until the world can finally free itself from the pandemic. Historically, the combination of these conditions has supported continued stock market gains, and we see no reason for 2021 to be any different.

Bottom Line

We will continue to say no one knows what is going to happen to inflation, interest rates, stock returns, nor the weather. The one thing we at Liberty Capital Management do know is staying the course is the best option for investors. We will continue to do just that for our clients. With the turning of a new calendar, consider a few things for your investment portfolio:

- **Make sure your portfolio is consistent with your goals, risk tolerance, and preferences.** If you have short-term goals, make sure you do not have too much invested in risk assets and that you have a plan to meet cash-flow needs.

- **Revisit your goals and objectives.** If your plan has not been updated in a while, now would be a good time to update it. We'll work with and guide you through this process.

- **Don't try to time the market.** Attempting to time the market never works over the long run. It's especially difficult to try to time the market around unexpected geopolitical events, like elections or COVID-19. Focus on the time horizon for each goal.

Financial Planning

Update your Financial Plan?

"Updating a retirement income plan can help pinpoint any disconnect"

The COVID-19 pandemic has changed how some Americans think about—and plan for—retirement. In fact, the global crisis has exposed previously overlooked or even avoided areas of financial planning and wealth management. As we enter 2021, let's work together to ensure your Financial Planning needs are met.

1. **Reassess retirement planning.** According to a 2020 Schwab survey, more than half (52%) of Baby Boomers (typically defined as those born between 1946 - 1964) said the pandemic has made them more focused on developing a clear financial plan for retirement. And a 2020 TD Ameritrade survey of U.S. adults found 71% of those surveyed anticipated the pandemic would affect their retirement plans, with 37% of Boomers indicating they had delayed or considered delaying retirement, and 23% indicating they had retired early or considered it because of the pandemic. Working with Liberty Capital Management to create or update a retirement income plan can help pinpoint any disconnect between how much you need to live your best life and how long you expect to live, and then address it.
2. **Retirement policy changes may be ahead.** We're keeping an eye on a few additional developments related to retirement planning. In November, the U.S. House of Representatives proposed a new retirement-related bill. Commonly called the SECURE Act 2.0, the bill could provide more flexibility for retirement savings and stands a good chance of being voted on in 2021. If passed, the required minimum distribution (RMD) age would increase from 72 to 75, and allow some older workers to make even larger contributions to their retirement accounts.
3. **Re-examine estate planning documents.** The pandemic forced many of us to face our own vulnerability. Is your insurance coverage adequate? Do you have basic estate planning documents in place? Now is the time to review these topics with your advisor. Start with this estate planning checklist and review advance directives, such as a living will, healthcare proxy, and do-not-resuscitate order.

Putting it all together

Navigating the current trends of low interest rates, tax uncertainty, and evolving financial and retirement needs is best done with a comprehensive plan. Financial planning, wealth management, and investment planning can work together to help you reach your financial goals. Use these trends and their implications as the starting point for a conversation with your Liberty Capital Management Financial Advisor this year.

Compliance Issues

Asset Mix

The asset mix decision, or the ratio of a portfolio's balance between stocks and bonds is extremely important to the effective management of a portfolio and the client relationship. It is something discussed and agreed upon at the beginning of the relationship and should be reviewed periodically. Situations change: clients age, income becomes more important, time horizons change, etc. Have there been changes in your outlook or situation that should be reflected in your portfolio? Please contact us.

Kenneth J. Carbaugh ~ Charles L. Dettloff ~ Robert D. Foster

Focus On . . .

UNITED HEALTH GROUP, INC. (UNH)

The UnitedHealth Group Incorporated is a diversified health and well-being company. Their focus is on enhancing the performance of the health system and improving the overall health and well-being of the people they serve and their communities. They work with physicians and other health care professionals, hospitals and other key partners to expand access to high quality health care. Through their businesses, they leverage core competencies in advanced technology-based transactional capabilities; health care data, knowledge and information; and health care resource organization and care facilitation to improve access to health and well-being services, simplify the health care experience, promote quality and make health care more affordable.

The company (UNH) has attained a growth rate of 8% over the past 5 years and is expected to continue to grow by 13% over the next 3-5 years. It boasts a solid ROE of 25% despite a low debt to capital ratio of 38%. This stock provides the long-term stability and quality that Liberty Capital Management looks for over the long-term.

UnitedHealth Group, Inc. (UNH) NYSE **Last 353.12**

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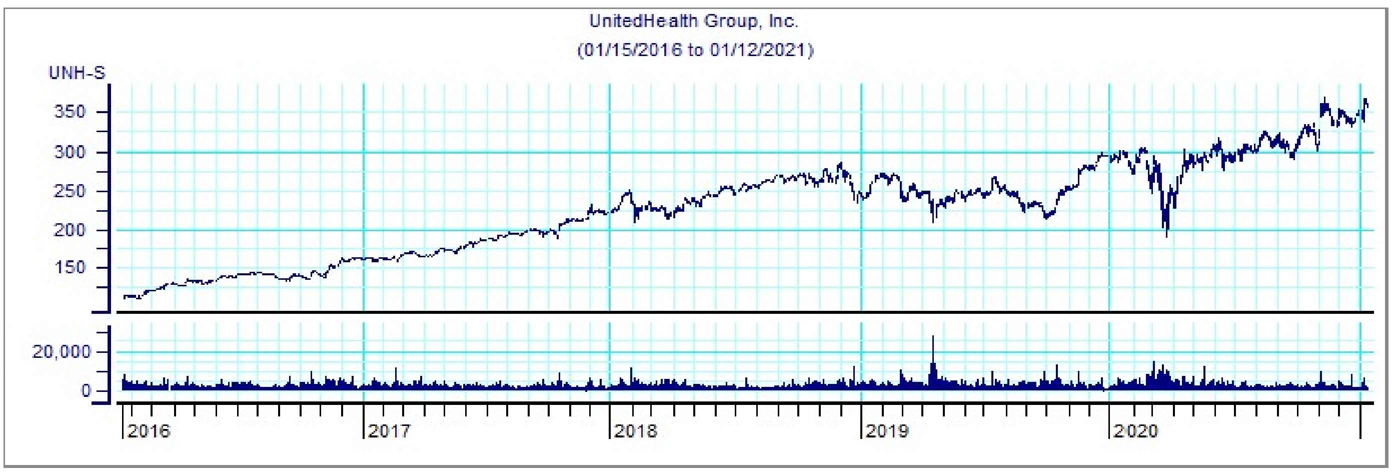
Price Change - YTD	0.70%
Dividend Yld	1.42%
P/E	19.35



Capitalization

% LT Debt to Total Cap	36.94 %
Owned by Institutions	87.31 %
Market Capitalization	335,047.57
Avg Daily Vol (Last 30 Days)	3,056,479

Business Overview

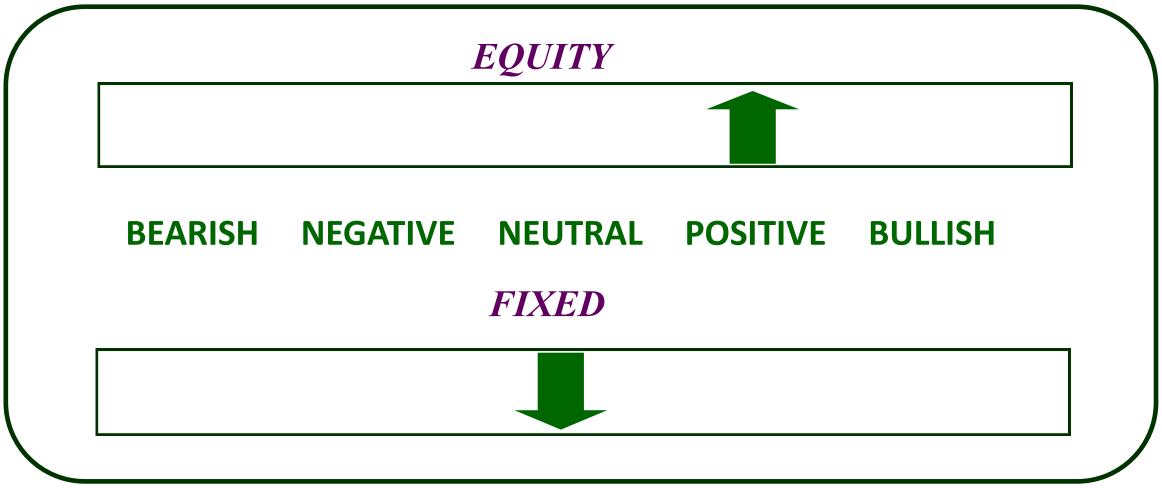
UnitedHealth Group Incorporated is a diversified health and well-being company. Their focus is on enhancing the performance of the health system and improving the overall health and well-being of the people they serve and their communities. They work with physicians and other health care professionals, hospitals and other key partners to expand access to high quality health care. Through their businesses, they leverage core competencies in advanced technology-based transactional capabilities; health care data, knowledge and information; and health care resource organization and care facilitation to improve access to health and well-being services, simplify the health care experience, promote quality and make health care more affordable. These core competencies are deployed within two business platforms: UnitedHealthcare serves the health benefits needs of individuals across life's stages through three businesses. UnitedHealthcare Employer & Individual serves individual consumers and employers. The unique health needs of seniors are served by UnitedHealthcare Medicare & Retirement. UnitedHealthcare Community & State serves the public health marketplace, offering states innovative Medicaid solutions. Optum serves health system participants including consumers, physicians, hospitals, governments, insurers, distributors and pharmaceutical companies, through its OptumHealth, OptumInsight and OptumRx businesses. These businesses have dedicated units that drive improved access, affordability, quality and simplicity across eight markets: integrated care delivery, care management, consumer engagement and support, distribution of benefits and services, health financial services, operational services and support, health care information technology and pharmacy.

Earnings	$	%	Growth Rates
Latest Quarter	3.51 dn	0.00%	5 Yr Historical
Latest 12 Months	18.25 up	0.00%	24.24%
S&P Consensus			LT Future
Current Quarter			
Current Fiscal Year			
Next Fiscal Year			
Revenues			5 Yr Historical
Latest Quarter	65,115 Mil up	7.89%	
Latest 12 Months	252,575 Mil up	1.92%	11.04%
Dividends			5 Yr Historical
Indicated Rate & Yield	5.00	1.42%	
Increases Last 5 Years	5.00		19.75%

Key Ratios & Measures	Current	High	5 Year Low	Avg
P/E	ADJ 19.35	ADJ 23.11	ADJ 12.33	ADJ 17.11
Price to Book	4.99	5.0	3.4	4.0
Price to Cashflow	15.25	24.3	9.2	14.7
Price to Sales	1.35	1.2	0.7	0.9
Return on Equity	26.81	25.5	17.8	21.4

BETA S&P 500 1.07

MARKET BAROMETER



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~ Closing Figures as of December 31, 2020 ~

DJIA	30606.48	10 yr. Treas.	0.917%	Funds Target	0.00% - 0.25%
S&P 500	3756.07	3 mo. T-Bill	0.076%	Prime Rate	3.25%

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