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Financial Market Update: What Will 2021 Bring?

By John Roscoe

New York City – To paraphrase a famous line by author Charles Dickens: "2020 was the best of times, and it was the worst of times." In fact, 2020 might end up being recorded as one of the wildest in history for investors.

After seemingly ignoring the fast-spreading virus in January 2020, and much of February, the financial markets eventually succumbed to the COVID-19 pandemic. Falling sharply in late February into March, they ultimately declined about 34% before rebounding. The pandemic wreaked havoc on our economy and the livelihoods of many Americans as shutdowns took place across the country. In mid-April, crude oil prices shocked the market by dropping below zero, as collapsing demand related to the pandemic meant that storage options for crude were few and far between. Even those who could take delivery of crude oil were actually paid to take it because producers had no place to put it! During Memorial Day weekend, the George Floyd incident brought civil unrest to many cities across the country, which continued for months.

By August, the stock market had recovered to its pre-pandemic highs, marking the fastest recovery ever from a bear market. For the full year, including dividends, the S&P 500 index increased more than 18% while the Nasdaq index rose 45%. Apple and Amazon shares increased an astonishing 82% and 76%, respectively. Bond investors even joined the party, with a 2020 return of 7.5% for the Bloomberg Barclays U.S. Aggregate Bond Index. Commodity prices also boomed in the latter part of the year, as investors anticipated an economic recovery. Residential real-estate prices moved higher, as lower mortgage rates and a deurbanization trend increased demand for homes in an already tight housing market. Record-low interest rates helped spur borrowing and investment, and, in our view, was a key driver of the market last year as it recovered from its lows.

ELECTION RAMIFICATIONS FOR STOCKS AND BONDS

Through August, investors generally favored growth stocks, with large tech shares performing strongly. In September, the rally broadened, and value stocks, as well as smaller company stocks, outperformed shares of larger growth companies. This performance gap widened after the November 2020 election, and widened further after the Georgia runoff elections for the U.S. Senate last month.

Why do we think these shifts took place? It might be that under a Democratic-controlled government, investors believe that there are higher odds of fiscal stimulus, which tends to favor more cyclical and value-oriented sectors of the market. More stimulus likely means more growth. Historically, it has often been the case that smaller company stocks start to outperform when economic growth accelerates, which we saw in the third quarter of 2020. When economic growth accelerates in the U.S., we typically see bond yields rise, and, perhaps surprisingly, growth stocks might lose ground against other stocks.

With the election now behind us, what are the implications for investors? As we assess the political agenda of the new administration, passage of another large stimulus bill appears likely. The proposed budget request of $1.9 trillion is ambitious, and even if only half of it comes to pass, it would be very stimulative to the economy. We think this should help the economy get through what might prove a few challenging months as many companies continue to deal with the impact of the pandemic.

Looking past the near term, many of the Biden administration's agenda items have possible investment implications. These include refocusing on climate change and green energy; boosting infrastructure spending; the potential for legalizing cannabis, or at least a move in that direction; increasing regulatory scrutiny of large technology-platform companies; building on the Affordable Care Act; and re-engaging with many of our allies overseas.

Since we tend to think about investing thematically, many of these items are of interest to us and are topics that we have dug into during the past decade. What we often see in the stock market is speculative surges into companies that investors believe will be favorably impacted by a new administration's agenda, followed later by disappointment. On the flip side, we have observed shares of some companies believed to be out of favor with a new administration sell off dramatically, only to later recover when the reality turned out to be far better than what had been assumed.

Taxes are a key focal point for investors as we enter the Biden era. Treasury Secretary Janet Yellen said that President Biden does not want to raise taxes during the pandemic. Therefore, a push for higher taxes would appear to be off the table in the near term. We have also heard that the total tax hike – if and when it hits – might be lower than earlier proposals, but we will have to wait and see. An important new counterbalancing factor is that we are now awash in fiscal and monetary stimulus, with more likely to come. The positive effects of this seem likely to blunt any negative economic impact arising from higher taxes.

On average, it has taken new U.S. presidents about 15 months to get tax legislation passed. The extremely narrow majority that Democrats currently hold in Congress makes it challenging to pass sweeping tax-policy changes. Stay tuned for further developments, but for now, taxes are seemingly not on the front burner.

UPDATE ON COVID-19

On December 11 and December 18, 2020, Pfizer-BioNTech and Moderna vaccines received Federal Drug Administration approval. The anticipation and the reality of these events helped propel the market higher in both November and December. The reported 90%-plus effectiveness of these vaccines is truly remarkable. (In comparison, annual flu vaccines are roughly 50% effective.) Additional vaccines are apparently coming that can be safely stored in refrigerators and will require only a single dose – a more efficient option compared to the Moderna and Pfizer-BioNTech vaccines, which require two doses and must be stored at extremely cold temperatures.

Currently, it appears there are more-contagious variants of the virus starting to spread. While it is too soon to tell, the risk now appears to be that more people will catch the virus and end up in hospitals compared to the virus strain prevalent throughout 2020. Another possibility might be the emergence of a new viral variant that is more deadly, or one more resistant to the existing vaccines.

In the past few weeks, we have seen a meaningful decline in new infections versus their recent highs, and net new hospital and ICU admissions have turned negative, meaning that more COVID-19 patients are now leaving than entering. Assuming these trends continue, that would prove a positive development for the U.S. economy and the stock market. Let's all hope this is the beginning of the end of the last wave of the coronavirus pandemic.

PONDERING THE OUTLOOK FOR 2021

Despite the horrible COVID-19 pandemic and an elevated unemployment rate, the average U.S. consumer might be in their best financial shape ever. Let that sink in for a moment. The CARES Act, passed in March 2020, provided a $2-trillion stimulus package. Some of this involved direct payments to Americans below certain income levels, while other funds went to boost unemployment payments, and to help certain heavily impacted industries and companies avoid layoffs. Another $900-billion stimulus program was passed into law just before the end of 2020, sending additional checks to Americans as well as extending unemployment payments. In addition to these payments, landlords have been prohibited from evicting tenants for many months, and banks have offered forbearance of mortgage payments that could not be made because of the pandemic. These policies seem likely to continue in the near term.

All of these funds, as well as money not being spent on vacations or eating out – on top of what has been a strong recovery in wages back to their highs – means that not only have personal savings surged but personal income also hit an all-time record in 2020. With savings at record levels, Americans have been paying off debt.

The way to view all of this is that there is a gigantic amount of pent-up demand to spend money. Think of all the deferred vacations and, consequently, all of the empty seats on airlines, empty hotel rooms, empty cruise ships, empty restaurants, malls, opera halls, museums, Broadway theaters, etc. As our stay-at-home mentality reverses, the economic impact could prove enormous with even more stimulus coming. In addition, corporate inventories are low and will need rebuilding, further boosting economic activity. None of this is meant to minimize the severe financial struggles that some groups in the country are experiencing due to the pandemic. It is just that they are a relatively small piece of the pie overall as we take an average of the overall working population.

Will all this potentially explosive spending lead to an inflationary boom, and, if it does, how will the Federal Reserve react? There are arguments to be made on both sides of this inflation question, but at this early juncture, the Federal Reserve is in no rush to remove its accommodative policy stance. The Federal Reserve continues to be data dependent, however, meaning that it will monitor the economic data to determine the best course of action. Because of the collapse in economic activity that took place last spring, the year-to-year effect on inflation could make it appear this spring that there is a big pickup in inflation. Some inflation is good. We have been shy of the Federal Reserve's 2% target level for a long time now, so a return to 2% would be normal.

If our current views about a resumption of consumer spending in the second half of 2021 turn out to be too optimistic, then perhaps inflation will not become a problem for the Federal Reserve this year. If we do see signs of a boom and a pickup in inflation, we might see the Federal Reserve begin to signal this fall that it will start to taper quantitative easing in 2022, perhaps following that with rate hikes the following year if the economy remains on a favorable trajectory. For this reason, 2021 could be a tricky year for the market if investors react negatively to word of tapering and what might come next.

With stocks hitting new highs after two stellar years of returns, and strong returns during the past two months, it would not be surprising to see some sort of a pause or correction in the near term. But barring some really bad news, it seems increasingly likely that sometime later this year, the pandemic will recede and eventually disappear. That will be an extremely bullish development, but it will also bring the Federal Reserve into greater focus, and investors will be thinking about a potentially less accommodative backdrop for investing. If we reach that point, it will not necessarily be an on/off switch for the market; instead, it will likely prove an inflection point as monetary policy changes become more of a focus for investors.

Looking at the rest of 2021, we believe stocks are likely to outperform bonds, since bonds typically tend not to appreciate in value with interest rates biased to the upside. While we are not in the business of making yearly predictions for the stock market, it would not surprise us to see equities return a bit less this year than in recent years, primarily because we are at a higher starting point and because we believe interest rates and the Federal Reserve could start to have an impact on valuation.

Finally, we will need to think about how many changes brought on by the coronavirus pandemic will become permanent, and how those changes might impact the economy. Exactly how our new habits change or stick around is unknown, and all of these things make this an interesting time for investors.

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John Roscoe is chief investment officer for Roosevelt Investments.

Disposition of Unclaimed Remains of Veterans

By T. Scott Gilligan

Brookfield, Wisconsin – As a result of advocacy efforts by the Missing in America Project and other veterans groups during the past 15 years, many states have enacted legislation that either enables or requires funeral homes to notify the U.S. Department of Veterans Affairs (VA), or veterans service organizations, about the unclaimed cremated remains of veterans. In some cases, the notification is required before the funeral home may make a disposition of unclaimed cremated remains. In other cases, the laws simply enable funeral homes to reach out to a veterans organization and release the cremated remains of veterans for the purpose of interment in a veterans cemetery.

Generally, there are two issues that arise in the handling of the unclaimed cremated remains of veterans. The first is to verify that the decedent was a veteran entitled to interment benefits in a veterans cemetery. Assuming that the verification is made, the second issue involves whether the VA will assume the expense of arranging interment in a veterans cemetery.

In some states, where the law allows a funeral home to release the unclaimed cremated remains of a veteran to a veterans service organization, this latter step would not be necessary since the service organization will carry out the interment at its own expense.

We recently reached out to the VA to obtain updated contact information when a funeral home needs to determine if a decedent is a veteran and meets the eligibility requirements for interment benefits. We were informed that there are two options. First, if the funeral home is only checking on one or two decedents, it may telephone the VA National Cemetery Scheduling Office at 800-535-1117 and provide the following information about the decedent:

- Full name
- Social Security number
- Date of birth
- Place of birth
- Branch of service (if known)
- Service number (if known)
- Service dates (if known)

The information on the decedent may also be faxed to the VA Scheduling Office at 866-900-6417 with a request to check the eligibility and respond back. The VA Scheduling Office has confirmed that if the decedent is eligible for interment, it will schedule interment at a national veterans cemetery with the funeral home. If the decedent is not eligible, the office will also contact the funeral home and confirm that fact.

If a funeral home has multiple decedents for which it needs to check eligibility, the VA Scheduling Office recommends filling out the form titled "Unclaimed Remains Eligibility Request Form" for each decedent and e-mailing the forms to NCAUnclaimedRequest@va.gov. A copy of that form is available for download on NFDA's website, www.nfda.org/cremation, in the "Cremation Legal Forms" section. (NFDA-member login required to access this form.)

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FEMA Finalizing COVID-19 Funeral Reimbursement Plan

Washington, D.C. – Funds might soon become available for families having difficulties paying for funerals after losing loved ones. The Coronavirus Response and Relief Supplemental Appropriations Act of 2021 appropriates $2 billion to the Federal Emergency Management Agency (FEMA) to provide financial assistance to individuals and households for COVID-19-related funeral expenses at a 100% federal cost.

According to FEMA, this includes eligible funeral expenses incurred between January 20, 2020, and December 31, 2020, but does not include funeral expenses incurred in 2021. FEMA is working to finalize an implementation plan and interim policy to support the delivery of funeral assistance to eligible citizens.

In a statement, FEMA said that to help administer the program, it is hiring contract support through the federal-acquisitions process. The contract was open for proposals until February 8, 2021. After a contract is awarded, FEMA will make an announcement later this year when applications are being accepted.

Who is eligible and how to apply is still being worked out, and it is not yet clear if it will be based on income level or other factors. The bill says that FEMA will reimburse families up to $7,000 for COVID-19-related funeral and burial costs.

ELIGIBLE EXPENSES

FEMA provides funeral assistance for disaster-caused funeral expenses. Not all of the expenses associated with the death of a household member are eligible for funeral assistance. FEMA's guidance lists eligible expenses associated with interment or reinterment, which include:

- remains transfer
- caskets/urns
- burial plots/cremation niches
- markers/headstones
- additional state/local/territorial/tribal (SLTT) government-mandated expenses

Eligible interment expenses include:

- transportation to identify the deceased (up to two people), if required by SLTT authorities
- interment
- funeral services
- clergy/officiant services
- death certificate costs (up to five)

Eligible reinterment expenses include:

- reinterment
- funeral services (with limitations)
- the cost of identifying disinterred remains

Ineligible expenses include costs associated with:

- obituaries
- flowers
- printed materials (e.g., programs)
- catering
- transporting people to funeral services or interment/reinterment sites
- gratuities

DETERMINING AWARD AMOUNTS

According to the Congressional Research Service, eligible applicants might receive different funeral assistance award amounts. Considerations relevant to the amount of assistance eligible individuals and households might receive include:

- the state-set maximum amount of funeral assistance that may be awarded per death or per household. This is set by the state in its "ONA Administrative Option Selection" form (the amount of assistance an individual or household may be eligible to receive for all types of ONA for a single emergency or major disaster is capped at $35,500 for FY2020)
- funeral expenses covered by other sources, e.g., burial insurance, and financial assistance provided by voluntary agencies, government programs/agencies, or other entities

Not every applicant will necessarily receive the maximum funeral assistance award amount. An applicant's award amount will depend on their unmet needs.

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CFDA Names 2021 Officers & Executive Committee

Wethersfield, Connecticut – The Connecticut Funeral Directors Association (CFDA) elected its 2021 officers and executive committee at the association's virtual 132nd Annual Convention. The new president is David W. MacDonald, president of Wallingford Funeral Home in Wallingford and at Yalesville Funeral Home in Yalesville. The Wallingford resident most recently served as CFDA's vice president.


David W. MacDonald

Other officers include: vice president, Jacqueline L. Teske of Pietras Family Funeral Homes, with locations in Rockville, Coventry, Tolland and East Windsor. The Stafford Springs resident most recently served as CFDA secretary; treasurer, Matthew R. Adzima, secretary/treasurer of Adzima Funeral Home, Inc., in Stratford. The Stratford resident is beginning his twelfth year as CFDA treasurer; secretary, Melissa Melin-Miles of Alderson-Ford Funeral Homes, Inc., in Cheshire, Naugatuck and Waterbury. The Wolcott resident most recently served as an executive committee member and is beginning her fifth year on the board.

CFDA Executive Committee members include: Albert M. DeLucia, vice president of Porto Funeral Homes in East Haven and West Haven. The North Haven resident is beginning his sixth one-year term on the board; Jesse M. Gomes of Molloy Funeral Home in West Hartford. The Avon resident is beginning his fourth one-year term on the board; Jonathan L. Green of Abraham L. Green & Son Funeral Home in Fairfield. The Fairfield resident is beginning his second one-year term on the board.; Lionel J. Lessard, general manager of D'Esopo East Hartford Memorial Chapel and D'Esopo Funeral Chapel in Wethersfield. The East Hartford resident is beginning his second one-year term on the board; and Thomas J. Tierney, owner/president of John F. Tierney Funeral Home, Inc., in Manchester. The Manchester resident is beginning his fourth one-year term on the board. Amanda Portelance of Spencer Funeral Home in East Hampton is an alternate committee member. The Portland resident is beginning her second one-year term on the board.

The CFDA representative to the NFDA Policy Board is Diana Duksa Kurz, co-owner of Duksa Family Funeral Homes in Newington and New Britain. Kurz is a past CFDA president and a former NFDA board member.

Edward J. Sheehy Jr., president of Riverview Funeral Home in Shelton and Edward F. Adzima Funeral Home in Derby, becomes immediate past-president.

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The Notebook

J3TECH SOLUTIONS (J3Tech), a sister company of Johnson Consulting Group, announced the acquisition of **FUNERAL RESULTS MARKETING**. J3Tech provides tech-based solutions in the funeral and cemetery space. Funeral Results Marketing is a digital marketing company with strengths in website design, online arrangements, pay-per-click marketing, and search engine optimization. "J3Tech works to redefine how funeral professionals communicate with the families they serve through better technology," explained Jake Johnson, president and CEO of Johnson Consulting Group. "Rob Heppell and Funeral Results Marketing bring a deep knowledge of a funeral business' presence and marketing online, so the acquisition is a logical fit."

GERALD DAVIS will retire as president of **VANDOR GROUP** effective March 31. As president of Vandor since 2000, Davis has more than 50 career utility patents. He will continue as a share-holding board member and as a consultant focused on new products, research and design, and special projects. Concurrent with his retirement, Vandor's shareholders are expanding its board size, looking to grow

PHANEUF FUNERAL HOMES AND CREMATORIUM has acquired privately owned **CAIN AND JANOSZ FUNERAL HOME,** Manchester, New Hampshire.

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From the Editor's Desk…

The Tragedy Continues Unless Lessons Are Learned

Next week will mark the 19th anniversary of one of the most bizarre and unsettling stories in funeral service history – the discovery of more than 300 bodies that were supposed to have been cremated but instead were unceremoniously stacked and strewn about the property known as Tri-State Crematory in Noble, Georgia.

What happened at the crematory was as confounding to investigators as it was damaging to funeral service. Ray Brent Marsh took over the operation of the crematory in 1996 from his father. It remains unclear as to why, six years later, the younger Marsh preferred to keep the dead bodies on his property rather than doing what he was supposed to do with them.

Some 339 bodies were recovered on the property, and two-thirds were positively identified. Marsh offered up the reason that the retort was broken. Subsequent tests did find that the unit was still functional, albeit not in perfect working order. Regardless, manufacturers offer regular maintenance programs.

While the Tri-State Crematory building itself was torn down years ago, the legacy of the tragic findings is a lesson that should never be forgotten. And while Marsh's behavior was as extreme as it gets, what the travesty at Tri-State did do was put the phrase "due diligence" back, front and center, in the funeral service lexicon. The Tri-State Crematory discovery also exposed some weak state laws that caused regulators in some states to go into knee-jerk reaction mode, creating laws where none existed and closing loopholes, such as the one that existed in Georgia at the time that allowed crematories that dealt with funeral homes to operate without a license (or inspection).

Marsh was released from prison a few years ago and has written his court-ordered apology letters to the victims' families. But for those not directly affected by his actions, the legacy of that event still lingers in legislation and due diligence. The Tri-State Crematory tragedy marks an extreme circumstance, but unfortunately, sometimes it takes an extreme event to prompt a reality check.

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