

Insights

4Q2020 Capital Markets Brief

Quarter-end review

As current events continue to quickly evolve, our hearts and thoughts remain with the families across the globe that continue to be impacted by COVID-19. At Mesirow, we continue to focus on the safety of our employees and their families, our clients, our business partners and the communities in which we operate. As we move into a new year, one with the promise of effective vaccines and new therapeutics, we also continue to serve the financial needs and wellbeing of all our clients.

Investors experienced a 2020 remarkable for its volatility, driven by sheer panic, “locked” bond markets and dramatic (and effective) Federal Reserve Board intervention. The power of the Fed balance sheet tamed the markets and led to a springtime resurgence of investor confidence that has continued through to year end. As we write, the S&P 5001 has returned + 14% YTD while 10-year Treasuries and municipal bonds returned approximately: UST10: + 10.6%2; muni AAA index +11.4%2

Investors have apparently left their March fears behind and continue to pour cash into markets that the Efficient Market Theory tells us are priced to perfection.

All the while the US waits: for a vaccine rollout requiring 662,000,000 patient doses (331mm US citizens x 2 inoculations) as COVID-19 continues to mutate (note UK version); a Georgia Senate runoff on January 5, 2021 that will determine control of the Senate; a “rational” resolution and implementation of Brexit; COVID-19 stimulus that heals our damaged economy; a smooth Presidential transition and, not least in enlightened self-interest, an equitable plan to distribute vaccine relief around the world, including our disadvantaged global neighbors. As we look through the data below, that is a lot of risk to overlook in “perfection” valuations...

Let’s walk through the data metrics that Mesirow uses to measure and price risk. We believe our metrics suggest that both taxable and tax-exempt markets are mispricing credit risk and over-looking the potential sources of volatility noted above.

COVID-19

We have been quantitatively graphing the COVID-19 pandemic since its earliest signals in Wuhan, Hubei Province. We believe that the team’s ability to source and understand local Chinese data sources, and to analyze them at the height of the March panic, gave Mesirow and our clients a considerable early advantage in understanding the enormous potential of the pandemic to disrupt both daily life and financial markets around the world.



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1. The S&P 500 Index or Standard & Poor’s 500 Index is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies. The index is widely regarded as the best gauge of large-

cap U.S. equities.

2. Mesirow calculation 12.23.2020.