

Changing with the Distance

This year has been greatly affected by COVID-19 as consumers and business owners have adjusted their behaviors and made accommodations to their lives during the pandemic. To insulate the economy from the impact of the virus, central banks around the world have provided stimulus by issuing debt. In the United States, the Federal Reserve has thus far deployed \$2.3 trillion in lending support for individuals, corporations as well as state and local governments. As a result of the pandemic, economic activity will take time to reaccelerate and therefore inflation may remain at a lower rate for the near-term.

The pandemic has accelerated the work-from-home model. While some industries have been hurt by this shift in behavior, others have profited. AHB equity portfolios and the equity portion of AHB balanced accounts are positioned in companies that support the new paradigm of consumer lifestyle and engagement. Information Technology, most notably, has had increasing demand for its products and services because of the work-from-home environment. Additionally, the need for high-speed, efficient technologies has amplified demand for new innovations such as cloud computing, 5G, artificial intelligence, robotics, medical devices, and autonomous vehicles. The productivity and cost cutting benefits from these innovations may also keep inflation at bay. Health Care is another area benefiting from technological advances. Biotechnology companies, for example, are taking advantage of technology to enhance operations and accelerate the speed of drug development. Finally, the increase in e-commerce is a trend that we expect to continue after the pandemic. Consumers have grown accustomed to the ease and convenience of online shopping. Any company engaged in supporting consumers to shop online, including retailers that can successfully shift their operations online, payment processors that facilitate these transactions, or companies that ship goods to consumers, will be long-term beneficiaries.

Throughout the pandemic, the U.S. government has, in certain cases, acted to support companies by buying their debt and extending liquidity. Companies with a large amount of debt on their balance sheets may ultimately not survive if they are not able to overcome the challenges posed to their business. Enhanced credit research and analysis are necessary in this period of heightened uncertainty. The pandemic has put a strain on state and municipal budgets as state tax collections for March through July 2020 were 7.5% less than in the same months of 2019.¹ Security selection and due diligence in researching the underlying sources of funds when selecting municipal bonds for client portfolios are even more paramount because of the negative effect on state and local budgets. This is exacerbated by the fact that the most recent coronavirus relief bill does not include direct funding for state and local governments. AHB client municipal bond portfolios now invest solely in municipalities where the vast percentage of funding is from property tax or essential service revenues as those are the most durable sources of revenue and the least likely to be affected by the pandemic.

As we have noted, the pandemic rapidly accelerated remote work trends and made numerous changes to the way we all live, work and interact with each other. While the news of upcoming vaccines is quite positive, and hopefully signals a return to normalcy, this pandemic has reminded us that the only thing that remains constant in life is change. What is most important to AHB during these turbulent and unprecedented times is having an investment strategy that is able to provide a custom approach to meet

¹ <https://www.forbes.com/sites/richardmcgahey/2020/10/27/city-and-state-budgets-may-drag-down-muni-market-and-put-new-pressure-on-the-fed/>



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your specific investment goals and objectives. AHB works to understand not only our clients' investment goals, but also their risk tolerance, capital gains sensitivity, and any other factors that allow us to tailor a portfolio to meet specific needs. This is even more pertinent now as many of these factors may have changed as a result of the pandemic. We at Abner Herrman and Brock endeavor to anticipate change and to manage client portfolios to stay ahead of the dynamic environment.

We at AHB wish you and your family a Healthy and Happy New Year.