

Cetera® Investment Management LLC

WELCOME

TO THE

2020s



# Welcome to the '20s!

Another decade is in the books and the twenty-twenties are here! This decade will kick off with a number of important events that are sure to keep us on the edge of our seats, including the Summer Olympics in Tokyo, the U.S. presidential election, and the decennial census.\* With the arrival of a new decade, we'll look at what to expect for markets, anticipated trends in the labor economy, and new technologies on the horizon. We are also 100 years removed from the start of the Roaring Twenties so we'll recap some of the highlights from that decade.

But first, let's review the 2010s.

## A Rearview Look at the 2010s

What a decade! We made it through the 2010s without a recession or S&P 500 bear market—a claim no other decade can stake. The S&P 500 finished the decade with a total return of 256.7% (13.6% annualized) and the economy grew by 25%, as measured by real GDP. This is in sharp contrast to the previous decade's annualized S&P 500 return of -1.0%, two severe bear markets, and two recessions.

Although the current economic expansion is the longest on record, the pace of growth is the slowest in the post-WWII era, with an average quarterly growth rate of only 2.3% over the course of the recovery. Slower growth is likely to be the new normal based on demographic trends: falling birthrates and lower immigration is curbing population growth. The U.S. population grew from 308.7 million in 2010 to 330.2 million in late 2019. That equates to 6.9% growth for the decade, which is down from 9.8% in the previous decade, and roughly half of the rate in the 1960s. Slowing population growth reduces economic potential, and this trend is likely to continue in the decade ahead. Despite tepid economic growth, the 2010s will be defined by its expanding jobs market, with more than 22 million jobs created over the last ten years. This compares to a loss of 982,000 jobs from 2000–09.

A number of notable technological trends left their mark on the last decade. The power of the smartphone unleashed the sharing economy, allowing ride sharing companies and short-term lodging apps to disrupt established industries. There are now more short-term listings globally than the top five hotel brands combined.<sup>1</sup> Voice-activated smart speakers have increased their market share in recent years, and more than 25% of all adults in the

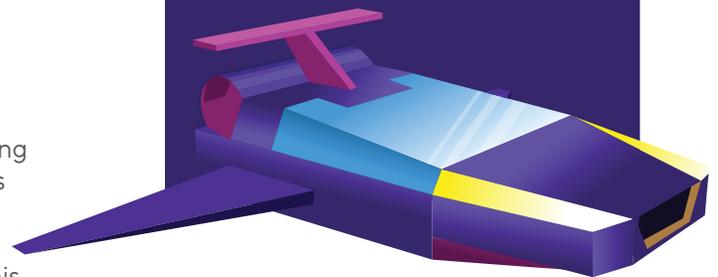
## THE FUTURE IN TV AND FILM

### Did *The Jetsons* accurately predict the future?

While *The Jetsons* took place in 2062, there are several technologies from the show that are already a part of our modern world: flat-screen televisions, video chats, talking alarm clocks, smart watches, tanning beds, and robotic vacuum cleaners. For those with a long commute, flying cars can't get here soon enough!

### "I'll be Back." Movies Set in the 2020s:

- 2020: *Mission to Mars*
- 2021: *Johnny Mnemonic*
- 2022: *The Purge*
- 2023: *Avengers: End Game*
- 2025: *Hot Tub Time Machine 2*
- 2029: *The Terminator*



\* Okay, maybe it's only us stats nerds that will get excited about the census.

U.S. now have one.<sup>2</sup> Wearable technologies, including smartwatches, health-tracking devices, and smart earbuds have expanded the reach of technology beyond computers and cell phones. There has also been a fundamental shift in how we consume media. Streaming television services have led to mass cord cutting,<sup>3</sup> impacting traditional media companies.

### What's in Store for the Twenty-Twenties?

#### Financial Markets

As Yogi Berra wisely said, "It's tough to make predictions, especially about the future." So while it's difficult to predict exactly how markets will perform over the next decade, it will be more difficult for stock market performance to be as robust as it was in the 2010s, at least for U.S. equities. The prior decade started in the early stages of the recovery from the Great Recession. Equity valuations were low, the economy was just getting off the ground, and we avoided a recession for the duration of the decade, teeing up the ideal situation for strong returns.

The current decade, on the other hand, begins with elevated stock valuations, and the economic expansion is now more than ten years old. With higher valuations and a more mature economy, the setup is tougher for

## ROARING TWENTIES

Will the 2020s growl as loud as the Roaring Twenties? It will be exciting to see how events unfold in the decade ahead, but what was life like 100 years ago?

- With the ratification of the 18th Amendment, prohibition went into effect in 1920, giving rise to bootleggers, the American Mafia, and speakeasies. Prohibition was repealed in 1933 through passage of the 21st Amendment.
- The 19th Amendment was ratified in 1920, granting women the right to vote.
- Streaming music and podcasts might be all the rage today, but 100 years ago the revolutionary technology was the radio. The first radio broadcast was in 1920, and by the end of the decade 46% of American families owned a radio.<sup>3</sup>
- America's obsession with cars was solidified in the 1920s. The number of cars registered per 100 U.S. households increased from 38.3 in 1920 to 89.8 by 1930.<sup>3</sup> It was still largely an American phenomenon, with nearly 80% of cars globally registered in the U.S. in 1930.<sup>3</sup> \*\*\*
- Charles Lindbergh flew the "Spirit of St. Louis" from New York to Paris in 1927, becoming the first pilot to complete a solo non-stop transatlantic flight.
- Also in 1927, *The Jazz Singer* starring Al Jolson was released in theaters across the nation, becoming the first movie with sound, or as they were known back then, a "talkie."
- The biggest names in the sports world during the Twenties include Jack Dempsey, the first million-dollar prize fighter, slugger Babe Ruth, halfback Red Grange, and racehorse Man o' War.
- The Roaring Twenties ended on a somber note in late 1929 when the stock market crashed, setting off panic on Wall Street. The crash capped the end of an era, with the Great Depression arriving in the early 1930s.

\*\* And countless hours lost to binge watching—the stats on which even we're afraid to look at...

\*\*\* And 80% of cars today are driving in front of you on your daily commute—where's George Jetson's flying car when you need it?!

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*Technological advancement disrupts old industries while creating new ones, and the speed at which technology changes the world will continue to accelerate, with the biggest transformations in the coming years likely to arise from artificial intelligence.*

domestic equity returns to match or exceed the returns of the 2010s. Then again, domestic stock market performance could still be strong. Valuations are high, but still much lower than the 2000 peak, and the potential impact from technological innovation could have a positive effect on stock market returns, as enhancements in technology have the potential to improve efficiencies, keep inflation low, and reduce energy costs: all factors that are positive for corporate profit margins. We also project bond returns to be more muted versus prior periods because interest rates and yields are low.

Diversification will become more important this decade. International stocks lagged in the 2010s, but they start the 2020s with more reasonable stock valuations than U.S. equities, and most major global currencies are relatively weak versus the U.S. dollar. The relationship between U.S. and international equity performance is cyclical, and after more than a decade of underperformance, international equities could be in position to take the leading role in the 2020s

#### **The Labor Market**

We enter the new decade with unemployment at a 50-year low and an economy that has produced positive jobs growth for a record 111 straight months. As we outlined in our Labor Day commentary, the only constant within the labor market is change. This decade will be no exception and the evolution of the jobs market will continue. New industries will emerge, and by the end of the decade, there will be demand for jobs that don't exist today. With that said, the fastest jobs growth over the next ten years is expected in healthcare and technology.<sup>4</sup> Healthcare is benefitting from the aging population and areas of anticipated growth include biotechnology and health data management. Tech growth will be fueled by the expanding role of cloud computing, big data, and in particular artificial intelligence—which is likely to impact the labor market far beyond the next decade.

#### **Technology on the Horizon**

Technological advancement disrupts old industries while creating new ones, and the speed at which technology changes the world will continue to accelerate, with the biggest transformations in the coming years likely to arise from artificial intelligence (AI). Technology experts predict that by the end of the decade, AI will have a profound impact on a wide range of sectors including healthcare and transportation. In healthcare, AI could generate more personalized care and identify opportunities for early treatment through predictive medicine. Within transportation, AI has the potential to unclog gridlock on our roads by way of autonomous vehicles, which could be available within the next five years.<sup>5</sup> The automotive industry itself will likely see change as demand for electric vehicles intensifies. More than two million electric vehicles were sold in 2018, but that figure is expected to increase to 28 million by 2030.<sup>6</sup> Your internet speed will be increasing over the next few years as 5G data networks come online, allowing for increased data capacity and speed for businesses and consumers alike. Predictions estimate 2.6 billion 5G subscriptions globally by the end of 2025.<sup>7</sup>

# Conclusion

How will the twenty-twenties be defined? Only time will tell. One thing that's certain, however, is that they'll be different than anything in the past, and it's exciting to ponder how it will all play out. With technology advancing so rapidly, new inflection points are reached more frequently, and fresh industries will emerge from these technological forces and drive continued evolution within the labor force. But it's important to keep in mind that market returns are not consistent across decades and investors should not anticipate gains to mirror those of the 2010s.

Diversification is one of the core foundations of investing, and spreading risk across asset classes can help your portfolio prepare for the unknown. Whether in life or the markets, change is to be expected, and as technology only accelerates those changes, it's becoming more important to reflect on the speed at which those transformation occur. As movie character Ferris Bueller once said, "Life moves pretty fast. If you don't stop and look around once in a while, you could miss it." From all of us at Cetera Investment Management, we hope you heed Ferris's advice as you head into a happy new year—and a wonderful decade ahead.

<sup>1</sup> McDermid, R. (2017, August 11). Airbnb's number of listings surpasses rooms held by top 5 hotel brands combined. Retrieved from <https://www.bizjournals.com/sanfrancisco/news/2017/08/11/airbnb-surpasses-ihg-wyn-hilton-marriott-listings.html>

<sup>2</sup> Perez, S. (2019, March 8). Over a quarter of US adults now own a smart speaker, typically an Amazon Echo. Retrieved from <https://techcrunch.com/2019/03/08/over-a-quarter-of-u-s-adults-now-own-a-smart-speaker-typically-an-amazon-echo/>

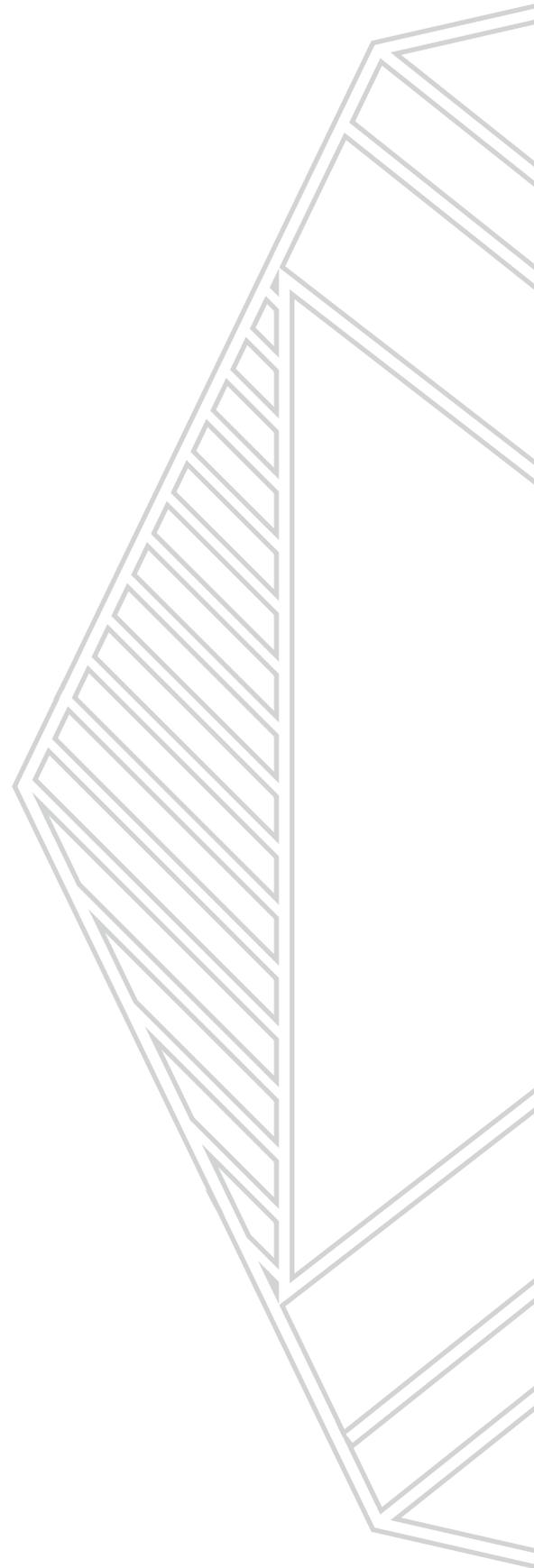
<sup>3</sup> Gordon, R.J. (2016). *The Rise and Fall of American Growth: The U.S. Standard of Living Since the Civil War*. Princeton: Princeton University Press.

<sup>4</sup> Martin, E. (2018, October 16). Money is Flooding into these 10 Industries that are adding jobs and thriving. Retrieved from <https://www.cnbc.com/2018/10/16/top-10-industries-that-are-hiring-thriving-and-making-money.html>

<sup>5</sup> Kolodny, L. and Schoolov, K. (2019, November 30). Self-driving cars were supposed to be here already - here's why they aren't and when they should arrive. Retrieved from <https://www.cnbc.com/2019/11/30/self-driving-cars-were-supposed-to-be-here-already-heres-whats-next.html>

<sup>6</sup> Electric Vehicle Outlook 2019. BloombergNEF. Retrieved from <https://about.bnef.com/electric-vehicle-outlook/>

<sup>7</sup> The Ericsson Mobility Report. November 2019. Retrieved from <https://www.ericsson.com/en/mobility-report/mobility-visualizer?f=1&ft=1&r=4&t=1&s=1&u=1&y=2019,2025&c=1>



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