Market Commentary

January 2021

Equity and Bond Market Update

(as of January 20, 2021)

Index	YTD	1-Year
Dow Jones Industrial Average TR	+2.0%	+8.7%
S&P 500 Total Return Index	+2.6%	+17.8%
Russell 2000 Total Return Index	+9.4%	+28.8%
MSCI EAFE Index (net)	+2.4%	+9.4%
MSCI Emerging Markets Index (net)	+8.5%	+24.9%
Barclays US Aggregate Bond TR	-0.6%	+6.3%

Recent Economic Indicators

	Statistic	Data as of
Unemployment Rate	6.7%	Dec 2020
Gross Domestic Product (GDP)	+33.4%	Q3 2020
Consumer Price Index (CPI)	+0.4%	Dec 2020
Consumer Confidence (1985=100)	88.6	Dec 2020
30-year fixed mortgage rate	2.90%	1/21/2020
Housing Starts (single family)	1,338,000	Dec 2020
10-Year Treasury Yield	1.10%	1/21/2020

Now that the U.S. election and presidential inauguration are behind us, the rollout of COVID vaccinations is accelerating, and we have passed over the calendar year threshold into 2021, it is a good time for us to look back to review what happened in investment markets over the course of 2020 throughout all of the chaos.

First, a quick look at the first few weeks of 2021 reveals that we are seeing a continuation of certain advancing equity markets from the last quarter of 2020. Small-cap U.S. stocks and emerging markets are leading the way by a noticeable margin over large-cap U.S. stocks and foreign developed markets. Value stocks, which had been outperforming so far this year over growth stocks, have given up their outperformance margin in just the last few days. As of today, both value and growth stocks have returned between 2.0% and 2.5% in 2021, with growth stocks currently having more momentum again as they did through most of last year.

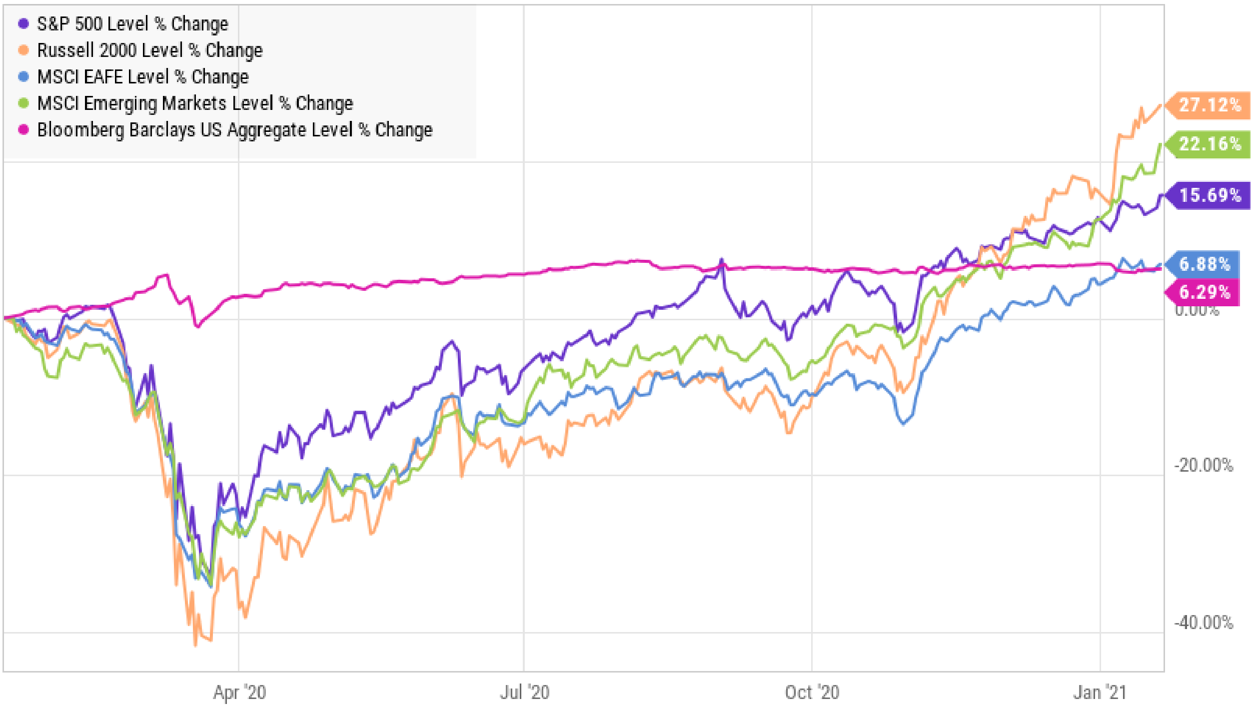
In 2020, small-cap stocks (represented by the Russell 2000 Index) suffered the largest peak-to-trough downturn in the first quarter (-41.1%) as the pandemic was just taking form, but finished the year as the best performing of all the major asset classes, closing up right at +20.0% for the year, dividends included. This compared to large-cap stocks (S&P 500 Index) up +18.4%, emerging markets (MSCI EM Index) up +18.3%, and developed foreign markets (MSCI EAFE Index) up +7.8%.

Even though at a macro level, the entire U.S. stock market returned around +18% last year, we saw a vast divergence of performance when breaking down into various sectors. The best three performing sectors, Technology (+43.9%), Consumer Discretionary (+33.3%) and Communications Services (+23.6%) returned at a much higher rate than the three worst performing sectors, Energy (-33.7%), Real Estate (-2.2%) and Financials (-1.7%). The differential in return from Technology to Energy was a whopping 77.2 percentage points. So, it is safe to say that even though 2020 turned out to be a great market year, the participation was not broad-based.

We can look at the environment we lived through last year and be able to ascertain why we had such a separation in returns for these sectors. The pandemic and the associated economic shutdowns, personal lockdowns and quarantines, and businesses that were forced to move operations to home-based offices, just to name a few, transformed the economy at least in the short-term. Online retail, information technology, home improvement, and grocery retailers were the beneficiaries of these matters. Travel-related businesses such as airlines (and the associated energy industries effected by depressed fuel demand), hotels, cruise lines, and retail REITs all suffered due to the same issues. The big question is "Is this the NEW normal?". If so, then we can definitely determine which industries will require more investment than others who will suffer. Now that is to say that 100% of the changes we have lived through over the last year will remain in place. Is that a logical assumption? We say not really. There should be a balance between what the old normal was and what the new normal has been over the last twelve months that will remain in place.

So, in order to move forward with prudent investments, we will need to be more diligent in assessing what changes we have experienced which will stick into the future. Service-type businesses being forced to move to home-based offices may have been the catalyst for those businesses to re-analyze how they run and where they can cut expenses without detriment to productivity. Teleconferencing has definitely transformed how businesses communicate with both local, regional and national colleagues and business contacts…how will that affect

Major Market Indices Price Return (YTD through December 11, 2020)



the travel industry, hotel occupancy and conference facilities? I attended a conference in person at the end of January 2020 in Florida. Then the pandemic hit. Since then, I still attended numerous conferences throughout the remainder of the year, but I did so in the comfort of my local office or at home. No airlines, no hotel stay, no taxi ride to and from the airport, no entertainment or meal expenses. But I still received the same conference benefit by viewing and participating in general and breakout sessions as I would have had I been in person. Will this be another change that we will see more of? If so, the effects will transform many sectors and industries. We certainly saw this as we went through last year and tracked increases and decreases in corporate revenues and earnings.

There will be obvious paradigm shifts that will remain after this pandemic is under control, both to our personal and professional lives. We are assessing the current market environment to take advantage of these changes to ensure we are positioning equity-based models for future growth and participation.

Always keep in mind that fear, panic, and optimism are not investment strategies, but rather emotions that drive short-term markets.

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Sources:

S&P Dow Jones Indices website (us.spindices.com)
MSCI Barra website (http://www.mscibarra.com)
The Conference Board (www.conference-board.org)
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JP Morgan Guide to the Markets
FTSE Russell (www.ftserussell.com)
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