

Market Commentary—Fourth Quarter of 2020

The financial markets experienced extreme volatility in 2020 as a result of the Coronavirus related events dominating the news, the U.S. Presidential Election results and International trade. Fourth quarter returns for the major market indices continued the gains of the second and third quarters. The magnitude of the gains is confusing considering the state of the current U.S. economy and high unemployment. Year-to-date returns were exceptional, with the tech heavy Nasdaq having the highest returns since 2009. The table below summarizes the Year-To-Date and Fourth Quarter returns as of 12/31/2020 (amounts are for total returns):

Time Period	Dow Jones Industrial Average	S&P 500	Nasdaq Composite	Barclays US Aggregate Bond Composite
Year-To-Date	9.7	18.4	43.6	7.5
Fourth Quarter	10.7	12.1	15.4	0.7

The Financial Markets are at Record Highs

The three major indices made continuously new highs in the fourth quarter, as stocks defied the pandemic and negative news and continued their upward price momentum of the previous two quarters. The performance was uneven with three of the eleven S&P Sectors having negative returns and the Information Technology Sector's return exceeding 50% for 2020. Similarly, four S&P 500 Sectors (Utilities, Financials, Real Estate and Energy) had negative returns for 2020. Certain Asian Markets were higher – primarily Taiwan, Japan, and China, and European markets overall were lower. The commodities of Silver, Gold and Platinum had substantial gains reflecting low inflation and interest rates. The Federal Reserve has been most accommodative to maintaining low interest rates resulting in both extremely low short and long-term interest rates. As a result, mortgage rates, bond yields, and bank account yields remain at record lows.

Takeaways from a Wild Year

The Markets do not perfectly reflect the real economy and world environment. The U.S. Markets bottomed on March 23 and pretty much raced higher to the end of the year. This happened while Coronavirus cases were surging, businesses were shuttered, and unemployment was at record highs. The answer is that the markets recover far sooner than the economy. Selling on bad news is seldom a good investment decision. Those investors that sold early in the year based upon their emotions and reaction to the extremely bad news of the pandemic and market selloff missed all the ensuing gains of 2020. Forecasts are seldom accurate and are just forecasts. The pandemic was not forecast in 2020. This was an unseen event. The market forecasts for 2020 were primarily focused on international trade relations and monetary policy, and generally predicted modest gains for 2020. These forecasts were meaningless a few months into the year. The tech trade is only getting bigger. Technology mattered the most in 2020 benefiting from the pandemic, resulting in disproportionate market gains and stock performance. The stay-at-home stocks like Zoom Video Communications, Roku, and Peloton Interactive (to name a few) skyrocketed in 2020 as these new technologies became widely accepted to support people working, eating, and performing more daily activities from their homes.

A New Year, A New Beginning

The U.S. has a new President. The Democratic Party also maintains a slim majority of the House and the Senate is equally divided. The new government will inherit a pandemic, high unemployment, a weak economy, and a very divided electorate to name just a few major challenges. All eyes will be on vaccinating the public and winning the war against the virus. Hopefully, the Democratic Party will govern effectively and unite the country. We are optimistic for the future and hopeful for less political division. With risk-free returns near zero, we are focused on liquidity and managing risk in making fixed income investments. While we do not anticipate making significant changes to our core equity investments in the near term, recent momentum in promising sectors and areas of the market look appealing. Given the magnitude and velocity of the recent market advance, a correction may occur in the first half of 2021. But such forecasts are difficult and unforeseen events occur. We recommend investors remain invested in accordance with their individual tolerance for risk and investment goals and objectives, and focused on long-term market returns.