# MURRAY
INVESTMENT MANAGEMENT

**4th Quarter 2020 Update**

The 4th quarter produced strong equity returns as markets continued to bounce off the lows from late March. The vaccine approval and accommodative fiscal and monetary policies seemed to drive markets higher. The S&P 500 was up 12.15%, the Russell 2000 (small caps) was up 31.37% and the MSCI EAFE (International index) was up 16.05% during the quarter. In recent years, equity market performance has been led by large cap U.S. growth stocks such as Amazon, Apple and Microsoft, but in the 4th quarter, we had somewhat of a rotation in market leadership as 1) value stocks outperformed growth, 2) small caps outperformed large caps and 3) international outperformed domestic.

| | QTD | YTD |
|---|---|---|
| S&P 500 (large cap) | 12.15% | 18.40% |
| MSCI EAFE (International index net return) | 16.05% | 7.82% |
| Rusell 2000 (small cap) | 31.37% | 19.96% |
| | | |
| Russell 3000 Growth | 12.41% | 38.26% |
| Russell 3000 Value | 17.21% | 2.87% |

Market leadership typically moves around, and some believe that the rotation that we saw during the 4th quarter could be the start of some new areas taking the lead. Since it is difficult to predict these changes, owning a diversified portfolio that includes some value stocks, small cap stocks and international stocks is a prudent approach for long-term investing, and I am focusing on these areas in the current environment.

Given the strong performance that we have experienced, there is a growing concern that equity markets have become overvalued as investors have looked beyond the current economic environment and pushed markets higher on the expectation of an economic recovery. In other words, markets have potentially outpaced economic fundamentals. In addition, there is a longer-term concern about U.S. debt levels and the potential for inflation. On the other hand, there are many positive things on the horizon for 2021 including the following:

1. Broader adoption of the COVID-19 vaccine that leads to some sort of heard immunity and a return to normalcy that should drive economic growth and lead to higher corporate earnings.
2. Additional fiscal stimulus from the federal government
3. Extremely low interest rates that leave investors with few investment alternatives other than equities.

"The pace of the recovery will be driven by what Vanguard has termed the immunity gap (the percentage of the population lacking immunity to the virus) and the reluctance gap (the reluctance by a percentage of the population to engage in economic activity). Greater immunity and reduced reluctance will drive a sharper recovery" (Vanguard).

As is usually the case, there are currently reasons for optimism and caution. But as the market is setting records for all-time highs, it is important to remember that we will have a market correction at some point, and investors should maintain a diversified, balanced portfolio that is constructed in a manner that is consistent with their risk tolerance and long-term goals and objectives.

Please let me know if you have any questions or if you would like to schedule some time to review your portfolio.

Source: Morningstar and Vanguard
The performance data shown represents past performance, which is not a guarantee of future results.
Return data is as of 12/31/2020. Except as noted, index returns are total returns.

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