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# The Year in Review

Weekly Update – January 4, 2021

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## The Week on Wall Street

Stocks moved higher during a holiday-shortened week of trading, capping off a turbulent, but otherwise strong year for equity investors.

The Dow Jones Industrial Average gained 1.35%, while the Standard & Poor's 500 increased by 1.43%. The Nasdaq Composite index, which led all year, added 0.65%. The MSCI EAFE index, which tracks developed overseas stock markets, rose 2.02%.<sup>1,2,3</sup>

## The Year in Brief

The global pandemic disrupted economies, financial markets, and daily life in 2020. Households and businesses were put to the test during the toughest and grimmest years in decades. The winter brought a resolution to the U.S.-China tariff dispute, the Brexit referendum, and the first U.S. appearance of the novel coronavirus. As spring started, abrupt stay-at-home orders in response to COVID-19 curtailed business activity, which dampened consumer spending. The federal government responded, arranging stimulus payments for millions of Americans.

Wall Street bounced back from its March downturn, but the economy limped along. The pandemic entered its worst phase in fall, but two highly promising vaccines were announced in November, and as winter started, they began to roll out to the public. On the cusp of 2021, Congress approved a second national economic stimulus, and the European Union and United Kingdom signed off on a post-Brexit trade deal.

There are many unanswered questions as we enter 2021. Will mass vaccination happen as quickly as we anticipate? Will a successful vaccination program lead to more hiring, more travel, more in-store shopping, and more confidence? The financial markets will be watching progress on this effort.

## The U.S. Economy

The pandemic sent the U.S. economy into an abnormal phase, and so our fundamental economic indicators displayed atypical readings.

The Department of Labor's main jobless rate, 3.5% in February, hit 14.7% by April. Headline unemployment declined for the next seven months, to 6.7% by November. The U-6 unemployment rate, measuring unemployment and underemployment, peaked at 22.8% in April.<sup>4,5</sup>

As people stayed home, consumer spending trended lower, falling 6.9% in March and 12.6% in April.<sup>6</sup>

The federal government moved to boost economic activity. As March ended, a \$2 trillion economic stimulus bill became law, featuring cash payments to households, temporary increases in federal unemployment benefits, and a Small Business Administration program pledging to offer distressed companies funds equivalent to 8 weeks of payroll costs. The aid began rolling out in April, and in May, the White House unveiled Operation Warp Speed, a public-private partnership intended to produce COVID-19 vaccines in record time. Two vaccines were approved by the Food and Drug Administration by fall.<sup>7,8</sup>

The Federal Reserve took the benchmark federal funds interest rate down to a target range of 0-0.25%, and revived emergency loan programs first introduced in 2008. It collaborated with the Department of the Treasury on efforts to buy corporate bonds and encourage business loans. In a monetary policy shift, the central bank said in August that it would accept average inflation of 2% for the near term, and was willing to tolerate a little more inflation in the economy while pursuing the goal of full employment.<sup>9,10</sup>

As stay-at-home orders lifted, the economy rebounded. Gross domestic product, which the Bureau of Economic Analysis said had contracted 31.4% in the second quarter, grew 33.4% in Q3. The BEA also recorded a 41.0% Q3 climb for consumer spending. Stay-at-home orders returned in Q4, however, prompting another federal economic stimulus in December.<sup>11</sup>

The housing market stayed strong. By November, existing home sales were up 25.8% year-over-year, according to the National Association of Realtors; Census Bureau data showed a 20.8% annualized improvement for new home buying.<sup>12,13</sup>

The U.S.-China tariff dispute eased throughout the year. In the January 2020 trade talks, the U.S. promised to lessen import taxes on Chinese goods, and China agreed to buy more American exports.<sup>14</sup>

### **The Global Economy**

The International Monetary Fund expects the world economy will contract 4.4% in 2020. If that estimate holds, 2020 will be the worst year for global growth since the 1930s. The U.S. economy shrank 4.3% in 2020, according to the IMF's forecast. That is better than the 8.3% setback estimated for the eurozone. The IMF projects that China's economy grew 1.9% last year. As for 2021, it sees GDP advances of 8.2% for China, 5.2% for the eurozone, and 3.1% for the U.S.<sup>15,16</sup>

The European Union and United Kingdom agreed to a post-Brexit trade deal on December 24. This completed the Brexit process, which began with the 2016 leave vote and included the U.K.'s formal exit from the E.U. last January. Businesses and financial

firms based in the U.K. now face new trade rules and costs, even with the new pact in place.<sup>17</sup>

Looking at stock benchmarks around the world, there were more ups than downs. South Korea's Kospi Composite stood out with a 30.75% 2020 gain. Argentina's Merval climbed 22.93%, Taiwan's TWII 22.80%. Two other notable 2020 advances: Japan's Nikkei 225 added 16.01%, and China's Shanghai Composite rose 13.87%. There were also notable retreats: Indonesia's IDX Composite lost 5.09%, France's CAC 40 7.14%, Russia's RTS 10.42%, and Spain's IBEX 15.45%. The MSCI EAFE index, a broad benchmark tracking developed-economy stock market performance in Europe and Asia, rose 5.43%.<sup>18,19</sup>

### **Final Thoughts**

We join all Americans in happily drawing the curtain on 2020. Though it was a challenging and tragic year for so many, there are good reasons to believe that 2021 will be a year of progress in returning to our pre-pandemic normal. We wish you and your family a healthy and happy new year!

### **THIS WEEK: KEY ECONOMIC DATA**

**Tuesday:** Institute for Supply Management (ISM) Manufacturing PMI (Purchasing Managers Index).

**Wednesday:** Automated Data Processing (ADP) Employment Change, Factory Orders.

**Thursday:** Initial Jobless Claims, ISM Non-Manufacturing PMI.

**Friday:** Employment Report.

Source: Econoday, December 31, 2020

The Econoday economic calendar lists upcoming U.S. economic data releases (including key economic indicators), Federal Reserve policy meetings, and speaking engagements of Federal Reserve officials. The content is developed from sources believed to be providing accurate information. The forecasts or forward-looking statements are based on assumptions and may not materialize. The forecasts also are subject to revision.

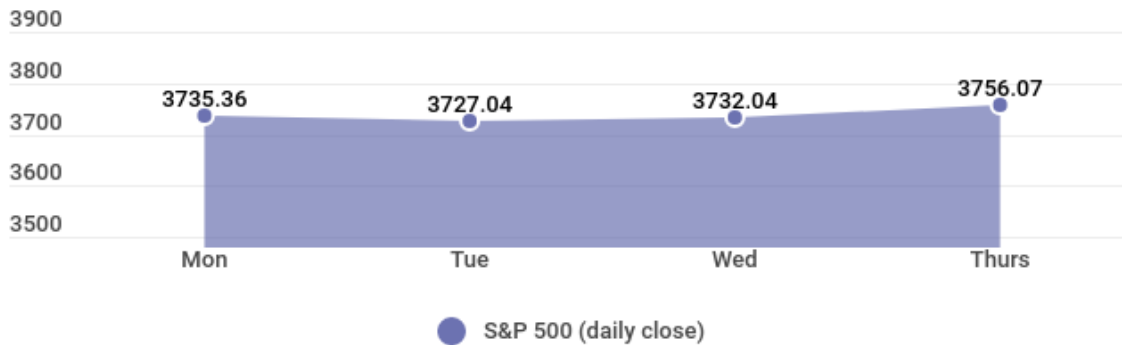
### **THIS WEEK: COMPANIES REPORTING EARNINGS**


**Thursday:** Micron Technologies (MU), Constellation Brands (STZ), Walgreens Boots (WBA), Conagra Brands (CAG)

Source: Zacks, December 31, 2020

Companies mentioned are for informational purposes only. It should not be considered a solicitation for the purchase or sale of the securities. Investing involves risks, and investment decisions should be based on your own goals, time horizon, and tolerance for risk. The return and principal value of investments will fluctuate as market conditions change. When sold, investments may be worth more or less than their original cost. Companies may reschedule when they report earnings without notice.

Market Index	Close	Week	Y-T-D
DJIA	30,606.48	+1.35%	+7.25%
NASDAQ	12,888.28	+0.65%	+43.64%
MSCI-EAFE	2,161.48	+2.02%	+6.11%
S&P 500	3,756.07	+1.43%	+16.26%



	Treasury	Close	Week	Y-T-D
	10-Year Note	0.93%	-0.01%	-0.99%

Sources: The Wall Street Journal, December 31, 2020; Treasury.gov, December 31, 2020  
 Weekly performance for the Dow Jones Industrial Average, Standard & Poor's 500 Index, and NASDAQ Composite Index is measured from the close of trading on Thursday, December 24, to Thursday, December 31, close. Weekly performance for the MSCI-EAFE is measured from Thursday, December 24, open to the Wednesday, December 30, close. Weekly and year-to-date 10-year Treasury note yield are expressed in basis points.



*“To succeed in life, you need three things: a wishbone, a backbone, and a funny bone.”*

– Reba McEntire



## SLOW COOKER SAUERKRAUT AND KIELBASA



Serves 8

### Ingredients:

- 1 (32 oz) jar Sauerkraut, drained (rinsing is optional)
- 2 lbs. Kielbasa Smoked Sausage, cut in 1 1/2" rounds
- 1 lg Apple, chopped
- 1 med Sweet Onion, diced
- 1 Tbsp Caraway Seeds
- 2 cloves Garlic, minced
- 1 cup Apple Cider
- 1 cup Water (or beer)
- 2-4 Tbsp Brown Sugar (or to taste)

### Directions:

1. Add the sauerkraut, kielbasa, apple, onion, caraway seeds, and garlic to the slow cooker crock. Stir.
2. In a separate container mix together the apple cider, water, and brown sugar. Pour over the sauerkraut mixture.
3. Cook on high for 4 hours, or low for 6–7 hours.

Recipe adapted from SimplyHappyFoodie<sup>20</sup>



### **Tax Benefit and Credits: FAQs for Retirees**

Lots of questions can come up about income taxes after one has retired. Listed are answers to just a few common questions from retired taxpayers.

#### **What types of income are taxable?**

Some common types of taxable income include military retirement pay, all or part of pensions and annuities, all or part of individual retirement accounts (IRA), unemployment compensation, gambling income, bonuses and awards for outstanding work, and alimony or prizes.

#### **What types of income are non-taxable?**

A few examples of non-taxable income are veteran's benefits, disability pay for certain military or government-related incidents, worker's compensation, and cash rebates from a dealer or manufacturer of an item you purchased.

#### **Why is my pension taxed?**

It depends on how the money was put into the pension plan. For example, if all the money were contributed by the employer or the money was not taxed before going into the plan, it would be taxable. When your contribution is from already-taxed dollars, that portion of the pension is not taxed, but must be recovered over your life expectancy.

\* This information is not intended to be a substitute for specific individualized tax advice. We suggest that you discuss your specific tax issues with a qualified tax professional.

Tip adapted from IRS<sup>21</sup>



### **Working On Your Golf Game In Winter**

It can be frustrating to make great strides in your golf game during the golf season only to see it come to an end due to the weather. You end up sitting inside all winter, letting your swing digress and your body lose its flexibility.

One of the best ways to keep your golf game up to par is to work on your flexibility. Flexibility is often overlooked as one of the more important centerpieces to a well-rounded golf game. Stretching is one way to preserve flexibility as well as increase it.

Flexibility is important because it contributes to a fluid golf swing, allowing the body to turn as needed during a swing. It can even add distance to your golf clubs when improved as well as maintain distance as you age.

Focus on hip-flexor stretches as well as hamstring stretches.

You can also work on your shoulder turn by sitting in a chair and twisting your body as far as possible without risking injury. Use the chair as leverage by grabbing it to hold your turn for a few seconds, stretching your back and core muscles.

Tip adapted from GolfPracticeGuides<sup>22</sup>



### **Practicing Gratitude in the New Year**

Instead of beginning the new year with a list of resolutions, start by examining the good things that are already in your life by practicing gratitude.

Psychologists have defined gratitude as a positive emotional response to receiving a benefit from someone. In positive psychology, gratitude is the human way of acknowledging the good things in life. Thankfully, gratitude is something you can learn if it does not come innately.

There are benefits to practicing gratitude, especially in times of stress and uncertainty. Gratitude invites positive emotions that can have physical benefits, through the immune and/or endocrine systems. Research shows that when we think about what we appreciate, the parasympathetic or calming part of the nervous system is triggered, which can have protective benefits for the body—including decreasing levels of the stress hormone cortisol and increasing oxytocin, the bonding hormone involved in relationships that make us feel good.

There are a few great ways to get started today and practice gratitude in your own life:

- Write thank you notes
- Keep a gratitude journal

- Follow-up with family and friends
- Give back to your family, friends, and community
- Pay kindnesses forward

Tip adapted from Psychology Today<sup>23</sup>



### **Next Stop for Your Christmas Tree: Recycling**

Once your tree has brought cheer during the holiday season, you can help the environment by recycling your tree in one of several different ways. If you purchased a live-rooted tree, then you can plant it after the holidays. Otherwise, check out these recycling options.

- Curbside service: Many municipalities offer curbside collection of Christmas trees. You will need to remove decorations and stands, and there may be restrictions on size and flocking, so be sure to check with the Environmental Services division in your town.
- Drop-off centers: Right after Christmas, look for Christmas tree recycling drop-off locations. Just drop and go! The trees will likely be brought to your local landfill and chipped into mulch and compost for public use.
- Nonprofits and Boy Scouts: You can call to schedule a pickup of your used Christmas tree by local nonprofits or Boy Scouts, which may require a small donation that goes to a good cause.
- Yard waste pick-up: If you have yard waste pick-up in your neighborhood, you can cut up your tree into pieces that will fit into the bin.

Christmas trees are the gifts that keep on giving because they are biodegradable for recycling and reuse.

Tip adapted from RealChristmasTrees<sup>24</sup>

#### ***Share the Wealth of Knowledge!***

*Please share this market update with family, friends, or colleagues.*

*If you would like us to add them to our list,*

*you can have them check-out our web-site (<http://thebacagroup.com>)*

*We love being introduced!*



Investing involves risk including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss in periods of declining values.

Diversification does not guarantee profit nor is it guaranteed to protect assets.

International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors.

The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.

The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ. The DJIA was invented by Charles Dow back in 1896.

The Nasdaq Composite is an index of the common stocks and similar securities listed on the NASDAQ stock market and is considered a broad indicator of the performance of stocks of technology companies and growth companies.

The MSCI EAFE Index was created by Morgan Stanley Capital International (MSCI) that serves as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indices from Europe, Australia, and Southeast Asia.

The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.

Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.

Past performance does not guarantee future results.

You cannot invest directly in an index.

Consult your financial professional before making any investment decision.

Fixed income investments are subject to various risks including changes in interest rates, credit quality, inflation risk, market valuations, prepayments, corporate events, tax ramifications and other factors.

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The market indexes discussed are unmanaged and generally considered representative of their respective markets. Individuals cannot directly invest in unmanaged indexes. Past performance does not guarantee future results. The return and principal value of investments will fluctuate as market conditions change. When sold, investments may be worth more or less than their original cost.

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<sup>1</sup> The Wall Street Journal, December 31, 2020

<sup>2</sup> The Wall Street Journal, December 31, 2020

<sup>3</sup> The Wall Street Journal, December 31, 2020

<sup>4</sup> Trading Economics, January 2, 2021

<sup>5</sup> CNN Business, May 8, 2020

<sup>6</sup> Investing.com, January 2, 2021

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- <sup>7</sup> Los Angeles Times, December 18, 2020
  - <sup>8</sup> Treasury.gov, January 2, 2021
  - <sup>9</sup> New York Times, December 23, 2020
  - <sup>10</sup> Reuters, August 27, 2020
  - <sup>11</sup> The Balance, December 27, 2020
  - <sup>12</sup> Reuters, December 22, 2020
  - <sup>13</sup> Census Bureau, December 23, 2020
  - <sup>14</sup> NPR, January 15, 2020
  - <sup>15</sup> Seattle Post-Intelligencer, December 31, 2020
  - <sup>16</sup> CNN Business, October 13, 2020
  - <sup>17</sup> The Week U.K., December 23, 2020
  - <sup>18</sup> Barchart.com, December 31, 2020
  - <sup>19</sup> Wall Street Journal, January 1, 2021
  - <sup>20</sup> SimplyHappyFoodie.com, January 1, 2021
  - <sup>21</sup> IRS.gov, January 1, 2021
  - <sup>22</sup> GolfPracticeGuides.com, January 29, 2020
  - <sup>23</sup> PsychologyToday.com, October 10, 2020
  - <sup>24</sup> RealChristmasTrees.org, January 1, 2021