

### Year-End Review and Outlook

#### Goodbye 2020!

In early 2020, the uncertainties caused by the global pandemic led to a recession and market declines around the world. But by late March, even while economies struggled, the markets began to recover – with some indexes reaching all-time highs by year-end.

As good as the 2020 returns<sup>1</sup> look when compared to the March lows, it's important to note that this has not been a “broad based recovery.” Some industries and companies benefitted from the lockdowns and social distancing (technology, online retail, and home improvement), while others – like financials and energy – lagged. Case in point, the S&P 500 index ended the year at a record high due to the significant appreciation of its 5 largest stocks (all related to technology) – their combined weight made up approximately 25% of the index at their high in September. Many of the remaining stocks in the S&P 500 index were flat or negative. U.S. small cap and international equities were also slow to recover but gained momentum towards the end of the year.

	2020 (2/19/20 – 3/23/20)	2020
<i>U.S. large cap stocks (S&amp;P 500 Index)</i>	-33.8%	18.4%
<i>Global stocks (MSCI ACWI IN Index)</i>	-34.4%	16.3%
<i>Emerging market stocks (MSCI EM Index)</i>	-31.9%	18.4%
<i>U.S. corporate bonds (FTSE U.S.BIG CORP. 3-7Y)</i>	-8.9%	8.3%

#### Looking Ahead

##### An Ongoing Economic Recovery

We recognize that it will take some time for the U.S. economy to fully recover. Many jobs and industries that were initially shut down have reopened. Unemployment, which shot above 14% earlier in the pandemic, had come down to 6.7% by year-end. But it will take more time to get back to where we were at the end of 2019 and the historic unemployment lows of around 3.5%. We will continue to watch the unemployment numbers – it takes a confident consumer to keep the U.S. economy running.

Last year we projected the U.S. economy was on pace to continue growing at approximately 2%, in line with recent trends. Instead, it swung more than 30% down and up in the second and third quarters, and the 2020 GDP growth rate (as of the time of this writing) is estimated to come in at -3.6% for the year. Looking ahead, consensus estimates expect the recovery to continue and the economy to grow at approximately 4% in 2021.

<sup>1</sup> Returns calculated by Tamarac Inc. software

## **Volatile Markets with Opportunities**

As we move into 2021, we expect a choppy market due to the uncertain path of the economy, especially considering the rising number of COVID cases and renewed restrictions. With effective vaccines already in distribution and a firm commitment by the Fed to provide monetary support, the economy should continue to stabilize. However, there are likely to be bumps in the road, especially with stretched valuations in certain areas of the market. Overall, we believe 2021 presents opportunities for the patient, long-term investor.

### **What creates market optimism:**

- A U.S. fiscal stimulus package of \$900 billion was finally approved at the end of December to send immediate aid to families and businesses to help them cope with the economic effect of the pandemic and to fund the distribution of vaccines.
- Fed response has been quicker and more sizeable in comparison to the previous recession, which has played a key role in restoring stability and confidence. We expect interest rates to stay low for the foreseeable future (this year and into 2022) until inflation rises.
- Two effective vaccines are being distributed, after Pfizer/BioNTech and Moderna got full approval by the FDA. There are many unknowns related to the timing and structure of the rollout schedules, but it certainly could be perceived as the “light at the end of the tunnel.”

### **What may lead to market pessimism:**

- Fears about credit and financial losses spreading into the financial sector could lead to market pullbacks. Fed support is essential both for high-yield and investment-grade credit investments.
- Valuations remain a risk. After the pandemic lows in March, the U.S. markets swiftly recovered and are valued at the upper range of historical price-to-earnings (P/E) ratios. As we’ve said before, markets are forward looking and much of the anticipated economic recovery may already be priced in. So, any failure to meet expectations may cause pullbacks.
- All of the stimulus and liquidity the government and central bank provided increases the risk of inflation.

### **Opportunities:**

- Sectors that have been held back by the health crisis should eventually recover (financials, energy, cyclicals). It is important to note that towards the end of 2020 we started seeing performance shifts and expect this trend to continue as vaccines become more widely available over the coming months and businesses reopen.
- Small cap stocks should also benefit from renewed investor optimism. We saw the Russell 2000 lead the way most recently – a sign of bullish investor sentiment.

- International stocks, especially emerging markets, present a great investment opportunity. This year more than ever we maintain our position that these stocks have relatively attractive valuations. In addition, we like them for the long-term diversification benefit they add to portfolios.
- In fixed income the opportunities are with higher yielding bonds that may benefit from renewed business activity as global economies come out of the recession. Emerging market bonds have relatively attractive income with reasonable risk.

As we've done in the past, we will continue to rebalance your portfolio, taking some profits from highly appreciated assets and adding to asset classes that are relatively more attractive. We believe avoiding concentration in individual sectors and/or stocks is critical. Of course, accomplishing that in a tax-efficient manner continues to be a priority. In fixed income we'll maintain investments in high-quality bonds that provide stability and reduce risk, while looking to enhance income with opportunities in high-yield bonds and international bonds.

### Summing It Up

As we said last year, it wasn't a matter of *if*, but *when* the markets would decline. Yet no one could have predicted that the cause for the next market turmoil would be a global pandemic. This event again reinforced the reality that recessions and market volatility are a natural part of the investing experience.

Going forward, we believe markets will remain volatile due to economic uncertainty and the many unknowns surrounding the pandemic and vaccine rollouts.

But no matter what the markets do – whether they're hitting new highs, taking us on a roller coaster, or moving sideways – remember that your portfolio is being managed to your individual goals and risk tolerance. When volatility presents itself, we take advantage of it by re-balancing your portfolio to ensure that your allocation to equities and fixed income remains on target. We also control risk by ensuring that your portfolio is well diversified.

These time-tested principles for successful long-term investing help ensure that your portfolio is prepared for the next unexpected event. 2020, with all its uncertainty in the economy and markets, was a good example of why these principles work. By having strong investment processes in place, and sticking to them in times like these, we can continue to protect and grow your portfolio.

Please let us know if you have any questions about our outlook or your specific situation.

Here's to a brighter and prosperous 2021!