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FOURTH QUARTER 2020 MARKET RECAP

2020: Did I Miss Something???

Strong Market Results Follow Early Volatility

If Rip Van Winkle was an investor, he would have thought 2020 was just another strong year in the financial markets. Little would he have known that the world was in midst of the worst pandemic since the Spanish flu a century ago, the unemployment rate spiked from 3.5% to a record 14.8% in just two months, and both stocks and bonds experienced their sharpest selloffs and fastest recoveries on record. Fortunately for Rip, the Federal Reserve ("Fed") and U.S. government acted decisively during the early phase of the COVID-19 ("COVID") pandemic to support the financial markets through unprecedented monetary and fiscal support. Rip can also thank the financial markets for being forward looking mechanisms (i.e. investors value stock based on future prospects), which enabled stocks to rally in lockstep with progress made on the development of messenger RNA-based ("mRNA") vaccines. 4Q 2020 represented the culmination of forward-looking euphoria thanks to significantly better-than-expected effectiveness of the mRNA vaccines and the rapid approvals of these vaccines by the Federal Drug Administration ("FDA") and other health authorities around the world. The markets responded accordingly given the expectation for a rebound in economic growth, triggering a broadening out of the stock market rally from a handful of large technology and "stay at home" themed stocks to cyclical sectors most impacted by the pandemic.

Oh, not to mention, Rip would have also missed one of the most contentious elections in U.S. history, which included a two-seat runoff in Georgia with record-breaking voter turnout that determined control of the Senate. While we all wish we could have a Rip moment after witnessing the horrifying insurrection on Capitol Hill, the financial markets, being the forward-looking mechanisms that they are, looked past this event to a brighter future under a Biden Administration.

U.S. Stocks Plunged and Recovered, Delivering Strong Gains

The Standard & Poor's 500 Index ("S&P 500"), which measures the performance of the 500 largest publicly traded companies in the U.S., rose 12.2% during fourth quarter 2020. The S&P 500 finished 2020 at a record high as better-than-expected COVID vaccine trial results and the subsequent FDA approval of two COVID vaccines helped investors shrug off concerns over a third wave of COVID infections and the resumption of regional lockdowns. U.S. stocks also benefited from the expectation of a "blue wave" election sweep increasing the prospect for more fiscal stimulus. For the year, which included a 35.3% market crash between 02/19/20 to 03/23/20, the S&P 500 was up 18.4%.

Within the S&P 500, energy (+27.8%), financials (+23.2%), and industrials (+15.7%) were the best sectors in the fourth quarter while utilities (+6.5%), consumer staples (+6.4%), and real estate, were the sectors with the poorest results. Full year 2020, technology (+43.9%), consumer discretionary (+33.3%), and communication services (23.6%) led all sectors while financials (-1.7%), real estate (-2.2%), and energy (-33.7%) were the worst performing sectors.

During 4Q 2020, value stocks, or shares of companies that generally have slower growth prospects and higher dividend payouts, rose 14.5% while growth stocks, or shares of companies growing sales and profits faster than the broader market, increased 10.7%. Over the course of 2020, growth stocks increased 33.5% while value stocks were up 1.4%. The Russell 2500 Index, a measure of domestic small and mid-capitalization stocks (U.S. companies with a market capitalization lower than $10 billion) increased 27.4% in 4Q 2020. During 2020, the Russell 2500 Index rose 20.0%.

Foreign Stocks Awakened

Foreign stocks, both international developed markets and emerging markets, outperformed U.S. stocks during 4Q 2020. The MSCI EAFE Index ("Europe, Australia-Asia, and Far East"), which measures the U.S. dollar-denominated ("USD") return of medium-to-large company stocks in developed markets outside of the US and Canada, increased 16.1% during the fourth quarter. A weaker U.S. dollar and increased investor appetite for stocks leveraged to a global economic recovery helped international developed market stocks outperform U.S. stocks in the quarter (the MSCI EAFE Index is comprised of more cyclically oriented companies whose growth prospects are more closely tied to the ebb and flow of the economic cycle, relative to the S&P 500). For full year 2020, the MSCI EAFE Index climbed 7.8%.

Developed international small-to-mid ("smid") cap stocks, as measured by the MSCI EAFE SMID Cap (U.S. dollar) Index, rose 16.7% in 4Q 2020. Developed international smid cap stocks have even greater exposure cyclical industries such as travel/leisure, financials, and industrials, which helped them outpace their larger cap peers over the course of the quarter. The MSCI EAFE SMID Cap Index finished 2020 up 11.3%.

Emerging market stocks (countries with less than a $25,000 per capita income), as measured by the MSCI Emerging Markets USD Index, rose 19.7% (on a U.S. dollar-denominated basis) in 4Q 2020. Emerging market stocks within export-oriented economies were especially strong during the quarter given the rebound in global economic activity and the recovery in oil prices. For 2020, emerging market stocks rose 18.3%

The MSCI China (U.S. dollar) Index was up 11.2% during fourth quarter 2020 while broader Asia Pacific region (ex-Japan) stocks, as measured by the MSCI AC Asia Pacific ex Japan (U.S. dollar) Index, increased 19.2%. Stocks within economies that experienced an easing of national lockdowns, such as India, Indonesia, and the Philippines, or a rebound in manufacturing (e.g. Taiwan) accounted for the majority of the gains in the quarter. During 2020, Chinese stocks rose 29.5% while Asia Pacific stocks increased 22.4%.

Real Assets

The S&P Real Asset Index rose 10.3% in fourth quarter 2020. The S&P Real Asset Index measures the results of securities tied to physical assets including those that can produce relatively stable income streams, such as real estate and infrastructure assets, and inflation-sensitive real assets (e.g. hard commodities, natural resources, and inflation-linked bonds). During the last three months of 2020, real asset valuations were boosted by a sharp recovery in natural resource company stock prices. Better-than-expected COVID vaccine trial results and the accelerated approval of COVID vaccines worldwide increased the prospects for a global economic recovery and the expectation for increased demand for natural resources. Natural resource companies, particularly within the energy sector, also benefited from the 26.5% rise in Brent Crude Oil prices as continued OPEC+ production cuts led to a decline in global inventory levels. For full year 2020, the S&P Real Asset Index rose 1.2%.

The Alerian US Midstream Energy Index, which measures the results of U.S. companies that gather, process, transport, and store oil and gas, increased 29.2% during the fourth quarter. Value investors were particularly attracted to midstream energy companies (transporters of energy that do not drill for or refine energy) in 4Q 2020 given their deeply discounted valuations, resilient earnings, and stable cash flows. The midstream energy sector also rallied on a favorable macroeconomic outlook and rising oil prices despite the fee-based nature of their businesses and heavy tax-loss selling pressure at the end of the year. For full year 2020, the U.S. midstream energy sector declined 25.0%.

Alternatives

The Wilshire Liquid Alternatives Index, which measures the returns of investment assets/strategies that have very low correlation (i.e. relationship) to traditional stocks and bonds (i.e. “alternatives”), rose 4.9% in fourth quarter 2020 and were up 3.2% for the year

U.S. Fixed Income (U.S. Bonds)

The Bloomberg Barclays US Aggregate Bond Index (“Barclays Agg”), a measure of high-quality U.S. bonds of all types (i.e. “core bonds”), rose 0.7% in 4Q 2020. Investment grade corporate bonds, as measured by the Bank of America Merrill Lynch U.S. Corporate Bond Index outpaced U.S. Treasury bonds rising 3.0% during the quarter versus a 0.8% decline for the Bloomberg Barclays Aggregate Treasury Index. The positive readthrough from the COVID vaccine efficacy results and commercial approvals combined with low Treasury bond yields increased the risk appetite among investors for higher yielding corporate bonds. Full year 2020, U.S. core bonds and investment grade corporate bonds were up 7.5% and 9.8% respectively while Treasury bonds led all investment grade sectors, rising 8.0% over the same period.

The S&P National Municipal Bond Index, which is designed to measure the returns of the investment grade, tax-exempt bond market, increased 1.9% in 4Q 2020. Expectations for additional fiscal support for municipalities and an improving economic outlook due favorable COVID vaccine news were the primary drivers of returns during the quarter. The S&P National Municipal Bond Index rose 5.0% during 2020.

International Fixed Income (Foreign Bonds)

Outside of the U.S., the Bloomberg Barclays International Aggregate Bond USD (“U.S. Dollar”) Index, a measure of international developed markets investment grade bonds of all types, rose (in US dollar terms) 5.1% in 4Q 2020. During the quarter, the S&P International Government Bond Index rose

4.5% while the S&P International Corporate Bond Index increased 5.6%. Both investment grade government bonds and corporate bonds benefited from continued Central Bank bond buying support and a depreciating dollar. Full year 2020, the Bloomberg Barclays International Bond USD Index was up 10.1% while international developed market sovereign and corporate bonds increased 11.2% and 13.2% respectively over the same period.

The Bloomberg Barclays Emerging Markets Aggregate Bond Index, which measures the results of U.S. dollar-denominated debt of emerging market government and corporate issuers, increased 4.5% in fourth quarter 2020. New investment flows into emerging market bonds was the primary driver of returns during the quarter. New investors were attracted to the sector's higher investment yields, recovery in corporate earnings, and renewed interest in global natural resource companies. The upside, however, was restrained by lower Chinese corporate bond returns, which were impacted by rising defaults and credit stress among state owned entities ("SOEs"). More defaults are expected as Chinese authorities refocus on deleveraging SOEs now that the worst of the pandemic has passed. Default rates remain low overall, however, and this "controlled burn" to improve the fiscal health of China's SOEs is not anticipated to be a source of systemic risk to the emerging market bond complex. For 2020, the Bloomberg Barclays Emerging Markets Aggregate Bond Index rose 6.5%.

A "Blue Wave" Election? More Like A "Blue Wake" Election.

Predictions of the election creating a "blue wave" sweep of Congress did occur. However, the wave was not nearly as large as some expected, hence the "blue wake" (smaller than a wave) comment. The Democrats now have only a narrow 4 seat majority in the House and a razor thin majority in the Senate. The impact Democrats will have on the legislative front over the next two years will not be the total control they sought. Since Democrats only have a 51-to-50 majority in the Senate (with Vice President Elect Harris casting the tie-breaking vote), it is unlikely they will be able to pass any major legislation due to the Senate cloture rule. (The Senate cloture rule requires 60 votes to end a filibuster, a tactic used to prevent a measure from being brought to a vote by continuously extending debate). This means ambitious legislation like Medicare for all or Social Security reform are unlikely to occur. Senate Democrats do gain the advantage of establishing the legislative agenda (versus being stymied under Mitch McConnell) and can now use a budget tool known as "reconciliation" and the Congressional Review Act to push through certain legislation with only a simple 51-vote majority. This, however, assumes moderate Democrats such as Joe Manchin (WV), Jon Tester (MT), and Krysten Sinema (AZ) will always be on board, which may prove difficult as evidenced by Manchin's adamant opposition to increasing stimulus payments from $600 to $2,000. This may also prevent the Biden Administration from pushing through his comprehensive tax plan, which includes increasing the top individual income tax rate from 37.0% to 39.6%, raising the capital gains rated from 20.0% to 39.6% for taxpayers with more than $1 million in income, and raising corporate tax rates from 21.0% to 28.0%.

While Democrats will unlikely push through major legislative initiatives, which is positive for the financial markets in the form of less political uncertainty, their control of Congress will help President Elect Biden pass high priority initiatives during his first 100 days in office. These include expeditious approvals of Cabinet positions, building out a robust pandemic response, and obtaining another $1.9 trillion stimulus bill.[1] Beyond the first 100 days of his presidency, we expect President Elect Biden to pursue an infrastructure spending package with a heavy focus on building out the nation's 5G network and green initiatives. We also expect a meaningful change in foreign policy under the Biden Administration. President Elect Biden is expected to continue taking a hardline on China, but his approach will be much more deliberate versus “distilling down all of America’s perceived problems to the trade deficit.” [2] President Elect Biden is expected to appoint an “Asia czar” as well as reestablish a multilateral approach to persuade China to more earnestly address technology theft and forced intellectual property transfer. The strategists we work with also expect President-Elect Biden to reengage with our allies and major trading partners in a more constructive way, including reducing tariffs, which will benefit global trade and the global economic recovery.

We Want to Help You Attain Your Financial and Personal Goals!

The general information in this report is not intended to reflect our specific recommendations for any client portfolio. Please contact us with any questions to discuss your personal goals and your investment portfolio.

We invite you to visit our new website at www.ginsburgadvisors.com. Here you will learn more about our services, client value proposition, and our team. The site also has a useful “Resources” section where you can access our previous market commentaries, watch informative videos, download our latest staff contact list, and access useful financial calculators and web links. Please be sure to check our website periodically, as we will be updating the functionality of the site to include a client portal and other useful applications.

We welcome the opportunity to discuss your goals and the most appropriate strategy to attain them. We are also honored to speak to any of your friends, associates, or relatives should they have an interest in our financial planning or investment management services.

Please stay healthy and safe!

References:
[1] (01/14/21). Tankersley, J. “Biden Outlines $1.9 Trillion Spending Package to Combat Virus and Downturn”. nytimes.com
[2] (12/22/20). Horrocks, PhD, R. “CIO Outlook: Tailwinds for Emerging Markets”. matthewsasia.com

All economic and performance information is historical and not indicative of future results. The market indices discussed are not actively managed. Investors cannot directly invest in unmanaged indices. Please consult your financial advisor for more information.

Additional risks are associated with international investing, such as currency fluctuations, political and economic instability, and differences in accounting standards.

The return and principal value of bonds fluctuate with changes in market conditions. If bonds are not held to maturity, they may be worth more or less than their original value.

Index descriptions:

-Alerian Midstream Energy Index. The capped, float-adjusted, capitalization-weighted index, whose constituents earn the majority of their cash flow from midstream activities involving energy commodities, is disseminated real-time on a price-return basis (AMNA) and on a total-return basis (AMNAX).

-Bank of America Merrill Lynch U.S. Corporate Bond Index- BofA Merrill Lynch US Corporate Index – ETF Tracker. The Index is an unmanaged index comprised of U.S. dollar denominated investment grade corporate debt securities publicly issued in the U.S. domestic market with at least one-year remaining term to final maturity.

-Bloomberg Barclays Emerging Markets Aggregate Bond Index- The emerging markets bond index (EMBI) is a benchmark index for measuring the total return performance of international government and corporate bonds issued by emerging market countries that meet specific liquidity and structural requirements. Despite their increased riskiness relative to developed markets, emerging market bonds offer several potential benefits such as portfolio diversity as their returns are not closely correlated to traditional asset classes.

-Bloomberg Barclays International Aggregate Bond USD ("U.S. Dollar") Index- The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

-Bloomberg Barclays US Aggregate Bond Index, or the Agg, is a broad base, market capitalization-weighted bond market index representing intermediate term investment grade bonds traded in the United States.

-Credit Suisse Liquid Alternatives Index- The Credit Suisse Liquid Alternative Beta Index (CSLAB), which aims to reflect the performance of the global hedge fund industry, finished up 0.58% in August. The Event Driven strategy was the strongest performer for the month, and finished up 1.39% in August, and up 7.87% year-to-date

-MSCI China (U.S. dollar) Index- The MSCI China Index captures large and mid-cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs). With 711 constituents, the index covers about 85% of this China equity universe.

-MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of developed markets outside of the U.S. & Canada.

-MSCI EAFE SMID Cap Index captures mid and small cap representation across Developed Markets countries around the world, excluding the US and Canada. With 2,865 constituents, the index covers approximately 28% of the free float-adjusted market capitalization in each country*

-MSCI Emerging Markets Index stands for Morgan Stanley Capital International (MSCI), and is an index used to measure equity market performance in global emerging markets.

-Russell 2500 Index is a broad index, featuring 2,500 stocks that cover the small- and mid-cap market capitalizations.

-S&P (Standard & Poor's) 500. A market capitalization-weighted index of 500 widely held stocks often used as a proxy for the US stock market. It measures the movement of the largest issues. Standard and Poor's chooses the member companies for the 500 based on market size, liquidity and industry group representation. Included are the stocks of industrial, financial, utility, and transportation companies. Since mid-1989, this composition has been more flexible and the number of issues in each sector has varied.

-S&P International Corporate Bond Index- S&P International Corporate Bond Index is an investable index of non-U.S. Dollar corporate bonds issued by non-U.S. investment grade issuers. The index seeks to measure the performance of corporate bonds issued in the non-U.S. Dollar G10 currencies

-S&P National AMT-Free Municipal Bond Index is a broad, comprehensive, market value-weighted index designed to measure the performance of the investment-grade tax-exempt U.S. municipal bond market. Bonds issued by U.S. territories, including Puerto Rico, are excluded from this index.

-S&P Real Assets Index is the first index of its kind designed to measure global property, infrastructure, commodities, and inflation-linked bonds using liquid and investable component indices that track public equities, fixed income, and futures.

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