GBA Financial

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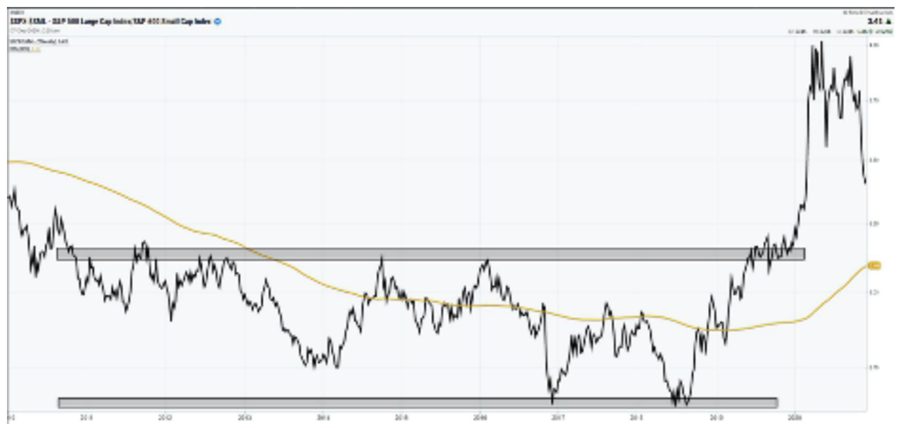
Newsletter
December 2020

COMMENTARY

The 'Great' Rotation



We believe that we continue to be in the second half of a 'great' rotation between large and small cap stocks in 2020 that should be particularly outstanding compared to trends over the past decade. Such rotation cycles generally see large, well-known stocks lead a market into an upswing, but as their popularity drives eventual overvaluation, investors may begin to dig around for smaller, less expensive stocks, which could drive a move into small caps. This is shown in our chart of the ratio of the S&P 500 Index (which has a high weighting of large caps) to the S&P 600 Small Cap, with uptrends in the line showing outperformance by large caps, and downtrends showing outperformance by small caps. We call the current rotation 'great' because while for a decade from 2010-2019 this ratio was ranged bound (shown by the two grey lines) in early 2020 it surged out of this range, with large caps seeing historically outperformance. It has then just as dramatically reversed in December, with a major move back into small caps, which could continue if the ratio continues towards its previous range bound area. As the Godfather of Technical analysis (and our friend), Ralph Acampora says, "rotation is the lifeblood of bull markets" (see his Tweet below, where Ralph weighs on the shift from defense to offense), and we have style rotation tools in many of our models to capture the opportunities of this kind.

Market breakout continues to expand to more sectors and geographies

We are seeing further evidence of a continuing, and increasingly global, bull market, with many indices across a broadening range of sectors and geographies starting to break out. It is no longer just a story of the S&P 500 or US Large Cap Growth as the driver, with many of these other indices finally starting to breach the 2018 and early 2020 highs that they had been stuck below, including; 1) in the US, the Dow Jones

ECONOMIC HIGHLIGHTS

S&P 500	3,621.63
DIJA	29,638.64
NASDAQ	12,198.74
OIL	$45.34 /BARREL
GOLD	$1,780.90/OUNCE
10-YEAR TREASURY FIELD	0.85%
UNEMPLOYMENT	6.90%
GDP	33.10%
PPI	0.51%
CPI	1.18%

Source: ycharts.com

December was full of positive vaccine news. Two companies have reported effective vaccines with reported 94% and 95% efficacy. Both companies have asked the FDA for emergency authorization, and it appears we are getting close to having a vaccine to combat COVID-19

The Biden transition team has nominated former Fed Chair Janet Yellen for Secretary of the Treasury. This nomination gave markets confidence that the economy will see continued support from a Biden Administration.

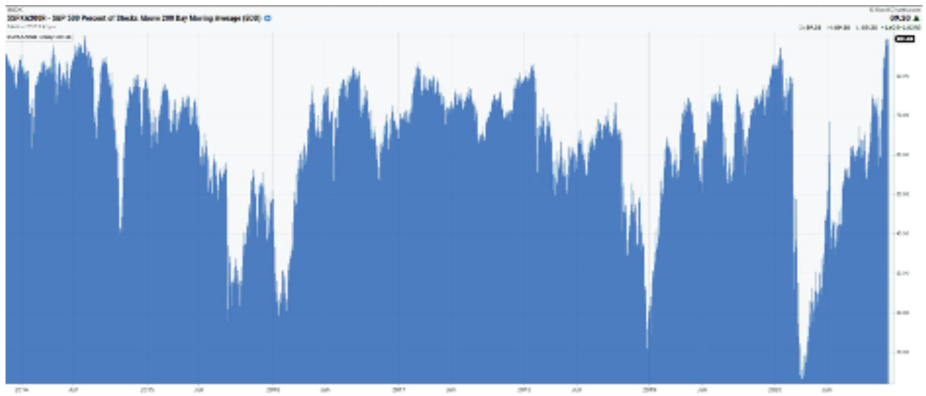
As cases of COVID-19 continue to surge, economists are updating their GDP estimates. One such estimate from JPMorgan economists now projects a 1% contraction in GDP for 1Q 2021, largely attributed to shutdowns and restrictions across the country. (Source: cnbc.com)

JEN@GBAFINANCIAL.COM
217.498.8575 | 855.778.8883
FAX: 217.498.9299

GBA Financial
financial planning for retirement

Rochester Station
203 South Walnut / PO Box 528
Rochester, IL 62563

Transportation Average, NYSE Composite, Russell 2000, S&P 400 Mid Cap, Microcap, Value Line Arithmetic, and S&P 500 High Beta indices, and 2) globally, the MSCI EAFE, MSCI EAFE Small Cap and MSCI Emerging Markets indices, and the Tokyo Nikkei 225 Index, which made a new 30 year new high. We do not view these new all-time highs as a bearish, but rather a sign of a broader continued recovery in US and global markets, although the US market may be somewhat overbought short-term, with 89% of S&P 500 stocks trading above their 200-day moving average our long-term view remains bullish. (Source: stockcharts.com)



Treasury yields rise and high yield spreads contract in risk-on shift

For fixed income, the market has been selling safe haven 10-year and 30-year US Treasuries, sending their yields higher, as part of what appears to be a broader risk-on move which is also evidenced by the shifts in the equities markets outlined above. This global risk-on move has also translated to lower spreads for high yield bonds (which have a risk level above government debt but below stocks), which continue to trend down from the major spike in spreads in March 2020. While still providing value, the high yield segment of fixed income does not seem as attractive as it was a few months ago.

Rebalancing between equity and fixed income as the fluid situation dictates

Long-term we believe that we are still in the middle of a secular bull market, although volatility could remain elevated, as bullish sentiment from clear progress on the global health crisis, including on vaccines, is periodically cooled by news of rising cases and many major economies in various degrees and stages of lockdowns. We continue look for intermediate-term and long-term opportunities while following our disciplined rebalancing process, which calls for adjusting portfolios between equities and fixed income as levels of exposure move outside of their targeted risk bands.

INDEX	3 mo	1 yr	3 yr	5 yr
S&P 500	3.897%	17.46%	13.17%	13.99%
MSCI EAFE	8.01%	6.37%	3.26%	6.19%
BAR AGG BOND	0.48%	7.28%	5.45%	4.34%

Source: Morningstar Direct

JEN@GBAFINANCIAL.COM
217.498.8575 | 855.778.8883
FAX: 217.498.9299

ROCHESTER STATION
203 SOUTH WALNUT / PO BOX 528
ROCHESTER, IL 62563

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Rebalancing may be a taxable event. Before you take any specific action be sure to consult with your tax professional.

S&P 600 Small Cap Index: The S&P SmallCap 600® seeks to measure the small-cap segment of the U.S. equity market. The index is designed to track companies that meet specific inclusion criteria to ensure that they are liquid and financially viable.

S&P 400 Mid Cap Index: The S&P MidCap 400® provides investors with a benchmark for mid-sized companies. The index, which is distinct from the large-cap S&P 500®, is designed to measure the performance of 400 mid-sized companies, reflecting the distinctive risk and return characteristics of this market segment.

Microcap Index: The Russell Microcap Index consists of the smallest 1,000 securities in the small-cap Russell 2000 Index, plus the next 1,000 smallest eligible securities based on a combination of their market capitalization and current index membership weight.

Value Line is an investment research company that provides detailed analysis on a range of stocks, mutual funds, and convertible investments.

S&P High Beta Index: The S&P 500® High Beta Index measures the performance of 100 constituents in the S&P 500 that are most sensitive to changes in market returns. The index is designed for investors initiating a bullish strategy or making a directional bet on current markets.

MSCI EAFE: The MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. The Index is available for a number of regions, market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 21 countries.

Tokyo 225 Index: The Nikkei is short for Japan's Nikkei 225 Stock Average, the leading and most-respected index of Japanese stocks. It is a price-weighted index composed of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange.

The index, a member of the Dow Jones Total Stock Market Indices family, is designed to measure the performance of large-cap U.S. equity securities that are classified as "growth" based on a multi-factor analysis.
The index, a member of the Dow Jones Total Stock Market Indices family, is designed to measure the performance of small-cap U.S. equity securities.
The index, a member of the Dow Jones Total Stock Market Indices family, is designed to measure the performance of large-cap U.S. equity securities that are classified as "value" based on a multi-factor analysis.
The index, a member of the Dow Jones Total Stock Market Indices family, is designed to measure the performance of small-cap U.S. equity securities.
The S&P 500® Information Technology comprises those companies included in the S&P 500 that are classified as members of the GICS® information technology sector.

The S&P 500® Health Care comprises those companies included in the S&P 500 that are classified as members of the GICS® health care sector.
The S&P 500® Consumer Discretionary comprises those companies included in the S&P 500 that are classified as members of the GICS® consumer discretionary sector.
The S&P 500® Utilities comprises those companies included in the S&P 500 that are classified as members of the GICS® utilities sector.
The S&P 500® Communication Services comprises those companies included in the S&P 500 that are classified as members of the GICS® communication services sector.
The S&P 500® Real Estate comprises stocks included in the S&P 500 that are classified as members of the GICS® real estate sector.
The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.
The S&P 500® Consumer Staples comprises those companies included in the S&P 500 that are classified as members of the GICS® consumer staples sector.
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The S&P 500® Industrials comprises those companies included in the S&P 500 that are classified as members of the GICS® industrials sector.
The S&P 500® Financials comprises those companies included in the S&P 500 that are classified as members of the GICS® financials sector.
The S&P 500® Energy comprises those companies included in the S&P 500 that are classified as members of the GICS® energy sector.

This is not an offer to buy or sell any financial instruments and should not be relied upon as the sole factor in an investment-making decision.

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The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the Nasdaq. The Nasdaq is a global electronic marketplace for buying and selling securities, as well as the benchmark index for U.S. technology stocks and is also used to refer to the Nasdaq Composite, an index of more than 3,000 stocks listed on the Nasdaq exchange. The NASDAQ Composite Index includes all domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite Index is a broad based index. The MSCI EAFE index is designed to measure the equity market performance of developed markets (Europe, Australasia, Far East) excluding the U.S. and Canada. The Index is market-capitalization weighted. The Bloomberg Barclays US Aggregate Bond Index, which was originally called the Lehman 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 debt securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency) debt securities that are rated at least Baa3 by Moody's and BBB- by S&P. Taxable municipals, including Build America bonds and a small amount of foreign bonds traded in U.S. markets are also included. Eligible bonds must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 8.25 years. This total return index, created in 1986 with history backfilled to January 1, 1976, is unhedged and rebalances monthly.