QUARTERLY ECONOMIC COMMENTARY | Q4 | 2020

Stocks finished the year with positive momentum in December. While traditional large cap U.S. stocks (as measured by the S&P 500) had been leading other asset classes most of the year, it was other diversifier asset classes which stepped up to lead in the waning market sessions of 2020.

Despite the pandemic's horrific human costs in terms of lives and livelihoods, the 2020 stock market looked through to the economic recovery, gained new heights as the year ended and finished with above-average annual returns. We are pleased to have been able to steer the ship successfully through the rough waters, with strong results for the year across nearly all client portfolios.

The best performing asset class this year again was U.S. large cap stocks, which were up 18.4%. The meteoric rise in technology growth stocks contributed to the rally in large caps. A close second was emerging market stocks which grew by 18.3%. The breakout in emerging market stocks comes after a decade of underperformance. Though mid-cap and small-cap equities suffered losses in the early stages of the pandemic, they sharply recovered at the end of the year and returned 13.48% and 11.46% respectively. Bonds posted strong gains in 2020, with investment grade corporate bonds up 10.97% and treasury inflation protection bonds up 10.1%. The worst performing asset classes this year were real estate and natural resources.

We often remind our clients that markets dislike uncertainty. In December, significant risks were removed from markets. First, HS 133 was signed into law, directing $2.3 trillion in spending, including $900 billion in pandemic relief. From a market perspective, it appears it was a "goldilocks" package, not too big and not too small. Second, clarity was brought to markets regarding BREXIT. Though originally approved by British voters in 2016, the final plan for the United Kingdom's exit from the European Union was finally completed in late December. Thirdly, distribution of the COVID vaccine began in mid-December, creating a faint timeline for the defeat of the virus.

These three clarifying events are in addition to the long-term directive outlined by the Fed this year to maintain low interest rates for longer and the election results. With the Democratic candidates securing both open Georgia seats in the Senate, many felt markets would react negatively in the short term. To the contrary, markets rallied, seemingly on the realization centrists in the House and Senate still hold a lot of power.

In closing, the environment for markets is clearer now than it has been for some time. Uncertainty will always exist in markets, but 2021 is starting with a smaller list of worries.

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Sources:
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- Valmark: TOPS Quarterly Forum, 1/14/2021