

# QUARTERLY MARKET COMMENT

## Fourth Quarter 2020



It would be hard to imagine a stranger year in the investment markets than the one just passed, or a year that did a better job of defying logic. 2020 only illustrates the folly of trying to predict the future. Who could have forecast that a massive global pandemic would engulf every aspect of our lives, or that it would take hold more persistently in the U.S. – the wealthiest country in the world. After the dramatic market collapse beginning on February 20<sup>th</sup>, the economy suffered the most severe recession since WWII resulting in the 2<sup>nd</sup> quarter experiencing the worst GDP (-31.4%) on record. The 3<sup>rd</sup> Q followed by notching the best GDP (33.4%) on record. Despite the strong surge, economic activity has not fully recovered and overall growth has slowed considerably. After the initial shock experienced in the 1<sup>st</sup> quarter, the markets seemed laser focused on the progression of a vaccine and cared little about any other news in a presidential election year.

Any path forward must begin with the containment of Covid and the speed in which people can be inoculated against this virus. Jobs is another area of focus. Unemployment went from a 50-year low in February of 3.5% to 14.17% in April. Unemployment has made a sharp recovery, currently at 6.7%, but moving forward it may be more gradual. Given the severity of the plunge in profits within some key sectors of the economy, a pent-up demand is expected later this year. As the pandemic lessens, analysts are expecting profits to recover. The massive fiscal and monetary support has mitigated permanent economic damage for many consumers and businesses. Ultimately it will have an impact on the U.S. government debt, inflation and interest rates. The Federal Reserve remains accommodative and is maintaining its goals of 2% inflation and full employment. We may very well hit this target mid-year and we may have experienced the bottom in long-term interest rates this month with a steepening of the yield curve beginning.

It is amazing how resilient the markets were in 2020 with such extraordinary disruptions unfolding every day. But, how does all this translate into how we invest now moving into 2021? Few would argue that large cap growth stocks are cheap right now, but there are areas within the markets that have not experienced the same growth. The focus has been on balancing domestic vs. international exposure, growth vs. value, as well as large, medium and small companies. Interest rates and bond yields have been

at rock bottom and we may be seeing the beginning of longer rates moving higher. This is where an investor can get whipsawed if they are holding longer term bonds. The yields aren't as great shorter term, but the principal doesn't get as negatively impacted either. The next few months should answer many questions and concerns in ending the pandemic as well as the pace and shape of the global recovery. Given the uncertainties, it only seems prudent to maintain a somewhat defensive and very diversified portfolio after one of the most difficult and unusual years in modern history.

In the meantime, we suggest to tune out the noise, focus on your long-term goals, and practice what our health professionals are asking of us. Many events of today will have a long lasting effect on how we live our lives, conduct our businesses and value our relationships. It continues to be a collective surreal experience – a time of uncertainty and upheaval. If anything, we may come out of this with better health or hygiene habits and we may also lose someone close to us. Please know that we are here for you as your thinking partner, your resource, and your guide. We truly value you as our client and we are grateful for the trust you've placed in us and in helping guide you through your financial life.

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Asset Index Category	4Q 2020 %	YTD 2020 %	5-Year Average %	10-Year Average %
S&P 500 Index-Large Companies	12.15	18.40	15.22	13.88
S&P 400 Index-Mid-size Companies	23.93	11.81	10.52	9.78
Russell 2000 Index-Sm Companies	30.99	18.36	11.70	9.68
Natural Resource Funds	24.44	16.37	10.15	1.38
Gold	-0.35	20.95	11.01	2.05
US Real Estate Funds	11.15	-4.49	5.26	8.07
Global Real Estate Funds	12.09	-5.43	5.14	5.67
MSCI EAFE-Developed International	15.75	5.43	4.59	2.62
MSCI EM Index-Emerging Markets	19.34	15.84	10.21	1.15
Barclays US Aggregate Bond Index	0.67	7.51	4.44	3.84
Long US Government Bond Index	-3.49	14.89	4.73	4.24
Emerging Market Bond Index	8.25	4.91	6.36	3.44

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