Beacon Trust
INNOVATING WEALTH STRATEGY

Market Outlook 4Q 2020 Review | January 8, 2021

Fourth Quarter Summary

Stocks had another strong quarter topping off an extraordinary (in every sense of the term) year. Of course, we must start with the COVID-19 pandemic that shook the world into a global healthcare crisis, bear market, and recession all within the span of a few months. The health consequences were and still are devastating, with roughly 2 million deaths worldwide and more than 20 million active cases, according the Johns Hopkins Coronavirus Resource Center. Nevertheless, U.S. stocks had a strong year, with the S&P 500 up 12.2% in the fourth quarter and 18.4% for the full calendar year, including dividends. As we have discussed in our prior writings, the gains may be partially explained by several factors. Namely, the robust federal stimulus, dramatic actions by the Federal Reserve, the development of several COVID-19 vaccines, and the composition of most stock market indexes. Specifically, "stay at home stocks", which comprise a sizeable segment of most equity benchmarks, such as Amazon, Apple, Walmart, Microsoft, and Netflix have business models that thrived during the pandemic. This dynamic resulted in what some strategists refer to as a "K-shaped" recovery, with significant winners counterbalanced to some extent by significant losers.

Bonds are and were what you want them to be – ballast during tempestuous times. The Barclay's Aggregate Index increased 0.7% over the fourth quarter and 7.5% for the full calendar year. Bonds benefited over the calendar year as interest rates fell dramatically across the entire maturity spectrum as a result of Federal Reserve actions, "flight to safety" investment flows, and the decline in global economic activity. The drop in interest rates, as well as the desire of some people to flee the big cities, resulted in the strongest real estate market in more than a decade. For example, the S&P CoreLogic Case-Shiller Home Price Index increased a robust 8.4% year over year at the national level.

Perhaps the biggest news of the fourth quarter was the results of a highly contested Presidential election. In fact, the results are still being contested by President Donald Trump, but the likelihood is that Joe Biden will assume the Presidential office on January 20th. Regardless of who is in the White House, it does not change our somewhat optimistic views on equities. However, the policy implications will vary widely at the country, sector, and industry levels based on the ultimate composition of our government. It is in these segments where the analysis of our entire investment team is ongoing and focused.

Market Outlook

We expect continued heightened volatility until President Elect Joe Biden takes office (or is unable to due to a last minute successful appeal by President Trump), and the COVID-19 vaccine is broadly disseminated. The first event should be settled by the end of January, but the vaccine rollout will likely require many months. Reports of the continued spread of COVID-19 and targeted lockdowns are occurring on a global basis, preventing the global economy from fully opening up. Nevertheless, we continue to favor equities as a staple of most client portfolios in this environment. Additional fiscal stimulus is forthcoming and the Federal Reserve has made it very clear that they will continue to maintain an accommodative monetary policy, resulting in short-term interest rates that will be near 0% for a period of years. Once fear levels subside (volatility is still 25-30% higher than long-term values), investors will realize that reasonably valued stocks, especially those with stable dividends, will be preferable to earning close to zero.

We expect the yield of the benchmark 10 Year Treasury Note to remain in a range between 0.75% to 1.50% for most of the year and that investment grade bonds will continue to serve as ballast for diversified portfolios, despite their low yields. Expectations for bond returns should be subdued for 2021 to something on the order of the coupon rate plus or minus 1%. The future path of the COVID-19 pandemic remains the paramount health and financial risk, with most reports suggesting that things will not resemble "normal" until the summer or early fall. Macroeconomic and political risks are intertwined, especially in "hot spot" regions, China, Russia, and Iran. Future economic relations with China are probably the most important risk from a financial markets perspective, given the size of the Chinese

economy and the importance of its market to leading U.S. firms, such as Apple, Tesla, Starbucks, and General Motors. All of us at Beacon continue to wish you and your family a very healthy and happy New Year.

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