4^{TH} QUARTER REVIEW AND OUTLOOK

Market Review

Strong COVID-19 vaccine trial results, the lifting of election uncertainty, and continued economic recovery momentum drove markets to all time highs in the fourth quarter. The S&P 500 ended 2020 on a high note jumping 12.2% in Q4, its best Q4 since 1999. The Bloomberg Barclays U.S. Aggregate inched 0.7% higher during the quarter while long-term Treasuries fell 3.0%. For the year, the S&P 500 rose 18.4% on a total return basis and the U.S. Aggregate Bond Index returned a robust 7.5%.

Emerging markets outperformed developed markets in Q4 and for the year. The MSCI Emerging Markets Index jumped 16.1%, bringing its 2020 total to 19.5%. That beat the MSCI EAFE's +11.4% in Q4 and +1.3% for the year. Note the data are in local currency terms.

Cautious Observations

- Covid-19 remains a tangible risk because we simply do not know what we do not know about the virus. The timing and pace of reopening the economy will have significant ramifications on the level of defaults and bankruptcies that ensue. Rising infections this winter and spring further complicate any attempt at prognosticating near-term developments.
- Policy (fiscal, monetary, regulatory) mistakes always pose risks to the market.
    - Key fiscal and regulatory risks we are monitoring include tax hikes, tariffs/trade conflicts, and significant healthcare, energy industry, or tech regulation.
    - Much of these are U.S. Senate outcome dependent and, even in a D-sweep scenario which would bolster the more progressive domestic policy agenda, we would not expect to see material fiscal or regulatory changes with a pandemic raging in the background.

Constructive Observations

- Market liquidity, monetary policy, and fiscal policy backdrops all remain very supportive to risk assets globally.
    - The Fed and most foreign central banks are maintaining aggressive QE and low (or negative) interest rate policies.
    - Fiscal policies in Europe, Japan, and particularly the U.S. remain very stimulative and should further support risk assets.
- Markets seem to be pricing in pro-growth D-sweep considerations including large fiscal stimulus, eliminating tariffs, improved trade relations while discounting anti-growth D-sweep considerations including higher taxes, increased regulations, and soaring deficits.
- We expect the global 'Manhattan Project' style race across bio-innovation industries for testing, treatments and vaccination should produce confidence for businesses and consumers to resume to some level or normalcy in the second half of 2021.

Outlook

Policy and the pandemic will continue to drive markets in the short-term and keep volatility elevated. The timing and magnitude of additional stimulus will likely be quick and large, boosting equities in the short run; however, the timing of tax hikes, regulation and 10-year rates will determine the path of equities after January/February. Markets seem to be digesting the likelihood of more deficit spending (rates up = short duration; a boost to financials/value), a further slide in the dollar (bullish international/emerging markets), & more tech regulation (migration from growth towards value). Beyond the near-term volatility, the weight of the evidence tells us that unprecedented levels of monetary and fiscal stimulus will provide a tailwind to risk assets in 2021.

Charts of the Quarter

A GREAT QUARTER (& YEAR) FOR RISK ASSETS

Asset Class Performance December 31, 2020 - Total Return (%)

Domestic

ETF	Description	MTD	QTD	YTD
Equity				
SPY	S&P 500	3.71	12.12	18.37
DIA	DJIA	3.29	10.70	9.61
QQQ	Nasdaq 100	4.90	13.13	48.62
IJH	S&P 400	6.46	24.39	13.58
IWR	Russell Mid Cap	4.68	19.88	16.92
IJR	S&P 600	8.24	31.22	11.28
IWM	Russell 2000	8.65	31.30	20.03
Style				
IWD	Large Value	3.73	16.26	2.73
IWF	Large Growth	4.45	11.36	38.26
IWS	Mid Value	4.58	20.50	4.80
IWP	Mid Growth	4.75	18.85	35.24
IWN	Small Value	7.99	33.31	4.66
IWO	Small Growth	9.30	29.57	34.68
RSP	S&P 500 Equalweight	4.16	18.39	12.71
Sectors				
XLY	Cons Disc	2.43	9.59	29.63
XLP	Cons Staples	1.66	6.12	10.15
XLE	Energy	4.51	28.27	-32.51
XLF	Financials	6.30	23.12	-1.67
XLV	Health Care	3.80	7.99	13.34
XLI	Industrials	1.01	15.51	10.96
XLB	Materials	2.48	14.32	20.52
XLK	Technology	5.54	11.67	43.61
XLC	Communications	3.35	13.79	26.91
XLRE	Real Estate	1.47	5.01	-2.11
XLU	Utilities	0.63	6.49	0.57

Global

ETF	Description	MTD	QTD	YTD
Intl				
EFA	MSCI EAFE	5.02	15.74	7.59
EEM	MSCI EM	7.14	18.41	17.03
FM	Frontier	4.93	11.54	-3.41
EFG	MSCI EAFE Growth	5.33	12.68	17.84
EFV	MSCI EAFE Value	4.49	18.57	-2.97
GWX	Intl Small Cap	7.45	17.61	13.40
Country				
ASHR	China	5.48	17.16	36.30
EWJ	Japan	5.33	14.82	15.41
EWQ	France	2.88	19.63	2.85
EWG	Germany	5.27	10.44	10.56
EWZ	Brazil	12.34	35.04	-20.33
PIN	India	10.21	18.84	18.54
EWU	UK	4.83	16.22	-11.80
Fixed Income				
SHY	1-3 Yr Treasuries	0.04	0.02	3.03
IEF	7-10 Yr Treasuries	-0.24	-1.28	10.01
TLT	20+ Yr Treasuries	-1.23	-2.98	18.15
AGG	Aggregate Bond	0.09	0.73	7.48
TIP	TIPS	1.10	1.63	10.84
HYG	High Yield	1.96	5.80	4.48
BKLN	Bank Loans	1.52	3.36	1.34
FLTR	IG Floating Rate	0.18	0.61	1.44
EMB	EM Debt $	2.15	5.98	5.42
EBND	EM Debt Local	2.94	8.01	4.49
Currency				
FXE	Euro	2.33	3.96	7.94
Commodity				
DBC	Commodities	5.45	12.56	-7.84

IN THE SHORT TERM, THE CURRENT STATE OF THE ECONOMY IS FAR MORE IMPORTANT THAN DC

Should A Democratic Sweep Scare Markets? Probably Not

S&P 500 Index Returns When Democrats Controlled The White House and Congress

Year	President	S&P 500 Index Return
1951	Harry Truman	16.3%
1952	Harry Truman	11.8%
1961	John F. Kennedy	23.1%
1962	John F. Kennedy	-11.8%
1963	John F. Kennedy/Lyndon B. Johnson	18.9%
1964	Lyndon B. Johnson	13.0%
1965	Lyndon B. Johnson	9.1%
1966	Lyndon B. Johnson	-13.1%
1967	Lyndon B. Johnson	20.1%
1968	Lyndon B. Johnson	7.7%
1977	Jimmy Carter	-11.5%
1978	Jimmy Carter	1.1%
1979	Jimmy Carter	12.3%
1980	Jimmy Carter	25.8%
1993	Bill Clinton	7.1%
1994	Bill Clinton	-1.5%
2009	Barack Obama	23.5%
2010	Barack Obama	12.8%
	Average	9.1%
	Median	12.0%
	% Positive	77.8%

Source: LPL Research, FactSet 01/06/20 (1950 - Current)

All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

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