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# Quarterly Insights – January 2021

Happy New Year! We hope this letter finds you safe and healthy.

As we end 2020 and turn our focus towards 2021, we first want to acknowledge the hardship that so many have endured over the past 12 months, be it physical, emotional, or financial, and we sincerely hope that those burdens are eased in 2021 and beyond.

## 4th-Quarter and Full-Year 2020 Performance Review

All the major U.S. stock indices were solidly higher in the fourth quarter, led once again by the tech-heavy NASDAQ, which mildly outperformed on still-lingering concerns about near-term economic growth following the surge in COVID-19 cases into year-end. But the NASDAQ outperformance was minor relative to earlier in the year, and the S&P 500 and Dow Jones Industrial Average also posted solidly positive quarterly returns. On a full-year basis, however, the NASDAQ handily outperformed the other two large-cap indices in 2020 as investors sought the secular growth potential of the tech sector amidst macroeconomic uncertainty.

By market capitalization, small caps substantially outperformed large caps in the fourth quarter, and those late year gains helped small caps to slightly outperform large caps in 2020. Through the first three quarters of 2020, large-cap stocks outperformed small caps due to investor concerns about future economic growth during and after the pandemic, as large caps are historically less sensitive to an economic slowdown than small-cap stocks. However, that outperformance was reversed during the last three months of the year on vaccine optimism, more stimulus from Congress, and a reiteration of very accommodative monetary policy from the Federal Reserve for years to come.

From an investment style standpoint, value outperformed growth for the first time in 2020 during the fourth quarter. The outperformance by value stocks underscored investor optimism for an economic rebound in 2021, again, courtesy of multiple COVID-19 vaccines and more economic stimulus. For the full year, however, growth outperformed value due to strength in the tech sector.

On a sector level, all 11 S&P 500 sectors finished the fourth quarter with positive returns. Cyclical sectors, including energy, financials, industrials, and materials led markets higher over the past three months, which was a reversal from the underperformance those sectors saw throughout the first three quarters of 2020. The familiar influences of vaccine optimism and stimulus hopes were the primary drivers behind the cyclical outperformance in the fourth quarter. For 2020, however, the tech sector was the best-performing sector in the market as investors flocked to tech stocks that were viewed as beneficiaries of numerous pandemic-related changes in behavior, including substantial increases in online shopping and work from home.

Sector laggards in the fourth quarter were the traditionally defensive market sectors. Utilities, real estate, and consumer staples underperformed the S&P 500 on the prospects of a strong economic rebound. On a full-year basis, energy was the biggest laggard amid the threat that slowing global growth might result in a historic glut in oil inventories worldwide. Energy shares finished 2020 with sizeable losses, despite the big rebound in the fourth quarter.

| **S&P 500 Total Returns by Month in 2020** | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
| -0.16% | -8.41% | -12.51% | 12.68% | 4.53% | 1.84% | 5.51% | 7.01% | -3.92% | -2.77% | 10.75% | 3.71% |

*Source: Morningstar*

| **US Equity Indexes** | **Q4 Return** | **2020 Return** |
|---|---|---|
| S&P 500 | 12.15% | 18.40% |
| DJ Industrial Average | 10.73% | 9.72% |
| NASDAQ 100 | 13.09% | 48.88% |
| S&P Midcap 400 | 24.24% | 13.10% |
| Russell 2000 | 31.37% | 19.96% |

*Source: YCharts*

Looking internationally, foreign markets saw positive returns in the fourth quarter thanks to the combination of the European Central Bank increasing its pandemic-related QE program, Brexit clarity, and general optimism that vaccine distribution would result in a future rebound in global economic growth. Emerging markets outperformed foreign developed markets and the S&P 500 in the fourth quarter thanks to a substantially weaker U.S. dollar along with an improving outlook for the global economy. For the full year 2020, foreign markets registered solidly positive returns, with emerging markets outperforming thanks to the aforementioned decline in the U.S. dollar. However, foreign developed markets underperformed the S&P 500 last year.

| **International Equity Indexes** | **Q4 Return** | **2020 Return** |
|---|---|---|
| MSCI EAFE TR USD (Foreign Developed) | 16.09% | 8.28% |
| MSCI EM TR USD (Emerging Markets) | 19.77% | 18.69% |
| MSCI ACWI Ex USA TR USD (Foreign Dev & EM) | 17.08% | 11.13% |

*Source: YCharts*

Commodities enjoyed strong gains in the fourth quarter, led higher by a rally in oil while gold was little changed over the past three months. Oil prices rose in the fourth quarter thanks to optimism towards a global economic rebound in early 2021 following the vaccine announcements, combined with continued production discipline by "OPEC+." Gold, meanwhile, spent much of the fourth quarter in negative territory as investors rotated out of the safe-haven metal and into more risky assets following the positive vaccine developments and stimulus bill passage. For 2020, however, commodities posted a substantially negative return largely due to a significant decline in oil futures prices, which made history by falling into negative territory for the first time ever during the month of April, as the pandemic-related lockdowns crippled demand for refined products. Gold did notably end the year with a positive return, with the weaker dollar and firming inflation expectations buoying the precious metal.

| Commodity Indexes | Q4 Return | 2020 Return |
|---|---|---|
| S&P GSCI (Broad-Based Commodities) | 14.49% | -23.72% |
| S&P GSCI Crude Oil | 20.64% | -20.14% |
| GLD Gold Price | 0.70% | 24.81% |

*Source: YCharts/Koyfin.com*

## 1st Quarter and 2021 Market Outlook

As we begin a new investing year, we are pleased to say that, from a macroeconomic standpoint, the outlook for 2021 is materially more positive than it was for the majority of 2020.

First, the Fed is continuing its historic QE program and will keep interest rates low for years to come. That should continue to help to support the stock market. Meanwhile, Congress has finally agreed on another historically large fiscal stimulus bill which will help the economy weather the still ongoing COVID-19 pandemic and related economic lockdowns. Politically, neither party has a material majority in either house of Congress and as such, markets are not concerned about policy risks to the economy (substantial tax increases, excessive regulation, or major initiatives like healthcare reform). Finally, corporate America has once again demonstrated itself to be both resourceful and resilient, and while some industries (airlines, cruise lines, hotels) face a long road to total recovery, many American companies have exited 2020 in strong financial shape. As shocking as it may sound, the fundamental outlook for stocks is positive as we start 2021.

But, as 2020 has taught us all, nothing is guaranteed, and we must expect the unexpected. To that point, unemployment remains historically high (still well above levels we saw at the depths of the Great Recession) and while many of those unemployed workers should return to work once the pandemic begins to recede, it is unclear how many small businesses will have survived to hire them back.

Additionally, as the economy begins to normalize, the appetite for more stimulus from Washington will diminish, and again, it is unclear just how quickly we can expect economic growth to return to pre-COVID levels. Regarding stimulus, investors need to remain wary of the negative consequences of the ballooning federal debt and budget deficits. We will continue to closely monitor inflation and interest rates as they are some of the most sensitive instruments to increased deficits and Federal debt. Finally, stock valuations are at multi-year highs.

None of these risks, by themselves, offset the positive factors helping the economy and markets as we begin a new year, and again, the macroeconomic outlook for 2021 is positive. But there are certainly risks and we will continue to monitor them diligently.

In sum, as we consider all that has occurred in 2020 and look forward to 2021, one of the biggest takeaways from this historically volatile year in the markets is that a well-planned, long-term-focused and diversified financial plan can withstand virtually any market surprise and a related bout of volatility, including the worst pandemic in 100 years.

At Zick Whitted Taub Investment Strategies we understand the risks facing both the markets and the economy, and we are committed to helping you effectively navigate this still-challenging investment environment. Successful investing is a marathon, not a sprint, and even intense volatility like we experienced in the first half of 2020 is unlikely to alter a diversified approach set up to meet your long-term investment goals.

Therefore, it's critical for you to stay invested, remain patient, and stick to the plan, as we've worked with you to establish a unique, personal allocation target based on your financial position, risk tolerance, and investment timeline.

We thank you for your ongoing confidence and trust. Please rest assured that our entire team will remain dedicated to helping you successfully navigate this market environment.

Please do not hesitate to contact us with any questions, comments, or to schedule a portfolio review.

Sincerely,

Allen

| Allen Zick, CFP® | Brad Whitted, CPFA | Alex Taub, CRPC® |
|---|---|---|
| Financial Advisor | Financial Advisor | Financial Advisor |

Disclosures:

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The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. The Dow Jones Industrial Average (DJIA), commonly known as "The Dow" is an index representing 30 stock of companies maintained and reviewed by the editors of the Wall Street Journal. The NASDAQ-100 (^NDX) is a stock market index made up of 103 equity securities issued by 100 of the largest non-financial companies listed on the NASDAQ. It is a modified capitalization-weighted index. ... It is based on exchange, and it is not an index of U.S.-based companies. 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®, measures the performance of mid-sized companies, reflecting the distinctive risk and return characteristics of this market segment. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index. The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market.

The MSCI EAFE (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations. The MSCI Emerging Markets is designed to measure equity market performance in 25 emerging market indices. The index's three largest industries are materials, energy, and banks. The MSCI ACWI (All Country World Index) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. As of June 2007 the MSCI ACWI consisted of 48 country indices comprising 23 developed and 25 emerging market country indices. The developed market country indices included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The emerging market country indices included are: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Jordan, Korea, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey. S&P GSCI Gold is an index tracking changes in the spot price for gold bullion. S&P GSCI Crude Oil is an index tracking changes in the spot price for crude oil.