

Market Commentary

January 2021

As we enter 2021, we do so with hope that the world will continue to make progress in dealing with the many challenges that 2020 presented. Like most people, we were happy to put 2020 behind us. We are, however, looking forward to 2021. We think it is a good idea to look back over the past year and try to make sense of this extraordinary and difficult time. We thought it might be helpful to reflect on recent events and share our thoughts and principles for the new year.

Of course, 2020 was a tumultuous time. The emergence and spread of COVID-19 led to suffering and loss. These human impacts are the most significant and we feel deeply for those who have been and continue to be affected. On top of the pandemic, the U.S. grappled with social unrest, as well as polarization due to contentious elections.

As the breadth of the spreading pandemic became known, the S&P 500 plummeted, falling 34% in a scant three weeks. Most everyone has been through market declines, but this drop felt different. It touched our lives even if we were lucky enough not to be directly impacted by the virus. An ordinary trip to the grocery store became an unnerving experience involving masks, hand sanitizer and shelves stripped bare of essentials. Frankly, it looked bad.

Then, something unexpected began to happen, as central banks around the world lowered interest rates and quickly provided stimulus to keep economies from seizing. Many discovered they could work from home using powerful technologies already present in our daily lives. Medical companies around the world joined in the fight with amazingly fast advancements. Put simply, people across the world proved to be stronger than they thought.

Markets began to stabilize, and then ultimately mounted a powerful recovery. The advance was not a smooth glide upward. Investors were nervous, anticipating that another shoe was going to drop. Many believed that shoe was the November elections. Dire predictions of market volatility if this or that candidate won were everywhere. Despite a contested election, the market just kept on advancing. At the close of 2020, the S&P 500 not only recovered from the deep losses of the first quarter but surged to an 18.4% return.

So, how is an investor to navigate events like a deep bear market from a threat no one could see coming, followed by a rousing recovery no one believed? All of this was packed into an eventful ten months. Investing can be a humbling experience. We believe that no one is very good at predicting the occurrence or timing of bull or bear markets. We do, however, have long held principles that really helped in 2020.

<u>% Return as of 12/31/2020</u>			
<u>Equity Indexes</u>	<u>4th Q</u>	<u>YTD</u>	<u>3 Yr</u>
S&P 500	12.1	18.4	14.2
Russell 2000	31.4	20.0	10.2
MSCI EAFE	16.0	7.8	4.3
Emerging Market	19.7	18.3	6.2
Wilshire REIT	10.6	-7.9	3.3
<u>Bond Indexes</u>			
TIPS	1.6	11.0	5.9
Aggregate	0.7	7.5	5.3
Government	-0.8	7.9	5.2
Mortgages	0.2	3.9	3.7
Investment Corporate	3.0	9.9	7.1
Long Corporate	5.1	13.9	9.4
Corporate High-Yield	6.5	7.1	6.2
Municipals	1.8	5.2	4.6
<u>Cash Equivalents</u>			
3-Month T-Bill	0.0	0.7	1.7
<i>Inflation</i>	<i>0.0</i>	<i>1.3</i>	<i>1.8</i>

Reasoned optimism

During the depths of the decline, optimism in the media seemed to be in even shorter supply than toilet paper. On CNBC, we heard from a noted hedge fund manager who implied that things would get much worse saying that, “Winter is coming.” That forecast turned out to be terribly wrong. A different quote might have been better. Helen Keller once said, “While the world is full of suffering, it is also full of the overcoming of it.” Ms. Keller would have made a fine investor.

Restraint

As humans, we are hard-wired to act. This is especially true when investors are bombarded with negative information. We believe investing is a long-term process. We try to weigh each decision carefully through the lens of how each might be viewed over the next five years, not the next five days. This tends to lead to less activity during declines.

Respect Innovation

Innovation has been a powerful driver of quality of life and investment returns for centuries, even though it is consistently underestimated. Many said that a vaccine would likely take several years to produce. Based on previous diseases such as polio, measles and others, that would have been a good bet. However, that estimate failed to recognize these previous timeframes did not have the benefit of the massive data available today, nor the computing power and artificial intelligence to process it. Those same computing powers and communications advancements have similarly allowed our practice to seamlessly service our clients and countless other businesses to flourish through the pandemic.

So, what does 2021 hold for investors?

There will likely be intermittent periods of heightened volatility as the world continues to adapt to a new normalized state. However, we don't offer specific annual forecasts of the stock market. That is because a review of historic forecasts by Wall Street firms have overall proven wrong time and time again. We believe that applying these one-year, error-prone guesses to the careful work of investment planning does more harm than good. 2020 is an excellent example.

We acknowledge there are still a lot of unknowns in 2021. There is a lot of work to be done in containing the virus, and the economic recovery is still delicate. On top of that, we as a nation are still contending with a polarized electorate and political change.

For all its challenges, 2020 reinforced what we believe. The world and the markets are uncertain, but one can plan for that. With strong principles and mathematics, we will get through whatever comes. It is an honor to serve you and your family. We will be here for you.

Happy New Year and we look forward to 2021.

Sincerely,



Caragh D. Fahy, CFP®



Leyla Z. Morgillo, CFP®

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Sources of data –Wall Street Journal, CNBC, Abbott Laboratories, Thermo Fisher Scientific, Moderna Pharma, S&P Global, MSCI, Russell. The performance of an unmanaged index is not indicative of the performance of any particular investment. It is not possible to invest directly in any index. Past performance is no guarantee of future results. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Three-year performance data is annualized. Bonds have fixed principal value and yield if held to maturity and the issuer does not enter into default. Bonds have inflation, credit, and interest rate risk. Treasury Inflation Protected Securities (TIPS) have principal values that grow with inflation if held to maturity. High-yield bonds (lower rated or junk bonds) experience higher volatility and increased credit risk when compared to other fixed-income investments. REITs are subject to real estate risks associated with operating and leasing properties. Additional risks include changes in economic conditions, interest rates, property values, and supply and demand, as well as possible environmental liabilities, zoning issues and natural disasters. Stocks can have fluctuating principal and returns based on changing market conditions. The prices of small company stocks generally are more volatile than those of large company stocks. International investing involves special risks not found in domestic investing, including political and social differences and currency fluctuations due to economic decisions. Investing in emerging markets can be riskier than investing in well-established foreign markets. The MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. The Russell 2500 Index measures the performance of the 2,500 smallest companies (19% of total capitalization) in the Russell 3000 index. The S&P 500 index measures the performance of 500 stocks generally considered representative of the overall market. The Wilshire REIT Index is designed to offer a market-based index that is more reflective of real estate held by pension funds. CRN-3154734-070820