Market Update for the Quarter Ending December 31, 2020

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Strong December caps off solid year for markets

Markets continued to rally in December. The Nasdaq Composite led the way with a 5.71 percent gain for the month. The S&P 500 gained 3.84 percent, and the Dow Jones Industrial Average (DJIA) rose by 3.41 percent. These results contributed to a strong quarter for markets. The Nasdaq returned 15.63 percent while the S&P 500 gained 12.15 percent and the DJIA returned 10.73 percent. For the year, DJIA gained 9.72 percent, the S&P 500 returned 18.40 percent, and the Nasdaq gained 44.92 percent.

These strong results coincided with improving fundamentals. According to Bloomberg Intelligence, as of December 24 with 99 percent of companies having reported, the blended third-quarter earnings decline for the S&P 500 came in at 6.9 percent. This result is significantly better than the initial forecast for a 21.5 percent decline.

Technical factors were also supportive. All three major indices remained above their respective 200-day moving averages for the sixth consecutive month, indicating technical support for markets throughout the second half of the year.

International markets also finished the year strong. The MSCI EAFE Index gained 4.65 percent in December, which contributed to the 16.05 percent increase during the quarter and a 7.82 percent annual gain. The MSCI Emerging Markets Index gained 7.40 percent during the month, 19.77 percent for the quarter, and 18.69 percent for the year. Technicals were supportive for international markets at year-end, with both indices finishing December above their 200-day moving averages.

Fixed income markets also ended the year with positive results. The Bloomberg Barclays U.S. Aggregate Bond Index gained 0.14 percent during the month, 0.67 percent for the quarter, and an impressive 7.51 percent for the year. The 3-month U.S. Treasury yield fell from 1.54 percent at the start of the year to 0.09 percent at year-end. Long-term rates also fell. The 10-year began the year at 1.88 percent and dropped to 0.93 percent by year-end.

High-yield fixed income returned 1.88 percent during the month, 6.45 percent for the quarter, and 7.11 percent for the year. High-yield credit spreads finished the year at 3.87 percent—an improvement from the pandemic-induced high of 10.87 percent in March.

Signs of pandemic progress

We saw signs of progress on the public health front during the month. New cases per day showed improvement at month-end, although it's likely the holidays contributed to a lull in reporting. If case growth is in fact slowing, we could see a peak in the next few weeks.

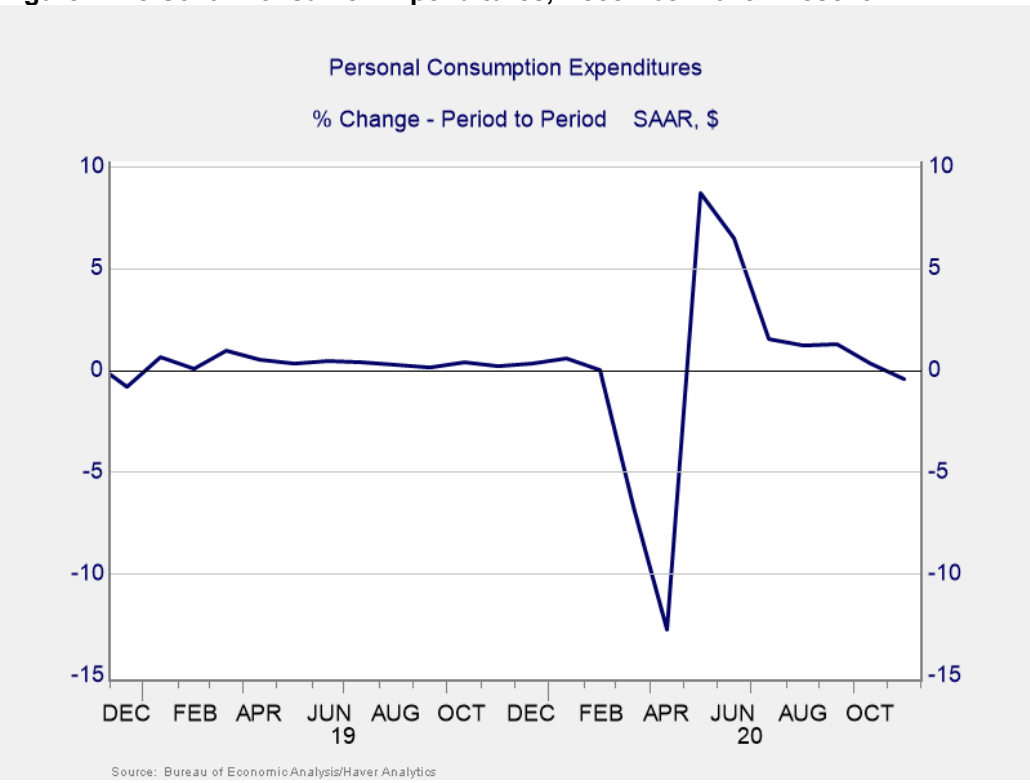
Testing also showed some improvement. A slowdown in testing around the holidays led to the positive test rate increasing modestly at month-end, however. The positive test rate finished the month below the recent highs we've seen during the third wave, which is a good sign.

Another positive development was the start of the public vaccination process. The number of vaccinations was relatively low at year-end, but the pace should pick up as state and local governments build out the necessary public health infrastructure.

Economic headwinds remain

The third wave still presents risks to the economic recovery. Retail sales and personal spending fell in November, highlighting the headwinds created by increased shutdown measures. As you can see in Figure 1, this was the first drop for personal spending since initial lockdowns were lifted in April. There is hope that the second stimulus bill and continued public health progress will spur spending growth.

Figure 1. Personal Consumer Expenditures, December 2018–Present



Business confidence and spending held up well despite rising case counts. Both manufacturer and service sector confidence remain near or above pre-pandemic levels. These strong confidence figures have translated into faster spending and output growth.

Risks moderate to start 2021

December's updates highlighted the risks presented by rising case counts and increased local restrictions. But the resilient economy, combined with the expected tailwinds from additional stimulus and further public health progress, indicates we are in a relatively good place to start the year. Given the short-term uncertainty, a well-diversified portfolio that matches investor goals and timelines remains the best path forward for most. But if concerns remain, contact your financial advisor to review your financial plan.

All information according to Bloomberg, unless stated otherwise.

Disclosure: *Certain sections of this commentary contain forward-looking statements based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. Past performance is not indicative of future results. Diversification does not assure a profit or protect against loss in declining markets. All indices are unmanaged and investors cannot invest directly into an index. The Dow Jones Industrial Average is a price-weighted average of 30 actively traded blue-chip stocks. The S&P 500 Index is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. The Nasdaq Composite Index measures the performance of all issues listed in the Nasdaq Stock Market, except for rights, warrants, units, and convertible debentures. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. It excludes closed markets and those shares in otherwise free markets that are not purchasable by foreigners. The Bloomberg Barclays Aggregate Bond Index is an unmanaged market value-weighted index representing securities that are SEC-registered, taxable, and dollar-denominated. It covers the U.S. investment-grade fixed-rate bond market, with index components for a combination of the Bloomberg Barclays government and corporate securities, mortgage-backed pass-through securities, and asset-backed securities. The Bloomberg Barclays U.S. Corporate High Yield Index covers the USD-denominated, non-investment-grade, fixed-rate, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below.*

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