Market Commentary

4Q 2020

2020 Year in Review

Despite that a near-term return to normalcy still remains an uncertainty, we are all so thankful that 2020 is behind us. Given the onset of this global pandemic, now more than a year entrenched, and the grief it has sowed among families around the world who have lost loved ones and friends, it remains a blessing how well humankind has persevered in the face of this natural disaster. Couple this with the incessant partisan political theatre here in the US, nourished by human disdain and acrimony over the last twelve months through the National election and its divisive aftermath, one can only hope the dawning of a bright future will help to heal our mind, bodies and, yes just as importantly, the State of our Union. And so while we expect this natural disaster to soon succumb to manufactured vaccines, a swift healing of a horribly divided nation appears much more problematic; after all, its cure suggests changing human behavior— a more difficult task.

Meanwhile, from a purely economic and financial viewpoint, 2020 was a surprisingly good year! It reminds us of the now legendary *Swoosh* first adorned by the Tiger and which is illustrated graphically below. Shortly into the year, GDP and the financial markets collapsed virtually overnight only to be nourished by swift monetary intervention by the US Treasury, leading to an initial emergency stimulus package of some $2.2 trillion a.k.a. the Cares Act. The economy and the financial markets seized upon this relief to stage a dramatic comeback by mid-year to stabilize the bond markets, while lifting stocks to new record highs by year-end.

With that, US stock indices delivered solid but very disparate returns by December's close; evidenced by the Dow's total return just under +10%, the broader S&P 500 delivering over +18%, and the Nasdaq Composite generating a whopping +44.9%; a return sourced almost exclusively from the stay-at-home communications and technology sector stocks. So too, the more risky smaller cap stock universe, as evidenced by the Russell 2000, managed to reach its own record apex by November. Meanwhile internationally speaking, the world's developed markets x US generated a more muted but still respectable +8% return, while the almost forgotten Emerging Markets captured a not surprising +18.7%; a return largely attributable to the flood of US dollar intervention leading to a weaker US currency and the Fed's bond repurchase ramp-up to reinforce the low interest rate environment. And then finally of course, following toxic post-election controversies and the tragic January 6th Capitol protest, the Biden inauguration proved most settling to the markets as our democratic processes were swiftly restored to begin the new year.

Harkening back to the US bond markets, rapid emergency monetary infusions, combined with Fed policy helped to shore up the asset class after its pandemic fueled selloff in mid-March. By year end, the broad taxable bond market (Bloomberg Aggregate Index) had garnered some +7.5%, led by investment grade corporate credits which posted returns north of +9%. The US Treasury inflation-protected securities market posted an uncommon +11.0% return as concerns over inflation began to surface with the late year second round $900 billion emergency package. Meanwhile, the municipal bond market (Bloomberg Municipal Index) recovered to post a more nominal +5.2% return, which we note marks the sectors seventh straight year of positive return performance.

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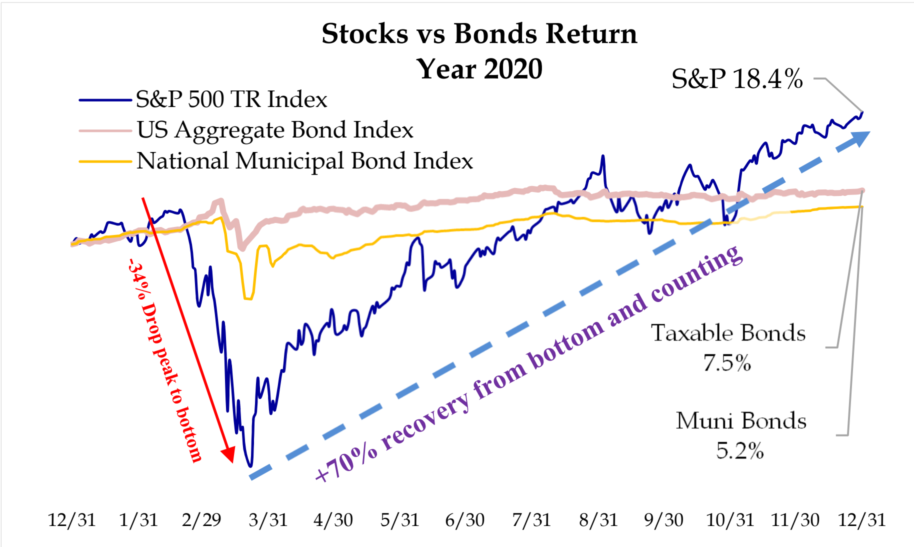

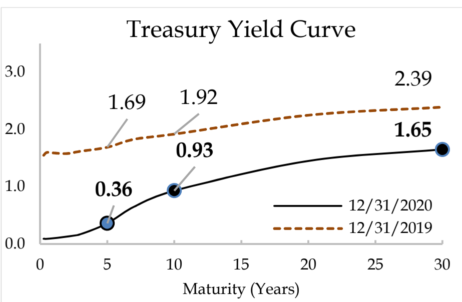

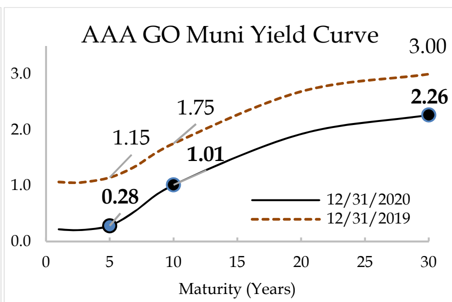

Lessons from 2020

Looking back on the year with the benefit of 20/20 financial market hindsight, we are able to offer a couple of classic lessons which in the worst of times always seem to pique our emotions and challenge what would otherwise seem to make commons sense.

Timing the market is extraordinarily difficult and is statistically cast as a "fool's game". Remarkably, diversification despite often tightening correlations is most often one's best hedge. No forecast model could have foretold of this once-in-a-century pandemic or the havoc it wreaked across the economy and our financial markets. Nor for matter would any post "swan" prognosis have forecast the momentum with which the economic and financial markets would have recovered.

Don't fight the Fed or the Tape. The impact of policymakers following the earliest months of the pandemic was huge. And despite the common need among us to contain our innermost fears of financial loss by selling off, a most important tool is to periodically re-assess one's liquidity needs (short and longer term) and carve out sufficient liquidity to meet those needs. It serves to settle our emotions while providing some measure of confidence that we can persevere in the face of, what has become all too frequent, "Black Swan" events. Generally a decision to sell, while it may be the most painful, is always the easiest. The decision to re-invest and when is always more difficult.

Looking forward

The promise of 2021 rests almost solely in the efficacy of the vaccines to combat CV-19 and the variants which have most recently surfaced, as well as the logistics of efficiently distributing the serums to the US and world populations as rapidly as possible. In the meantime, world governments and central banks will assuredly continue to do their part to ensure that economic and financial markets remain as stable as possible in what is expected to remain a very low interest rate environment. As we all know, another $1.9 trillion of emergency relief is under

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Congressional scrutiny at this writing. Its rapid approval at some reasonable price tag will be immeasurable in sustaining the economic recovery during what the CDC professionals think may be the latter stages of this pandemic.

In the meantime, consensus seems to suggest that the markets should remain relatively stable, though one cannot discount the chance that there will likely be some periods of marked volatility over the ensuing months, conditioned on how the financial markets interpret President Biden's domestic and foreign agendas as they are unveiled. Again, the best countermeasure to markets during what are obviously uncertain times is to know and ensure one has sufficient liquidity set aside to obviate the need to sell at the wrong time.

Stay healthy and CV-19 safe!

Eideard Group

January 26, 2021

Major Market Indexes Total Returns

Market Indexes	4Q	Year 2020
NASDAQ Composite	15.6%	44.9%
Dow Jones Industrial Average	10.7%	9.7%
S&P 500 (US large cap)	12.2%	18.4%
Russell 2000 (US small cap)	31.4%	20.0%
MSCI EAFE (Developed Intl.)	16.1%	8.3%
MSCI Emerging Markets	19.8%	18.7%
Bloomberg National Municipal Bond	1.8%	5.2%
Bloomberg US Treasury Bond	-0.8%	8.0%
Bloomberg US Aggregate Bond	0.7%	7.5%
Bloomberg US Corporate Bond	3.0%	9.9%
Bloomberg US Corporate High Yield	6.5%	7.1%
Alerian MLP Index	32.4%	-28.7%
WTI Crude Oil	20.7%	-20.9%
Gold	0.0%	24.6%

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