



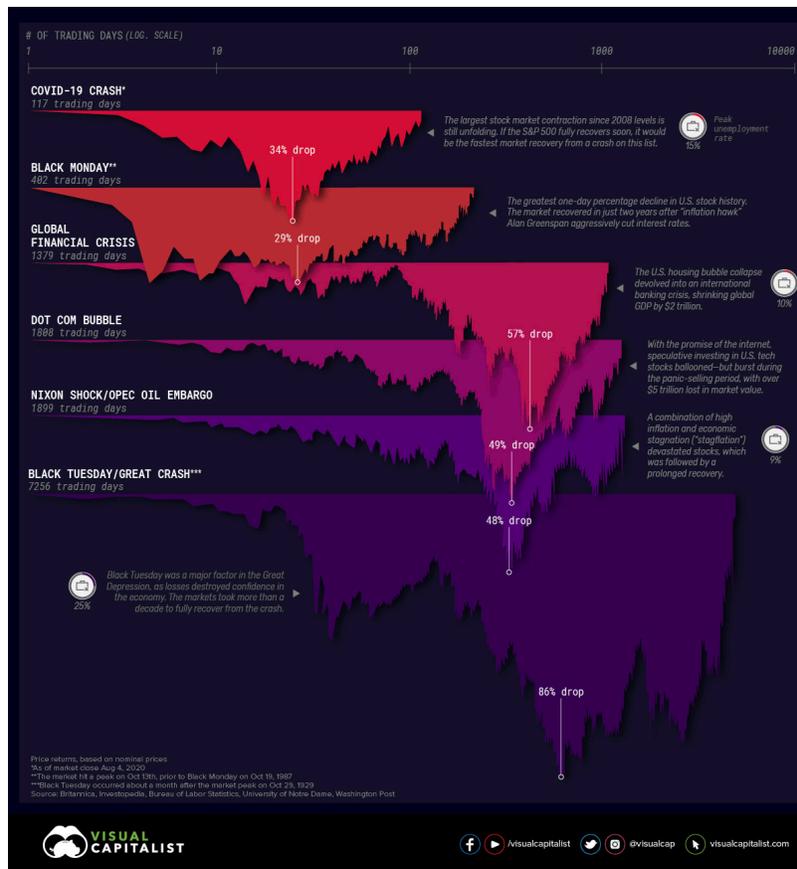
Capital Market Review

4th Quarter 2020

By: Jim Rambo, CFA

2020 will be remembered as a year of extremes. The word “unprecedented” earned the Oxford dictionary’s Word of the Year distinction highlighting the speechlessness to describe the many aspects of 2020 compared to years past. We have also coined new phrases such as “Zoom fatigue,” “pandemic fatigue,” and “unprecedented fatigue” to describe the unique challenges that we have faced this year.

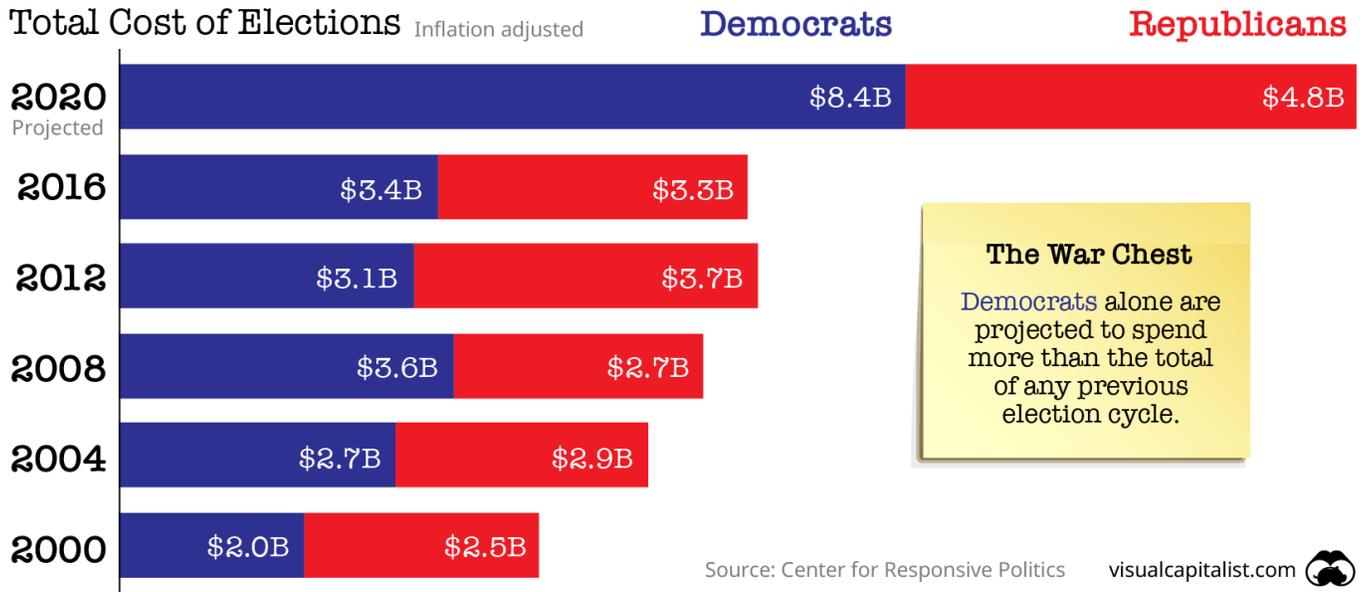
Economic Recovery



Source: visualcapitalist.com

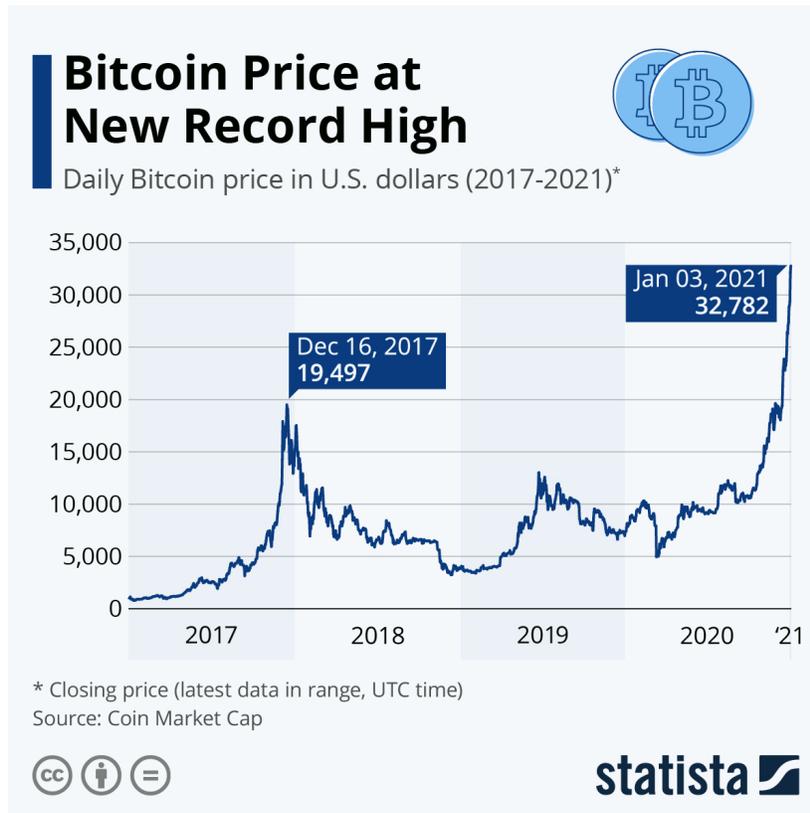
The U.S. economy experienced the sharpest decline in modern history, contracting by more than 30% in the second quarter. Almost overnight, unemployment reached 14%, the second-highest level ever. Only during the Great Depression has America experienced more job losses. Remarkably in the third quarter, the fastest expansion in U.S. history followed, with the economy growing by more than 33%. Millions of jobs came back online, driving the unemployment rate down to 6.7% to close the year. The S&P 500 entered 2020 at an all-time-high before crashing over 30% in just 22 days and subsequently recovering in only 102 days to reclaim new all-time-highs.

Cost of the Elections



Source: visualcapitalist.com

The media coverage leading up to the election followed suit in the theme of extremes. Supporters of both candidates felt the world might end if their candidate did not win. The risk of a modern era civil war was a legitimate concern of many as election day approached. Usually, the candidate that spends the most wins. But in 2016, Donald Trump won a major upset victory while spending significantly less than Hillary Clinton's campaign. This year, Democrats alone spent more than both sides did in 2016. Since most 2020 election spending went to advertising and messaging, it is no wonder that voters felt stressed by the existential threat of what may happen if the "other candidate" won.



Source: [statista.com](https://www.statista.com)

If we did not have an election in the 4th quarter, it would have likely been Bitcoin leading headlines as it did during its historic 2017 run. The price skyrocketed past the previous all-time-high set in 2017 and closed the year above \$30,000. The price continued to climb to almost \$42,000 in early January before pulling back into the mid-\$30,000. The volatility this year was just as extreme on the downside. When stocks plunged over 30% in March, Bitcoin crashed by over 60%, reaching a 2020 low of around \$2,900. From the low price to the high, Bitcoin rallied over 1,000% to close 2020.

Benchmark Returns as of December 31, 2021

Benchmark Index Returns (%)	3 mo.	6 mo.	9 mo.	12 mo.
USTREAS TBill 3-Month	0.04	0.06	0.66	1.14
BBgBarc US Govt/Credit 1-5 YR	0.37	2.15	4.36	4.88
BBgBarc Municipal Bond 3 YR	0.71	3.01	2.63	3.53
BBgBarc US Aggregate Bond	0.62	3.53	6.79	6.98
BBgBarc Municipal Bond	1.23	3.99	3.33	4.09
BBgBarc Corp High Yield	4.60	15.24	0.62	3.25
FTSE WGBI Non-USD	4.59	7.71	5.68	5.60
S&P 500	8.93	31.31	5.57	15.15
DJ Industrial Average	8.22	28.25	-0.91	5.70
Russell 2000	4.93	31.60	-8.69	0.39
MSCI ACWI	8.13	28.91	1.37	10.44
MSCI EAFE	4.80	20.39	-7.09	0.49
MSCI EM	9.56	29.37	-1.16	10.54
DJ US Select REIT	0.83	10.01	-21.36	-22.33
Bloomberg Commodity	9.07	14.62	-12.08	-8.20

Overall, 2020 was an exceptional year for financial markets. Both large and small U.S. stocks performed well, with the S&P 500 returning 18.40% and the Russell 2000 returning 19.96%. Non-U.S. stocks were not far behind, with the MSCI EAFE (developed international) and the MSCI EM (emerging markets) indices returning 7.82% and 18.31%, respectively. Bond returns were just as impressive, with the US Aggregate Bond index returning 7.51% and the FTSE WGBI (World Government Bond Index) returning 10.78%. REITs (real estate securities) and commodities were the only exceptions, with the DJ US Select REIT index down -11.20% and the Bloomberg Commodity indices down -3.13% for the year.



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