



December 2020: Market Review

Global equity returns continued to rise in December as the emergency authorization and distribution of Covid vaccines in Europe and the U.S. kept investors hopeful that COVID will be in their rearview mirror sometime in 2021. Additionally, the U.S. passed another fiscal stimulus package to support the economy in the coming months as vaccines are distributed. This was despite news that coronavirus infections continue to increase and have caused some European countries to impose stricter lockdowns and certain U.S. states to impose additional restrictions on the economy. The S&P 500 Index grew +3.8% in December and ended the year with an +18.4% gain. The Dow Jones Industrial Average rose +3.4% for the month and +9.7% for the year. The tech-heavy NASDAQ Composite added +5.7% in December and had its best year since 2009, capping off the year with a +44.9% return.

In the United States, the number of new daily coronavirus cases hit another record high of approximately 264,700 cases causing more states to implement restrictions on gatherings and businesses. The unemployment rate fell to 6.7%, but the decline indicates a slower growth in jobs in recent months. Despite the slow down in job growth in December, the economy has regained approximately 12 million of the 22 million jobs lost in the spring. Additionally, the final reading of annualized real GDP growth for the third quarter showed an increase of +33.4%, the highest quarterly increase on record, as businesses rebounded from a record GDP decline in the second quarter. Consensus estimates indicate an overall -3.5% decline in GDP for the year. Among commodities, WTI crude oil ended the month at \$49 a barrel, up from \$45 in November but still down 20% in 2020. Gold ended the month at \$1,893, higher than its close of \$1,776 last month and a gain of 25% for the year.

Within domestic equities, growth stocks outperformed value stocks in the last half of December, surpassing value stocks across all capitalization sizes for the full month as COVID case increases seemed to dampen the transition to more cyclical value names. The Russell 1000 Growth Index returned +4.6% in December and +38.5% for the year while the Russell 1000 Value Index added +3.8% this month and +16.3% in 2020. During the month, the Russell Midcap Growth Index increased +4.8% (up +35.6% in 2020) and the Russell Midcap Value Index rose +4.6% (+5.0% for the year). Small-cap equities outperformed both mid- and large-cap stocks in December as the Russell 2000 Growth Index was up +9.4% (+34.6% year-to-date) while the Russell 2000 Value Index gained +7.9% (+4.6% for the year).

Major international indices posted strong returns for the month as vaccines have started to be distributed across the world. Both the MSCI EAFE Index and the MSCI Europe Index were up +4.7% in December. For 2020, the MSCI EAFE Index gained +7.8% while the MSCI Europe Index added +5.4%. The MSCI Pacific Index increased +4.5% this month and grew +11.9% this year. The largest return of the year was posted by the MSCI Emerging Markets Index, gaining +18.3% and adding +7.4% for the month. The outperformance in December was driven by strong returns in South Korea (+15.6%), Brazil (+13.2%), and Taiwan (+10.3%).

U.S. fixed income markets were mixed for the month as investors had a "risk-on" approach to credit but some fear of rising longer-term rates, causing Treasuries to underperform credit and shorter duration to outperform longer duration. As such, the yield on the 10-year Treasury closed at 0.93%, modestly higher than November's close of 0.84% although it remains significantly lower than the 1.92% yield one year ago. The Bloomberg Barclays U.S. Aggregate Bond Index returned +0.1% for the month to end 2020 with a gain of +7.5%. Conversely, the Bloomberg Barclays Treasury 20+ Year Index declined -1.2% in the month but remained up +18.1% in 2020. The Bloomberg Barclays U.S. Treasury Index fell -0.2% during the month but ended the year with a gain of +8.0%. High yield bonds posted a third straight month of gains as the Bloomberg Barclays Corporate High Yield Bond Index added +1.9% during December to finish 2020 up +7.1%.

Equity markets continue to climb and set record highs in the U.S. as the distribution of vaccines and governmental support for economies have boosted market sentiment. In a year that began with so much uncertainty, global central banks and national governments have supported the economy with unparalleled stimulus, softening the impact of the virus on markets. Yet, market risks linger in 2021 as the speed of the vaccine distribution and the time it will take to have an affect on Covid infection



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rates is still uncertain along with the ability of policy makers to continue to provide strong stimulus for a market that is richly valued by historical standards.