



### Economic Summary

A global pandemic, a stock market correction, raging wildfires, civil unrest, and a polarizing Presidential election are just some of the major events that unfolded in 2020. If one had only read the headlines, one would logically assume the stock market would be down significantly by the end of the year. The reality was the S&P 500 finished up over 18% (CHART 1), and the technology-heavy Nasdaq closed the year up nearly 45%.

Extraordinary monetary and fiscal policy measures helped boost economic activity and mitigate some of the negative impacts of the COVID-19 pandemic. Politicians have already spent trillions, and more spending is coming in 2021 before things are back to normal. The monetary policy enacted by the Federal Reserve saw the Fed increase its balance sheet over 97% during the year, to over \$7 trillion (CHART 2). Additionally, the Fed is currently expanding its balance sheet by \$120 billion per month, in addition to holding short-term rates at zero until employment and inflation levels reach their targets.

Fiscal spending took the form of direct payments to businesses and individuals. The first round in March 2020, dubbed the CARES Act, injected over

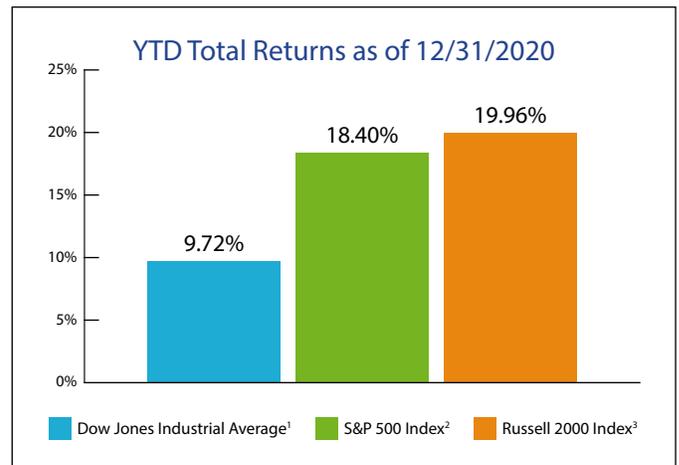


Chart 1

SOURCE: MORNINGSTAR DIRECT



Chart 2

SOURCE: EVERCORE ISI - DEC 29, 2020

**Past performance does not guarantee future results.** You cannot invest directly in an index.

<sup>1</sup> The S&P 500<sup>®</sup> Index is a capitalization weighted unmanaged index of 500 widely traded stocks, created by Standard & Poor's. The index is considered to represent the performance of the stock market in general

<sup>2</sup> The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.

<sup>3</sup> The Russell 2000<sup>®</sup> Index is an unmanaged index of the smallest 2,000 stocks in the Russell 3000<sup>®</sup> Index.

\$3 trillion into the economy, helping to push personal net worth to all-time highs (CHART 3). The second round in January 2021 consisted of \$900 billion in stimulus, of which nearly \$500 billion is being distributed to individuals. The Biden Administration and Democrat-controlled Congress are already planning an additional round of stimulus that will likely be in the multiple trillions.

Certain sectors of the economy have been clear beneficiaries of the trillions of dollars that have been spent. Housing and housing-related stocks have benefited (CHART 4 & 5) from the lockdown and stimulus. Appreciation in housing prices and stocks, as well as increased savings have added to personal net worth. When the lockdowns are over and life returns to some level of normality, a tremendous amount of pent-up demand could potentially push the economy into overdrive.


**Chart 3**

SOURCE: EVERCORE ISI – JAN 4, 2021


**Chart 4 & 5**

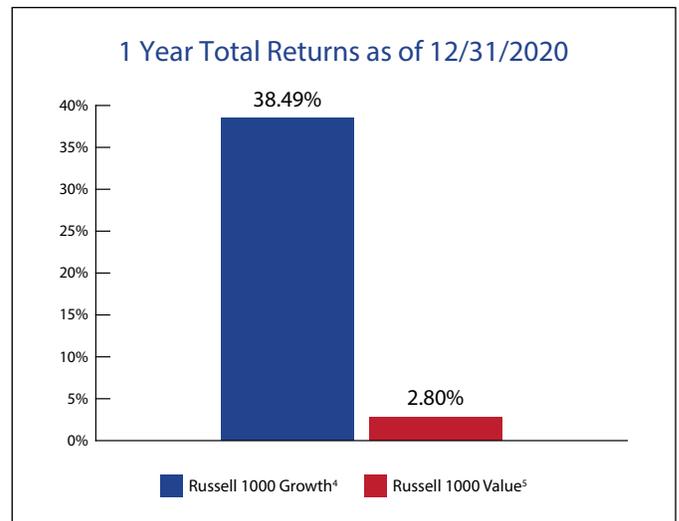
SOURCE: EVERCORE ISI – DEC 22, 2020

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### The Stock Market

Value stocks outperformed growth stocks by nearly 5% in the fourth quarter, but it was not enough to overcome the growth stock outperformance during the first three quarters of the year. For the year, the Russell 1000 Growth outperformed the Russell 1000 Value by an astonishing 35.7% (CHART 6). Small caps had a tremendous fourth quarter, as the Russell 2000 was up over 31% during Q4 and finished the year up 20%, outperforming the S&P 500 for the first time since 2016.

The performance discrepancy for the trailing ten years stands at nearly 7% between growth and value and is at a 32-year high (CHART 7). If history is any indicator of the future, this might be the greatest opportunity for value to outperform growth in the last three decades.


**Chart 6**

SOURCE: MORNINGSTAR DIRECT


**Chart 7**

SOURCE: STRATEGAS RESEARCH PARTNERS

"INVESTMENT STRATEGY VIEWPOINT" – JAN 6, 2021

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<sup>4</sup> The Russell 1000® Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000® companies with higher price-to-book ratios and higher forecasted growth values.

<sup>5</sup> The Russell 1000® Value Index Measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000® companies with lower price-to-book ratios and lower expected growth values.



### *The Bond Market*

It was another good year for bond investors, as interest rates decreased across the yield curve. The 10-year U.S. Treasury Note started the year yielding 1.9% and finished at 0.9%. The Fed went all in during the early days of the pandemic by cutting the Fed Funds rate to 0% and committing to keep rates low for years. Additionally, in March the Fed ramped up QE (QUANTITATIVE EASING) to \$120 billion per month and initiated additional programs to boost economic activity. Corporate bonds performed well as Treasury rates decreased, and spreads finished the year close to where they started. With interest rates low and spreads this narrow, investors need to exercise caution.

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