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Market Update: December 2020

Global stock markets gained roughly 5% during December, closing out a tumultuous but successful 2020 performance. After losing about one-third of their value in the 23 trading days ended March 23, global stocks bounced back to gain in excess of 16% for the year.

> **The pandemic didn't stop stocks from advancing to new highs this year – even counting the bear market drop during the spring.**
>
> **Liz Moyer – Barron's 12/31/20**

Most of those net gains were recorded in the fourth quarter, where market leadership changed quite dramatically. Although large domestic growth stocks dominated for most of the year, the fourth quarter saw small companies decidedly outperform larger companies, value stocks outpace their growth counterparts, and foreign equities outperform U.S. equity benchmarks.

Investors would appear to be looking ahead to better days. The defeat of the coronavirus and the resulting economic rebound are almost certainly reflected in today's asset prices. The S&P 500 currently sells at around 27 times earnings when comparing to profits over the past year. The ratio is only 19 times if you compare against expected profits two years from now.

> **The vaccine was the number-one issue keeping investors up at night. The positive outlook for the stock market and the economy would deteriorate if expectations for a smooth vaccine rollout are not met.**
>
> **Lori Calvasina, RBC Capital Markets – Barron's 12/23/20**

The economic recovery has slowed in the final months of 2020, and growth in the immediate future will be challenging. Cities and states are attempting to reduce the spread of the virus, while at the same time avoiding a complete economic shutdown. Many have imposed the toughest restrictions on businesses and social gatherings since the spring lockdowns.

> **The spread of the virus and related restrictions is really holding back the economic recovery. You can give consumers cash, but if they're not comfortable or able to go out and spend it in the economy, it's not going to do a lot of good to boost the economy in the near term.**
>
> **Michael Pearce, Capital Economics – WSJ 12/23/20**

Household income levels have dropped in three of the past four months, as federal aid programs have faded. Still, income remains up 2% since February, and Americans' savings are at historically high levels. Although households seem in relatively good shape, spending dropped for the first time in seven months.

> **A rapidly worsening health situation, weakening income, depleted savings for lower income families, and cooler weather led consumers to slam their wallet shut in November ... and real time data points to ongoing weakness in December.**
>
> **Gregory Daco, Oxford Economics – Barron's 12/23/20**

The President just signed a massive year-end bill that combines $900 billion in pandemic relief with $1.4 trillion of omnibus spending that will fund the government through September. The bill avoids a government shutdown, and the stimulus package includes direct payments to American households, expands unemployment insurance, and provides support to small businesses.

It's the bridge many were hoping for until a vaccine is widely distributed and the economy approaches a new normal.

Alex Eule – Barron's 12/28/20

The Fed again revised its economic forecast, increasing growth estimates and lowering unemployment levels. The current projection is for a GDP decline of 2.4% in 2020 … considerably lower than the 6.5% decline estimated back in June. The Fed now expects a year-end 6.7% unemployment rate … much better than the 9.3% June forecast.

The Fed's economists clearly misjudged the economy's resilience during the pandemic.

The Editorial Board – WSJ 12/16/20

Rising infections have shackled European economies since September. Economists expect that economic restrictions to combat the virus will pull eurozone GDP back into contraction for the fourth quarter.

Just days before a year-end deadline, and after four indecisive years, the European Union and the U.K. agreed to the conditions for post-Brexit trade, security and economic relations. The agreement, which includes a free-trade accord, will be provisionally effective January 1.

So, we have finally found an agreement. It was a long and winding road, but we have got a good deal to show for it. It is fair. It is a balanced deal, and it is the right and responsible thing to do for both sides. The European Union and the United Kingdom will stand shoulder to shoulder to deliver on our common goals.

Ursula von der Leyen, European Commission President – WSJ 12/24/20

China’s economic recovery continued to accelerate, with year-over-year growth around 6% expected for the fourth quarter. The world’s second largest economy has benefited from strong export demand, as other world economies struggled with a resurgence of the coronavirus. China’s economy expanded 4.9% year-over-year in the third quarter … a sharp rebound from the 6.8% contraction in the first quarter due to the initial spread of the virus. Economists anticipate economic growth of 8% or more in 2021.

> **In the longer term, the nation’s outlook still depends on how it manages deteriorating relations with developed democracies and whether President Xi Jinping’s strategy of cross-fertilization between the state and China’s dynamic private sector can really deliver higher efficiency and technological progress.**

Nathaniel Taplin – WSJ 12/30/20

Americans, on average, have made it through this pandemic relatively unscathed. Many have paid down debt, increased savings, saw house values rocket, had 401k accounts climb, refinanced mortgages at lower rates, and overall have higher credit scores.

> **The pandemic era is likely close to its last innings. And thanks to historic stimulus in reaction to the onset of the pandemic, the real economy that is emerging from this crisis has a tremendous amount of underappreciated momentum.**

Rick Rieder, BlackRock – Advisor Perspectives 12/24/20

The “average” statistics look good, but still many are out of work, more people are going hungry, and one out of every four small business owners have had to close down their operations.

The averages are certainly true, but there are a lot of folks who are more vulnerable. They have certainly been trending in the wrong direction.

Ray Kluender, Harvard Business School – WSJ 12/27/20

Most economists believe the U.S. economy will continue to expand this winter. Growth is expected to be weaker as households have less money to spend, and consumers have fewer opportunities to spend due to coronavirus restrictions.

For now, many businesses and households are struggling in what is shaping up to be a rough winter.

Josh Mitchell – WSJ 12/23/20

By nearly all measures, stock prices are expensive. In fact, equity valuations are at levels not seen since the 2000 technology crash. They are also well above the valuation peaks of the Great Recession.

As well as the technology sector has performed recently, consider the following analysis: If you had purchased the Nasdaq Composite Index at its March 2000 peak and held on, you would have barely broken even after 15 years. If you still owned the index today, your return on investment would be a paltry 4% annualized.

The moral of the story: Starting valuation matters.

John Mauldin – Advisor Perspectives 12/18/20

Why are stock valuations so high? It is because interest rates (the cost of debt capital) are at historical lows. These rates are not based on market fundamentals, they are artificially set by the Fed. So, we could conclude that asset values are at artificial levels … not based on market fundamentals.

Maybe the Fed's actions this year have changed how investors should think about valuations, but it is early going and that hypothesis has yet to be put to the test.

Justin Lahart – WSJ 12/23/20

If we are concerned about the economic backdrop and/or believe market values are too high, why don't we just change our allocation strategies? That is easier said than done, because economic forecasting is extremely difficult. History has shown such forecasts are no better than chance … or basically the equivalent of monkeys throwing darts.

Adhere to your well-thought-out plan and ignore the noise of the market and the butterflies in your stomach.

Larry Swedroe, Buckingham Wealth Advisors – Advisor Perspectives 12/18/20

The real risks may show themselves in 2022, where there are considerable downside risks associated with much-loftier growth expectations. Massive federal debt levels and struggling small businesses could produce one heck of an economic hangover.

A lot of people said the market is disconnected to reality, but stocks are pricing in what's going to happen in six months to a year, not what the economy looks like today.

Andrew Slimmon, Morgan Stanley – WSJ 12/31/20

We talk a lot about adhering to investment policy, maintaining discipline, and keeping emotions in check. 2020 has unquestionably reinforced the importance of process, structure, and execution.

As we look forward to 2021 with guarded optimism, we wish everyone a safe and prosperous New Year.

Daniel G. Corrigan, CPA/PFS, CFP®