Independent Wealth Management

Market & Economic Review

A Quarterly Publication | Historical Perspectives | 4th Quarter 2020

Fourth Quarter / Key Takeaways

The year began with news of a SARS-like virus spreading in China. In March, the World Health Organization declared a global pandemic as the spread of the virus reached more than 100 countries, with more than 100,000 reported cases. By mid-March, President Trump declared a state of national emergency.

In response to the economic turmoil caused by the pandemic, several pieces of legislation were passed, including the Coronavirus Preparedness and Response Supplemental Appropriations Act, the Families First Coronavirus Response Act, and the massive COVID-19 rescue package, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The November presidential election resulted in the defeat of President Donald Trump by former Vice President Joe Biden, with the post-election period dominated by attempts to overturn the results through federal courts and state legislatures. Nevertheless, some positive news came at the end of the year with the development and initial dissemination of COVID-19 vaccines and additional legislation that provided $900 billion in pandemic-related stimulus.

4Q20 Benchmark Returns

	4Q	2020
Equities		
S&P 500 Total Return Index	12.1%	18.3%
Russell Index 1000 w/Dividend	13.7%	20.9%
Russell Index 2000 w/Dividend	31.4%	19.9%
Russell Index 3000 w/Dividend	14.7%	20.8%
MSCI Developed EAFE (USD)	16.1%	8.2%
MSCI Emerging Markets (USD)	19.3%	15.8%
Alternatives		
Credit Suisse Hedge Fund Index	2.5%	2.5%
DJ Wilshire Global REIT Index	12.6%	-14.5%
iShares S&P US Pref Stock Index	5.1%	2.1%
S&P GSSI Natural Resources Index	18.9%	-18.9%
Barclays High Yield Bond Index	7.1%	7.1%
Fixed Income		
90 Day Treasury Bill	0.0%	0.3%
Barclays Muni Bond Index	1.8%	5.2%
Barclays Aggregate Bond Index	0.7%	7.5%
Barclays Global Bond Index	4.7%	9.5%

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Snapshot 2020

The Markets

Equities: As with almost every aspect of 2020, the pandemic impacted the stock market throughout the year. Investors began hearing of the possible spread of the virus in January, creating uncertainty and trepidation. By the end of February, investors sold more equities than they purchased, driving values down. By the end of March, the spread of COVID-19 throughout much of the world and within the United States prompted a major market sell-off. The first quarter saw each of the benchmark indexes fall far below its 2019 closing value. Fiscal stimulus measures in April, coupled with value buying, drove stocks to their best month since 1987. The possibility of a COVID-19 vaccine, a brief slowdown in the number of reported virus cases, and the onset of the summer season provided enough encouragement for investors to stay in the market. Throughout the rest of the year, despite a resurgence in the number of reported COVID-19 cases and deaths, an historic number of unemployment claims, delays in the long-awaited vaccine, and additional stimulus, investors saw hope that the economy would turn the corner and that the virus would be contained. Those factors, coupled with the low interest-rate environment, made stocks a viable option.

On the last day of the year, the Dow and the S&P 500 ended at all-time highs. In fact, the fourth quarter was robust for stocks, with each of the major indexes posting double-digit gains, headed by the small caps of the Russell 2000, which surged to a gain of 31.3% over the prior quarter. Despite the turmoil and early-year losses, all of the benchmark indexes listed here closed 2020 well ahead of their 2019 closing marks. The tech stocks of the Nasdaq, which gained more than 43.0%, led the way, followed by the Russell 2000, the S&P 500, the Dow, and the Global Dow.

Bonds: U.S. Treasury yields generally trended lower in 2020, never reaching their 2019 year-end high of 1.91%. Muted inflation and low interest rates drove bond prices up and yields down. Ten-year Treasuries hit an all-time low of 0.3% in March as investors ran from stocks in favor of bonds. The impact of COVID-19 kept investors on edge as the economy drifted toward a recession. As parts of the economy began to slowly recover, investors again moved toward stocks and away from bonds, pushing yields higher. The yield on 10-year Treasuries ultimately closed 2020 at 91.0%, down 100 basis points from where it began the year.

Oil: Oil prices began 2020 at $63.05 per barrel, only to slump throughout the rest of the year. Oil demand declined drastically following COVID-19-related lockdowns and travel restrictions. An all-out oil price war in March and part of April drove prices below $20.00 per barrel. An agreement in mid-April to cut petroleum output helped stabilize prices. For the year, crude oil prices averaged about $39.00 per barrel, ultimately closing at $48.44 per barrel on December 31.

FOMC/interest rates: The Federal Open Market Committee lowered interest rates dramatically in 2020 while instituting new and drastic measures in response to the economic turmoil caused by COVID-19. The year began with the target range for the federal funds rate at 1.50%-1.75%. However, due to the negative effects of COVID-19, the Federal Reserve cut the federal funds rate by 150 basis points to a range of 0.00%-0.25% in March. In addition, the Fed instituted a policy of unlimited bond buying, including the purchase of corporate bonds; $300 billion in new financing; and the establishment of two new facilities, the Term Asset-Backed Securities Loan Facility to enable the issuance of asset-backed securities, and a Main Street Business Lending Program to support lending to eligible small and medium-sized businesses. The target range for the federal funds rate stayed at 0.00%-0.25% through December and will likely remain there for most of 2021. The Fed also committed to continue increasing its holdings of Treasuries and mortgage-backed securities.

Currencies: The United States Dollar Index (DX-Y.NYB), which measures the U.S. dollar against the currencies of several other countries, hit a high of $102.99 in March. It closed at $89.91 on December 31, having fallen nearly 9.0% since the beginning of the year. The huge expansion of the national debt coupled with the continued impact of COVID-19 could keep the dollar from gaining upward momentum for quite some time.

Gold: Gold prices began the year at $1,524.50 and closed 2020 at $1,901.70, an increase of nearly 25.0%. During the year, gold fell to $1,450.90 in March, only to surge to $2,089.20 in mid-August. Investors turned to gold amid the growing uncertainty of COVID-19. A depreciating dollar and receding bond yields added to the appeal of gold for investors.

Latest Economic Reports

Employment: Employment slowed in November with the addition of 245,000 new jobs, well below the totals for October (638,000) and September (661,000). The unemployment rate inched down 0.2 percentage point to 6.7% in November as the number of unemployed persons dipped from 11.1 million in October to 10.7 million in November. Despite the reduction in the number of unemployed persons, that figure is still 4.9 million higher than in February. Among the unemployed, the number of persons on temporary layoff decreased by 441,000 in November to 2.8 million. This measure is down considerably from the high of 18.1 million in April but is 2.0 million higher than its February level. In November, the number of persons not in the labor force who currently want a job increased by 448,000 to 7.1 million; this measure is 2.2 million higher than in February. In November, 21.8% of employed persons teleworked because of COVID-19, up from 21.2% in October. The labor force participation rate edged down to 61.5% in November; this is 1.9 percentage points below its February level. The employment-population ratio, at 57.3%, changed little over the month but is 3.8 percentage points lower than in February. Average hourly earnings increased by $0.09 to $29.58 in November and are up 4.4% from a year ago. The average work week remained unchanged at 34.8 hours in November.

Claims for unemployment insurance continued to drop in December. According to the latest weekly totals, as of December 19 there were 5,219,000 workers receiving unemployment insurance, down from the November 14 total of 6,071,000. The insured unemployment rate fell 0.5 percentage point to 3.6%. During the week ended December 12, Extended Benefits were available in 24 states; 51 states reported 8,459,647 continued weekly claims for Pandemic Unemployment Assistance benefits, and 51 states reported 4,772,853 continued claims for Pandemic Emergency Unemployment Compensation benefits.

FOMC/interest rates: The Federal Open Market Committee met in December. The FOMC decided to maintain the target range for the federal funds rate at 0.00%-0.25% and expects to maintain this range for the forseeable future until employment and inflation meet standards set by the Committee. In a statement released following its meeting, the Committee stressed that the COVID-19 pandemic is causing tremendous human and economic hardship across the United States and around the world. While economic activity and employment have continued to recover, those measures remain well below their levels at the beginning of the year. The Committee noted that weaker demand and earlier declines in oil prices have been holding down consumer price inflation. The FOMC also submitted its projections of the most likely outcomes for gross domestic product, the unemployment rate, and inflation for each year from 2020 to 2023 and over the longer-run. The projected longer run change in GDP is 1.6%-2.2%. The projected unemployment rate is 3.5%-4.5% over the longer range, and inflation is projected to run at 2.0%. The longer-range projection of the federal funds rate is 2.0%-3.0%.

GDP/budget: In contrast to the second-quarter gross domestic product, which fell 31.4%, the third-quarter GDP shows the economy advanced at an annual rate of 33.4%, as the country continued to rebound from the economic effects of the COVID-19 virus. Consumer spending, as measured by personal consumption expenditures, increased 41.0% in the third quarter, in contrast to a 33.2% decline in the second quarter. The increase in PCE accounted for 25.44% of the change in GDP. Nonresidential (business) investment vaulted 22.9% (-27.2% in the second quarter); residential fixed investment soared 63.0% after falling 35.6% in the prior quarter. Exports advanced 59.6% (-64.4% in the second quarter), and imports increased 93.1% (-54.1% in the second quarter). Federal nondefense government expenditures decreased 18.3% in the third quarter as federal stimulus payments and aid lessened.

November saw the federal budget deficit come in at a smaller-than-expected $145.3 billion, down roughly 30% from November 2019. However, the deficit for the first two months of fiscal year 2021, at $429.3 billion, is 25% higher than the first two months of the previous fiscal year. Through November, government outlays rose 9.0%, while receipts fell 3.0%. The rise in government expenditures for fiscal year 2021 is attributable to a 67% increase in outlays for income security, an 18% jump in outlays for health, and a 214% climb in community and regional development payments. Medicare outlays fell about 15% compared to the same period last year.

Inflation/consumer spendng: The COVID-19 pandemic clearly impacted personal income and spending in November. According to the latest Personal Income and Outlays report, personal income and disposable personal income decreased 1.1% and 1.2%, respectively, after decreasing 0.6% and 0.7% in October. Consumer spending fell 0.4% in November after increasing 0.3% the previous month. Inflation remained muted as consumer prices were unchanged in November and October. Consumer prices have increased by a mere 1.1% over the last 12 months ended in November.

The Consumer Price Index: CPI climbed 0.2% in November after being unchanged in October. Over the 12 months ended in November, the CPI rose 1.2%. The prices for lodging away from home, household furnishings and operations, recreation, apparel, airline fares, and motor vehicle insurance increased in November. Prices for used cars and trucks, medical care, and new vehicles declined over the month. Increases in shelter and energy were major factors in the CPI increase. Core prices (less food and energy) increased 0.2% in November and are up 1.6% over the 12 months ended in November.

Prices that producers receive for goods and services rose 0.1% in November following a 0.3% October jump. Producer prices increased 0.8% for the 12 months ended in November, the largest advance since moving up 1.1% for the 12 months ended in February. Producer prices less foods, energy, and trade services rose for the seventh consecutive month after advancing 0.1% in November. For the 12 months ended in November, prices less foods, energy, and trade services moved up 0.9%, the largest rise since a 1.0% increase for the 12 months ended in March.

Housing: Sales of existing homes fell in November after advancing in each of the previous five months. Existing home sales dropped 2.5% in November but are up 25.8% from a year ago. The median existing-home price was $310,800 in November ($313,000 in October). Unsold inventory of existing homes represents a 2.3-month supply at the current sales pace, a record low. Sales of existing single-family homes fell 2.4% in November following a 4.1% jump in October. Over the last 12 months, sales of existing single-family homes are up 25.6%. The median existing single-family home price was $315,500 in November, down from $317,700 in October.

New single family home sales: Continued to slide, dropping 11.0% in November after falling 0.3% in October. The median sales price of new single-family houses sold in November was $335,300 ($330,600 in October). The November average sales price was $390,100 ($386,200 in October). The inventory of new single-family homes for sale in November represents a supply of 4.1 months at the current sales pace, up from the October estimate of 3.6 months.

Manufacturing: Industrial production has risen to within 5.0% of its pre-pandemic (February) level after increasing 0.4% in November. By comparison, industrial production in April was 16.5% below its February level. Manufacturing output rose 0.8% in November, marking the seventh consecutive month of gains. An increase of 5.3% for motor vehicles and parts contributed significantly to the gain in factory production; excluding motor vehicles and parts, manufacturing output moved up 0.4%. In November, utilities declined 4.2% as unusually warm temperatures reduced demand. Mining production increased 2.3% in November after falling 0.7% in October. In November, total industrial production was 5.5% lower than a year earlier.

Orders for durable goods: For the seventh consecutive month, new orders for durable goods increased in November, climbing 0.9% following a 1.8% jump in October. Despite the trend of monthly increases, new orders for manufactured durable goods were 8.0% lower than a year ago. Excluding transportation, new orders increased 0.4% in November (+1.3% in October). Excluding defense, new orders increased 0.7% in November (+0.2% in October). Transportation equipment, up in six of the last seven months, led the increase, climbing 1.9% in November (+1.5% in October).

Imports and exports: Both import and export prices inched higher in November. Import prices rose 0.1% after falling 0.1% in the prior month, an increase largely driven by higher fuel prices. Import prices excluding fuel dropped 0.3% in November. Despite the recent increases, prices for imports decreased 1.0% from November 2019 to November 2020. Export prices advanced 0.2% in November after declining 0.1% in October. Overall, export prices dipped 1.3% over the past year. Agricultural export prices rose 2.2% in November, while non agricultural prices for items such as consumer goods, automobiles, and industrial supplies and materials were unchanged, but are down 1.6% during the 12 months ended in November.

The international trade in goods deficit was $84.8 billion in November, up $4.4 billion, or 5.25%, from October. Exports of goods were $127.2 billion in November, $1.1 billion, or 0.8%, more than in October. Imports of goods were $212.0 billion in November, $5.5 billion, or 2.6%, more than in October. Driving exports higher in November were foods, feeds, and beverages (4.3%), and industrial supplies (1.5%). After increasing 5.9% in October, exports of consumer goods inched up 0.8% in November. Imports of industrial supplies (2.9%), consumer goods (6.7%), and other goods (4.0%) pushed total imports higher in November. Imports of automotive vehicles fell 3.2% in November after rising 3.2% in October.

The latest information on international trade in goods and services, out December 4, is for October and shows that the goods and services trade deficit was $63.1 billion, an increase of nearly $1.0 billion, or 1.7%, over the September deficit. October exports were $182.0 billion, or 2.2%, more than September exports. October imports were $245.1 billion, or 2.1%, more than September imports. Year to date, the goods and services deficit increased $46.6 billion, or 9.5%, from the same period in 2019. Exports decreased $345.9 billion, or 16.4%. Imports fell $299.4 billion, or 11.5%.

International markets: A mutant strain of COVID spread rapidly though parts of Europe late in the year, sending stocks reeling as several affected countries tightened restrictions. This latest development will likely stall what had been a recovering European economy. Industrial production and retail sales had been approaching pre-pandemic levels in several European nations. The United Kingdom and the European Union reached a trade agreement as Brexit nears its final stages. In China, the third-quarter GDP advanced 2.7% and is 4.9% higher year-over-year.

Consumer confidence: The Conference Board Consumer Confidence Index® declined in December for the third consecutive month. The index stands at 88.6, down from 92.9 in November. The Present Situation Index, based on consumers' assessment of current business and labor market conditions, decreased sharply from 105.9 to 90.3. However, the Expectations Index — based on consumers' short-term outlook for income, business, and labor market conditions — increased from 84.3 in November to 87.5 in December.

Eye on the Month Ahead

The year 2021 should bring continued economic recovery. As the United States and the world inch slowly toward normalcy following the battle against the COVID-19 pandemic, stock markets, employment, and production should also advance.

As always, we are appreciative and humbled by your trust and confidence.

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