
December 2020 Market Update

2020 was an unforgettable year for investment markets. Despite widespread economic carnage inflicted by the coronavirus, most investment indices and products finished the year strongly higher. Global GDP fell 4.4% but the MSCI All-Country World Index (ACWI) increased 16.3%. Those results are more remarkable considering the ACWI was up 26.6% in 2019, resulting in a 2-year total return of over 47%. Table 1 and Chart 1 below show total return performance for major asset classes in 2020.

Once again, the U.S. had one of the top-performing stock markets in the world with an 18% gain. Add 2019's exceptional performance and U.S. stocks are up 54% in the last 2 years. Growth stocks were up 33.5% but value stocks were up only 1.4%, highlighting the huge disparities found among investment portfolios. Chart 2 below shows 2020 U.S. stock performance by market capitalization and growth/value factor. The S&P 500 and most other indices closed the year at or just below all-time highs.

International stock markets had a great year as well, generally dependent upon how the coronavirus impacted their economy. Asian emerging markets were the top performers (Korea up 46%, Taiwan up 39%, China up 29%), then the Nordic countries (Sweden up 29%), the U.S. (up 18%) and Europe (up 6%). Stocks in Latin America and Eastern Europe were down in 2020.

Bonds picked up 7.5% on the year mainly due to increasing prices as yields hit all-time lows in March. The 10-yr Treasury ended the year at a meager 0.93%. 2020 signaled the end of a remarkable bull market in fixed income stretching back nearly 40 years to the early 1980's.

Real estate (as an asset class) suffered the most, ending the year down 7.5% according to our REIT index which is heavily tied to commercial real estate. Residential real estate, in comparison, was strong as national home prices finished November up 8.2% year-over-year.

From an economic policy perspective, 2020 will be known for the speed and breadth of its fiscal stimulus. For the first time a broad swath of people received government funds direct deposited into their bank accounts, a historical first that may become standard in the future. Total stimulus approved was \$4.5 trillion, about \$1 trillion more than total government revenue in 2019. While the stimulus helped some people survive the coronavirus, it also prompted many people to invest savings in the stock market as brokerages opened over 10 million new accounts in 2020.

Where to from here? The economic outlook for 2021 is certainly bright as coronavirus fears fade and the new Democratic government is poised to inject additional stimulus. The outlook for markets, however, is more difficult as high asset prices and the potential for higher interest rates creates uncertainty. The forward P/E ratio for the S&P 500 is 22.8, a level not seen since the dot-com boom of 2000. Ultra-low interest rates provide support for high price levels but if rates rise then the stock market may suffer. We are concerned that 2021 will be quite different from 2020, that the sectors that drove prices in 2020 will fade in 2021. If so, expect to see better performance from value stocks, small cap stocks, and international equities.

In the end, 2020 taught a valuable lesson: stick with your long-term plan and don't time the market. Our challenge for 2021 will be to maintain long-term plans while seeking pockets of value in the market.

Table 1: Benchmark Index Performance as of December 31, 2020

<i>Benchmark Index</i>	<i>1 Mo</i>	<i>3 Mo</i>	<i>YTD</i>	<i>5 Yr Ann</i>
U.S. Stocks	4.1%	13.2%	17.9%	15.0%
International Stocks	5.6%	17.2%	11.1%	9.0%
U.S. Bonds	0.1%	0.7%	7.5%	4.4%
U.S. Real Estate	3.4%	11.5%	-7.5%	4.6%

Table 2: Vanguard Global Asset Allocation Benchmarks as of Dec 31, 2020

Vanguard Fund or ETF: % Stock/% Bond	1 Mo	3 Mo	YTD	5 Year
LifeStrategy Growth Fund: 80/20	4.1%	12.5%	15.5%	11.3%
LifeStrategy Moderate Growth Fund: 60/40	3.1%	9.5%	13.6%	9.7%
LifeStrategy Conservative Growth Fund: 40/60	2.1%	6.6%	11.5%	8.0%
LifeStrategy Income Fund: 20/80	1.2%	3.7%	9.1%	6.2%

Chart 1: 2020 Market Index Performance

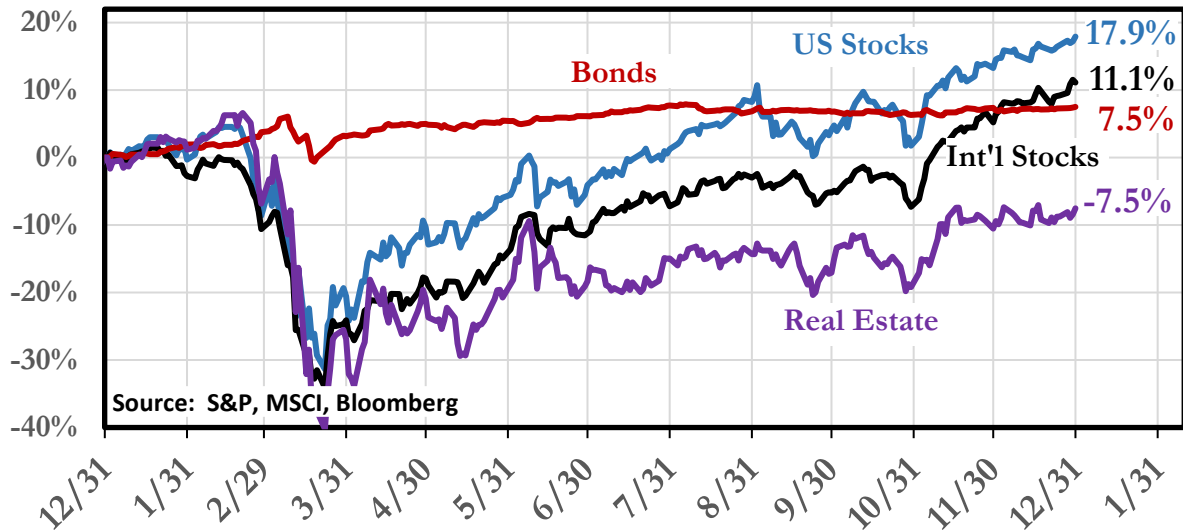
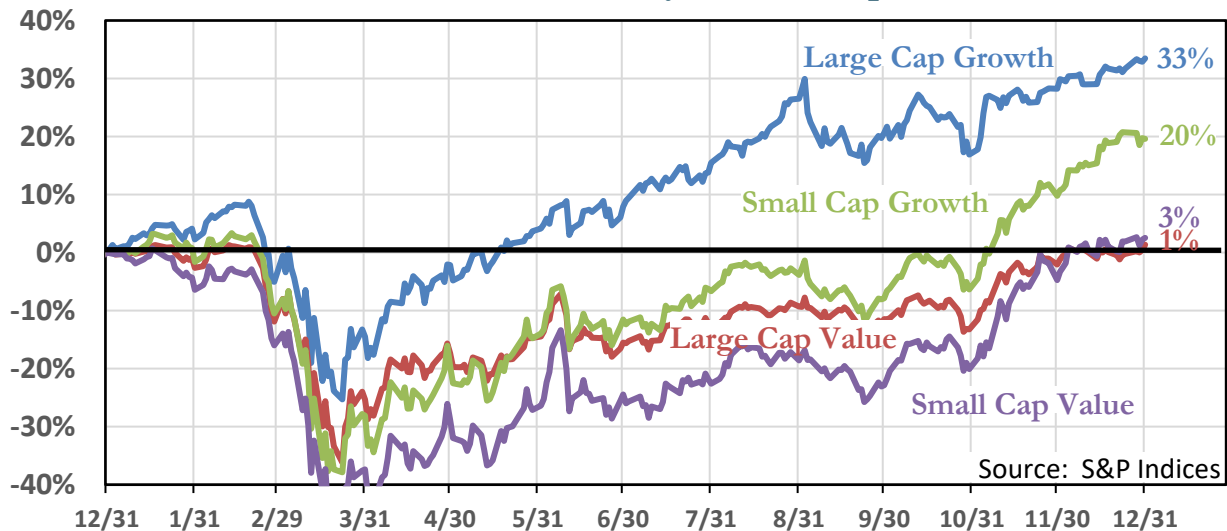


Chart 2: 2020 U.S. Stock Performance by Market Cap and Growth vs. Value



U.S. Stocks: S&P Composite 1500 Index
 International Stocks: MSCI ACWI IMI Ex-U.S. Index

Bonds: Bloomberg Barclays U.S. Aggregate Index
 Real Estate: S&P U.S. REIT Index

