Legacy Financial Strategies

Market Outlook 2021

2020 in review:

- *Homes were converted into offices, schools, daycares, video studios, and churches. Driveways were converted into living rooms and al fresco dining venues.*
- *The longest economic expansion in history ended in February. At the time of this writing, the U.S. is still in an economic recession[1].*
- *Gross Domestic Product (GDP), a measure of U.S. economic output, recorded its largest annualized decline on record immediately followed by a record annualized increase[2].*
- *The S&P 500 stock index dropped 33.5% in just over a month before bottoming on March 23, 2020. Since then, the S&P 500 is up nearly 64%.*
- *The Federal Reserve moved short-term interest rates back to nearly 0% which was good for stocks and bonds but bad for money markets, CDs and other savings vehicles.*

	BENCHMARK	Q4 2020	1-Year	3-Year	5-Year	10-Year
U.S. Large Cap Stocks	S&P 500® Index	12.1%	18.4%	14.2%	15.2%	13.9%
U.S. Small Cap Stocks	Russell 2000® Index	31.4%	19.9%	10.2%	13.2%	11.2%
International Developed Stocks	MSCI EAFE Index	16.1%	8.3%	4.7%	7.9%	5.9%
Emerging Market Stocks	MSCI EM Index	19.6%	18.5%	6.4%	13.1%	3.9%
U.S. Bonds	Bloomberg Barclays U.S. Aggregate Bond Index	0.7%	7.5%	5.3%	4.4%	3.8%
Treasury Inflation Protected Securities	Bloomberg Barclays U.S. Treasury Inflation Notes Index	1.6%	11.0%	5.9%	5.1%	3.8%
High-Yield Bonds	Bloomberg Barclays U.S. Corporate High Yield Total Return Index	6.5%	7.1%	6.2%	8.6%	6.8%
International Developed Bonds	Bloomberg Barclays Global Treasury ex-U.S. Index	5.2%	10.1%	4.7%	5.2%	2.4%
Commodities	S&P GSCI Total Return Index	14.5%	-23.7%	-8.2%	-1.9%	-8.8%
REITS	Dow Jones U.S. Select REIT Index	12.9%	-11.2%	1.5%	3.0%	7.6%

Returns are annualized for periods over one year. Source: Bloomberg as of 12/31/2020. Indexes are unmanaged, do not incur fees or expenses, and cannot be invested in directly. Past performance is no guarantee of future results.

2021 Outlook:

- *Economy (GDP) is expected to grow at a rate of 3-4%[2].*
- *Vaccine distribution will be a key driver to consumer confidence and economic growth.*
- *Stocks hurt by COVID should perform better as the economy continues to "open."*
- *Technology continues to become more critical to businesses and households.*
- *Non-U.S. stocks expected to broadly outperform U.S. stocks over 5-10 years.*
- *Bonds should not perform as well as the past two years.*
- *Low short-term interest rates will continue to "punish" savers in bank accounts and CDs.*

Affirmation

2020 was a text book reminder of why it is important to remain committed to your established investment plan. A chart was shared in two of my writings last year which illustrated various stock market sell-offs that were followed by recoveries in stock prices. Our clients are to be commended for having the courage to stay invested despite tremendous uncertainty. The COVID commentary last year featured a chart indicating that viruses historically do not have long-lasting effects on the stock market. That has proven true once again; however, the economic impact and anxiety over our collective health remains.

Shot in the arm

The approval of a vaccine(s) for COVID-19 is the impetus for consumer confidence and economic growth. Creating confidence in our own health and that of others around us will create confidence for people to leave their homes and spend money again(Does anyone go to the dry cleaners anymore?). When consumers spend, there is a ripple effect which may benefit multiple business and ultimately, stock prices. In addition, the Federal Reserve and Congress have unleashed unprecedented monetary and fiscal stimulus to help individuals and businesses and to support the bond markets.

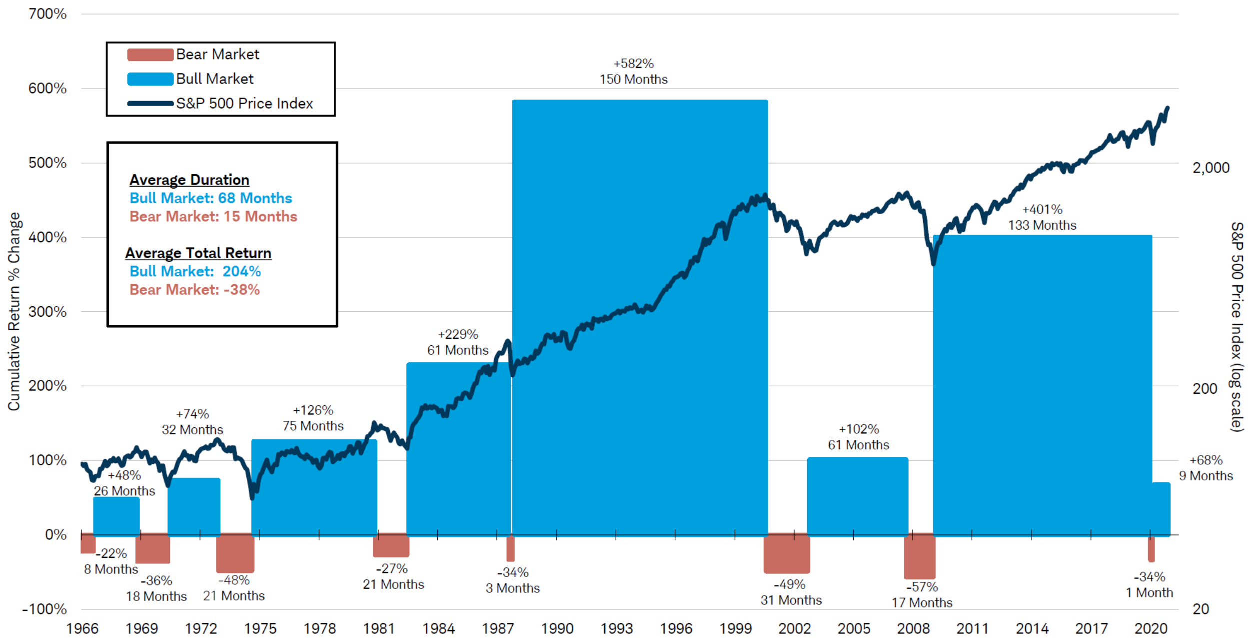
Cycles, Bulls, and Bears oh my!

All past economic recessions have eventually come to an end allowing a new economic to begin. This time will be no different. A good economic environment helps provide "fertile soil" for stocks to flourish. The second chart below shows advances (Bull markets) and declines (Bear markets) in stocks since 1966. The S&P 500 is up 65% since the low established on March 23, 2020. The average return for stocks in a bull market is 204% indicating that stocks have the potential to continue higher over time.

Another corollary to bull and bear markets is the change in leadership of U.S. and non-U.S. stock performance which has changed each of the last 4 cycles. The weakening US dollar and lower valuations on international stocks indicate another change of performance leadership is possible.

	1980s Jul 81-Jul 90	1990s Jul 90-Mar 01	2000s Mar 01-Dec 07	2010s Dec 07-Feb 20
U.S.	14.8%	**13.8%**	4.8%	**7.6%**
International	**21.0%**	4.7%	**11.1%**	1.1%
Difference	6.2%	8.8%	6.3%	6.5%

Source: Charles Schwab, Bloomberg data as of 10/31/20. Past performance is no guarantee of future results. Dates reflect economic cycle peaks defined by the National Bureau of Economic Research. Annualized total return between cycle peaks measured by MSCI USA Index and MSCI EAFE Index.



Source: Bloomberg as of 12/31/2020. Bull and bear Markets as defined by Yardeni Research. Indexes are unmanaged, do not incur fees or expenses, and cannot be invested in directly. Past Performance is no guarantee of future results.

As always, we genuinely appreciate the trust you place in your financial advisor and our firm.

Chris Proctor
Chief Investment Officer

Sources:

[1] National Bureau of Economic Research (NBER); [2] Federal Reserve;