



# Quarterly Market Review: 2020-Q4

## For ClearLogic Financial

Equity markets around the globe posted positive returns in the fourth quarter. Looking at broad market indices, emerging markets outperformed non-US developed markets and US equities. Value outperformed growth across regions. Small caps outperformed large caps across regions as well. REIT indices underperformed equity market indices in both the US and non-US developed markets.

The first chart is a snapshot of the market performance for the fourth quarter. The second chart shows the world markets and events over the last twelve (12) months. Your 2020 fourth quarter portfolio review report is posted in the ModestSpark portal.

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
<b>4Q 2020</b>	<b>STOCKS</b>				<b>BONDS</b>	
	<b>14.68%</b>	<b>15.85%</b>	<b>19.70%</b>	<b>12.55%</b>	<b>0.67%</b>	<b>0.94%</b>
<b>Since Jan. 2001</b>						
Avg. Quarterly Return	2.3%	1.6%	3.0%	2.4%	1.2%	1.1%
Best Quarter	22.0%	25.9%	34.7%	32.3%	4.6%	4.6%
	<b>2020 Q2</b>	<b>2009 Q2</b>	<b>2009 Q2</b>	<b>2009 Q3</b>	<b>2001 Q3</b>	<b>2008 Q4</b>
Worst Quarter	-22.8%	-23.3%	-27.6%	-36.1%	-3.0%	-2.7%
	<b>2008 Q4</b>	<b>2020 Q1</b>	<b>2008 Q4</b>	<b>2008 Q4</b>	<b>2016 Q4</b>	<b>2015 Q2</b>

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index [net div.]), US Bond Market (Bloomberg Barclays US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Barclays Global Aggregate ex-USD Bond Index [hedged to USD]). S&P data © 2021 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2021, all rights reserved. Bloomberg Barclays data provided by Bloomberg.

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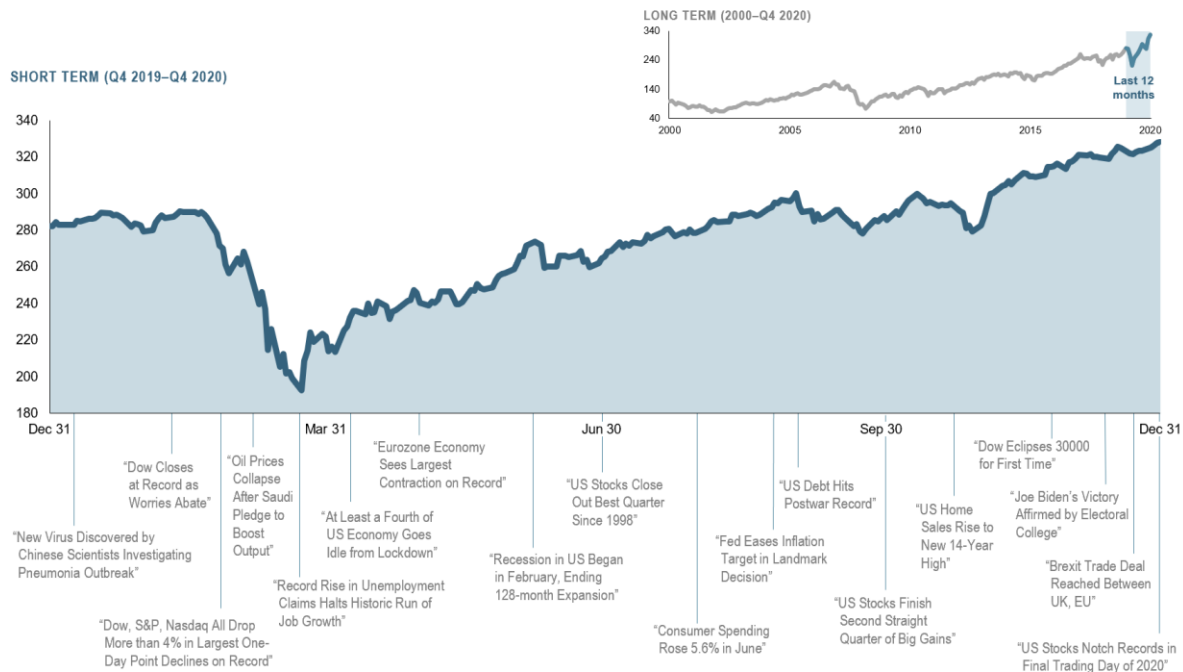
Past performance may not be indicative of future results. Indices are not available for direct investment. Any investor who attempts to mimic the performance of an index would incur fees and expenses which would reduce returns.

All investing involves risk, including the potential for loss of principal. There is no guarantee that any investment plan or strategy will be successful.



# World Stock Market Performance

MSCI All Country World Index with selected headlines from past 12 months



*These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.*

**Graph Source: MSCI ACWI Index [net div.]. MSCI data © MSCI 2021, all rights reserved. It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. Past performance is not a guarantee of future results.**



## Market Review 2020: Looking Back on an Unprecedented Year

The year 2020 proved to be one of the most tumultuous in modern history, marked by a number of developments that were historically unprecedented. But the year also demonstrated the resilience of people, institutions, and financial markets.

The novel coronavirus was already in the news early in the year, and concerns grew as more countries began reporting their first cases of COVID-19. Infections multiplied around the world through February, and by early March, when the outbreak was labeled a pandemic, it was clear that the crisis would affect nearly every area of our lives. The spring would see a spike in cases and a global economic contraction as people stayed closer to home, and another surge of infections would come during the summer. Governments and central banks worked to cushion the blow, providing financial support for individuals and businesses and adjusting lending rates.

On top of the health crisis, there was widespread civil unrest over the summer in the US tied to policing and racial justice. In August, Americans increasingly focused on the US presidential race in this unusual year. Politicians, supporters, and voting officials wrestled with the challenges of a campaign that at times was conducted virtually and with an election in the fall that would include a heightened level of mail-in and early voting. In the end, the results of the election would be disputed well into December. As autumn turned to winter, 2020 would end with both troubling and hopeful news: yet another spike in COVID-19 cases, along with the first deliveries of vaccines in the US and elsewhere.

For investors, the year was characterized by sharp swings for stocks. March saw a 33.79% drop in the S&P 500 Index<sup>1</sup> as the pandemic worsened. This was followed by a rally in April, and stocks reached their previous highs by August. Ultimately, despite a sequence of epic events and continued concerns over the pandemic, global stock market returns in 2020 were above their historical norm. The US market finished the year in record territory and with an 18.40% annual return for the S&P 500 Index. Non-US developed markets, as measured by the MSCI World ex USA Index,<sup>2</sup> returned 7.59%. Emerging markets, as measured by the MSCI Emerging Markets Index, returned 18.31% for the year.

Uncertainty remains about the pandemic and the broad impact of the new vaccines, continued lockdowns, and social distancing. But the events of 2020 provided investors with many lessons, affirming that following a disciplined and broadly diversified investment approach is a reliable way to pursue long-term investment goals.

Footnotes:

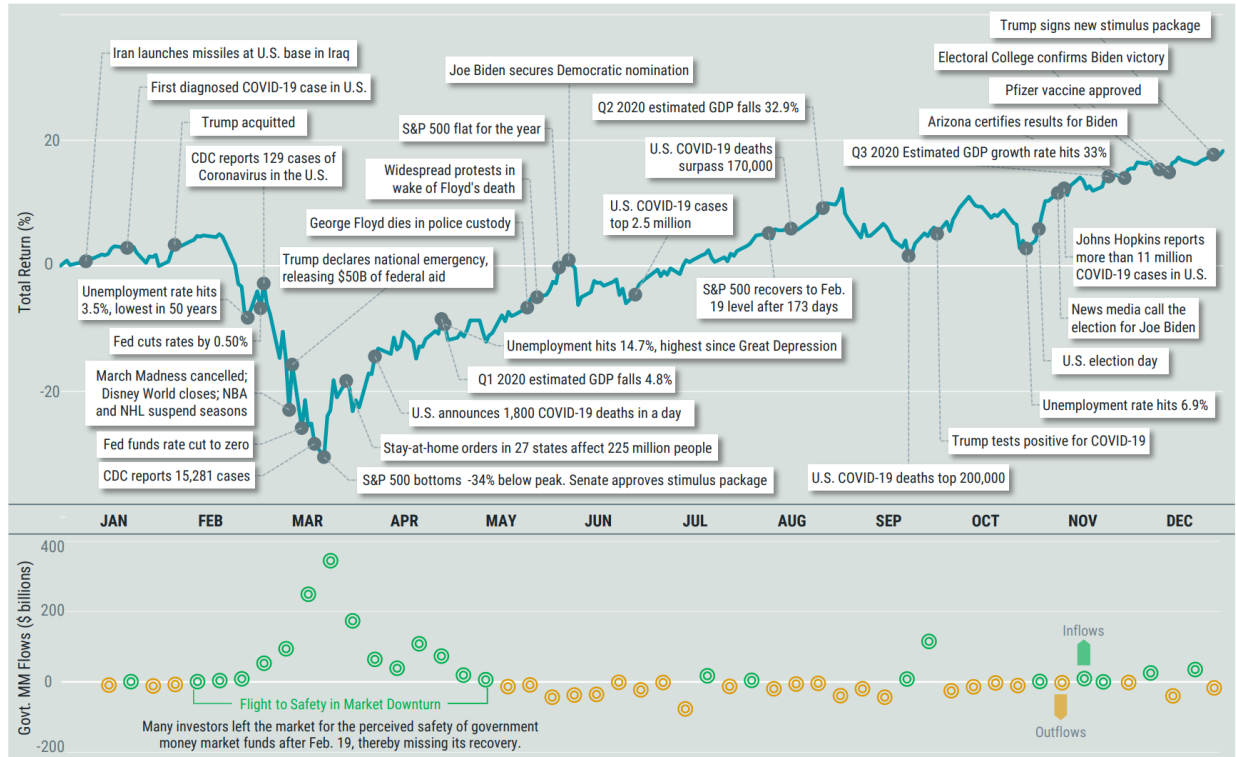
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2. MSCI data © MSCI 2021, all rights reserved. Indices are not available for direct investment.



Exhibit 1. Highs and Lows (Courtesy of Avantis Investors)

# As Much of 2020 That Fits on One Page

S&P 500® Index Cumulative Total Return, Headlines, and Weekly Government Money Market Flows During 2020



Past performance is no guarantee of future results.

Data from 1/1/2020 – 12/31/2020. Source: ICI, FactSet, Avantis Investors

Disclosures

- Centers for Disease Control and Prevention (CDC): The U.S. federal agency charged with protecting the nation from health, safety and security threats. It bases public health decisions on the highest quality scientific data.
- Federal Reserve (Fed): The U.S. central bank responsible for monetary policies affecting the U.S. financial system and the economy.
- Federal funds rate (Fed funds rate): An overnight interest rate banks charge each other for loans.
- Government money market fund: Mutual funds that invest in high-quality, short-term debt securities and pay dividends that generally reflect short-term interest rates. Many investors use money market funds to store cash or as an alternative to investing in the stock market. Government and retail money market funds try to keep their net asset value (NAV) at a stable \$1.00 per share using special pricing and valuation conventions.
- Gross domestic product (GDP): A measure of the total economic output in goods and services for an economy. S&P 500® Index: A market-capitalization-weighted index of the 500 largest U.S. publicly traded companies. The index is widely regarded as the best gauge of large-cap U.S. equities.



## Owning the Winners and Losers

The 2020 economy and market also underscored the importance of staying broadly diversified across companies and industries. The downturn in stocks impacted some segments of the market more than others in ways that were consistent with the impact of the COVID-19 pandemic on certain types of businesses or industries. For example, airline, hospitality, and retail industries tended to suffer disproportionately with people around the world staying at home, whereas companies in communications, online shopping, and technology emerged as relative winners during the crisis. However, predicting at the beginning of 2020 exactly how this might play out would likely have proved challenging.

In the end, the economic turmoil inflicted great hardship on some firms while creating economic and social conditions that provided growth opportunities for other companies. In any market, there will be winners and losers—and investors have historically been well served by owning a broad range of companies rather than trying to pick winners and losers.

## Sticking with Your Plan

Many news reports rightly emphasized the unprecedented nature of the health crisis, the emergency financial actions, and other extraordinary events during 2020. The year saw many “firsts”—and subsequent years will doubtless usher in many more. Yet 2020’s outcomes remind us that a consistent investment approach is a reliable path regardless of the market events we encounter. Investors who made moves by reacting to the moment may have missed opportunities. In March, spooked investors fled the stock and bond markets, as money-market funds experienced net flows for the month totaling \$684 billion. Then, over the six-month period from April 1 to September 30, global equities and fixed income returned 29.54% and 3.16%, respectively. A move to cash in March may have been a costly decision for anxious investors.

It was important for investors to avoid reacting to the dispersion in performance between asset classes, too, lest they miss out on turnarounds from early in the year to later. For example, small cap stocks on the whole fared better in the second half of the year than the first. The stark difference in performance between the first and second quarters across bond classes also drives home this point.

## A Welcome Turn of the Calendar

Moving into 2021, many questions remain about the pandemic, new vaccines, business activity, changes in how people work and socialize, and the direction of global markets. Yet 2020’s economic and market tumult demonstrated that markets continue to function and that people can adapt to difficult circumstances. The year’s positive equity and fixed income returns remind that, with a solid investment approach and a commitment to staying the course, investors can focus on building long-term wealth, even in challenging times.