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SIA

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INSIGHTS

QUARTERLY NEWSLETTER BRINGING YOU FINANCIAL INSIGHTS FROM THE LEADERS

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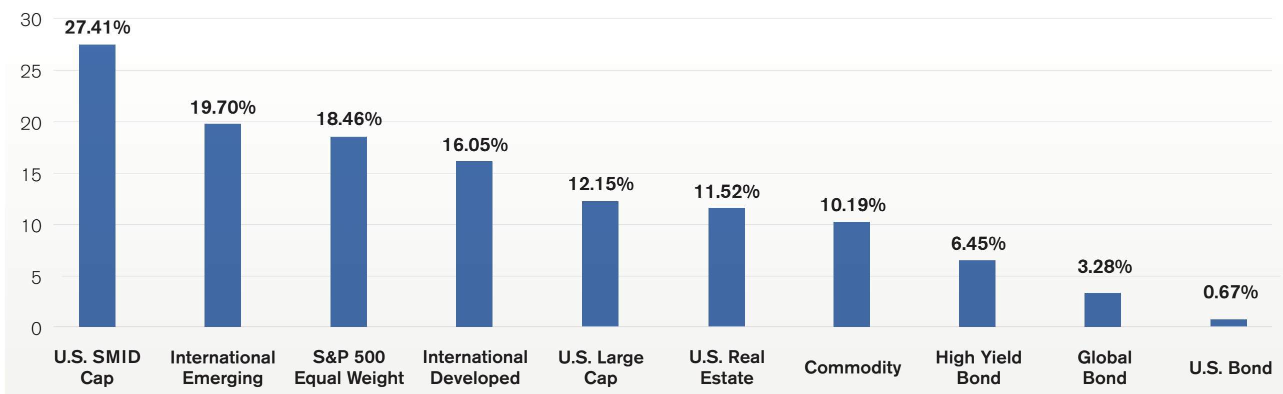
2020 Q4 INDEX RETURNS AS OF 12/31/2020



Source: Morningstar. Indexes cannot be invested in directly, are unmanaged and do not incur management fees, costs and expenses. For additional information, please refer to the Important Information section on page six.

"LOOKS LIKE WE MADE IT"

By Deron McCoy, *CFA®, CFP®, CAIA®* | **Chief Investment Officer**

Earlier in the year, we remarked how the phrase *"may you live in interesting times"* was certainly appropriate for 2020. It was most definitely not a normal year. In fact, 2020 turned out to be downright historic – with the past twelve months producing a litany of records including:

- The steepest quarterly GDP decline on record, only to be immediately followed by the largest quarterly gain.[1]
- A 50-year low in unemployment in February, followed just weeks later by a 90-year high in unemployment claims.[2]

- Record low interest rates – but not to be outdone, energy prices also set record lows and for a brief stint, even ventured into negative territory!
- Record setting wildfires alongside a record setting hurricane season.
- And of course, the terrible human healthcare tragedy of a historic global pandemic that unfortunately is still ongoing. Our hearts go out to everyone who has been personally affected by this virus.

As global capital markets navigated these various headwinds and shifting tailwinds—more records followed. The market swoon produced the swiftest stock market selloff in nearly 90 years, with the fastest 30% decline from a record high in history.[3] But the whiplash was sharp as markets took solace in another well-known maxim, *"this too shall pass."* The subsequent 100-day rebound was the largest since 1933, marking only the second time in history (1932) that stocks suffered a 20% quarterly decline followed by a 20% gain the next quarter.[4] Add in another 100 days which include a very strong Q4, and according to Bespoke Investment Group, it comprises the best 200-day bull market in history!

Speaking of Q4, it was just three short months ago that investors were contending with an ugly presidential debate, battles over a Supreme Court nomination, and a pandemic tearing through 1600 Pennsylvania Avenue directly effecting the President himself. At the time, we urged investors, no matter their political persuasion, to stay the course as the fourth quarter was historically the strongest quarter of the year.[5] True to form, the S&P 500® came through – posting another double-digit return (+12.15%*) for the second time this year, and the best Q4 performance since 2011 according to Bespoke Investment Group. To top it all off, the market even posted a new all-time high on the very last day of the year![6]

Leading U.S. equities in Q4 were Small Caps with an eye-popping 31.37%* gain—the sector's best quarter ever! The strong Q4 lifted the group out of negative territory for a year-to-date gain near 20%. In more normal times small caps outperform during a booming economy. And booming economies typically move in lockstep with higher interest rates which then move bond prices lower (normal considering that bonds typically serve as an offset or hedge to stocks and vice versa). But as mentioned, 2020 was certainly anything but normal. Nevertheless, it was strange to see this year's U.S. equity leader standing next to this year's U.S. fixed income leader—Long-Term Government Bonds. In fact, this year marked the first time since 1997 that both Small Caps and Long-Term Treasuries each posted a gain greater than 15% in the same calendar year[7]—another rather unique occurrence in a year that was filled with them.

EQUITY*

In late summer, our "Five Down, Five to Go" update urged investors to take profits in Mega Cap Growth stocks and to become more cyclical in the remaining five months of 2020 as potential news of a vaccine would eventually spur the reopening of America—and the rest of the world. It turned out that Q4 outperformers were indeed the cyclical/value/global/reopening stocks in a change from the secular/growth/US/work-from-home stocks that dominated earlier in the year. While U.S. Small Caps were the clear winner around the world, stocks overseas (+17.01%) actually outpaced the U.S. (+14.68%). Helping International equities was the fact that strength was widespread. Not only did both Emerging Markets (+19.70%) and Developed Markets (+16.05%) outperform, but so too did both major regions—the Pacific Rim (+19.24%) and Europe (+15.77%).

Within the U.S. the cyclical trend continued as Value (+17.21%) outpaced Growth (+12.41%); and the four cyclical sector stalwarts of Energy (+27.77%), Financials (+23.22%), Industrials (+15.68%), and Materials (+14.47%) all outperformed. Lagging the market were more defensive areas including Utilities (+6.54%) and Consumer Staples (+6.35%).

FIXED INCOME*

As was the case with equities, the more aggressive bond sectors tied to corporate America outperformed their defensive brethren. High Yield (+6.45%) and Bank Preferreds (+6.94%) outpaced more conservative areas tied to the government including Ginnie Mae Mortgages (+0.36%)

*For additional information, please refer to the Important Information section on page six.

and Treasuries (-0.83%) which actually lost ground in Q4, reversing large gains earlier in the year. Will that trend continue, or can the 2020 annual gain in Long-Term Treasuries be repeated here in 2021? Consider for a moment that the starting yield for 30-year Treasuries is now under 1.65%.[7] It would take another historic event to turn that sort of yield into a fifteen percent total return over the next twelve months. Yes, the Federal Reserve continues to buy government bonds. But the time may soon be upon us when investors start to shun an asset that locks in negative real yields (assuming a 2% rate of inflation) until 2050. Assets with an underlying income stream that either grow or float look to be a better bet for the next leg of the business cycle.

OUTLOOK

According to Bespoke, "The year that follows the first 200 trading days of bull markets has historically had a positive risk/reward setup. Of the 12 prior bull markets since WWII that lasted 200 trading days or more, the S&P 500 averaged a gain of 13.8% in the year after its first 200 trading days with gains all but once (1982 bull market)."

A roaring bull market? Low interest rates? A long awaited vaccine? A more friendly global trade policy out of Washington DC? A Congressional makeup that might increase fiscal stimulus yet curtail more aggressive policies that could thwart corporate earnings growth? Wow! What could go wrong?

Not to dampen the party, but unfortunately most investors and most of Wall Street already feel this way. In other words, they've already allocated more aggressively towards stocks. Although overall bullishness seems like a comforting indicator, it's actually a contrarian one. Just think about it—if everyone has already bought stocks, where's the next wave of investors going to come from to push prices higher? If everyone is in the pool, the party is probably closer to the end than the beginning. While we don't believe the stock market is in imminent danger, we are mindful of indicators signaling excessive froth, excessive bullishness, and overall sentiment that might suggest more muted future returns. More muted perhaps, but history suggests additional gains are in store as the economy continues to recover from one of the nastiest years on record.

However, we still need to be mindful that the virus is running rampant in many parts of the country. Here in California, some are even projecting the state will see more Covid-related deaths in 2021 then the collectively hated 2020. Argh. Perhaps it's six months too early, but in keeping with the overall optimistic spirit of the New Year, another phrase comes to mind. I can't confess to being much of a Barry Manilow fan and don't know the actual lyrics, but his now 44-year-old hit tune seems a fitting description of the way most of us feel heading into 2021. *"Looks like we made it!"* Happy New Year!!!

	INDICES	Q4 2020	TRAILING 12 MONTHS
Stocks	Global Equity	14.68%	16.25%
	U.S. Large Cap (S&P 500)	12.15%	18.40%
	U.S. Small Cap (Russell 2000)	31.37%	19.96%
	International Developed Markets	16.05%	7.82%
	International Emerging Markets	19.70%	18.31%
Bonds	Global Bond	3.28%	9.20%
	U.S. Core (High Quality)	0.67%	7.51%
	U.S. High Yield (Low Quality)	6.45%	7.11%
	International Aggregate	5.09%	10.11%
	Emerging Market Debt (USD)	4.50%	6.52%
Alts	Gold	-0.02%	24.42%
	Oil	20.64%	-20.54%
	Commodity	10.19%	-3.12%
	Master Limited Partnerships	32.45%	-28.69%
Cash	Inflation	0.01%	1.30%
	Cash (3-month T-bills)	0.03%	0.55%
	U.S. Dollar Index	-4.21%	-6.08%

Source: Morningstar. Data as of 12/31/2020. Indexes cannot be invested in directly, are unmanaged and do not incur management fees, costs and expenses. For additional information, please refer to the Important Information section on page six.

IMPORTANT INFORMATION

ASSET CLASS/SECTOR	INDEX NAME	LAST MONTH	LAST QUARTER	TRAILING 12 MONTHS	YEAR TO DATE	INDEX DEFINITION
U.S. SMID Cap	Russell 2500 TR	7.61%	27.41%	19.99%	19.99%	Index based on 2500 smaller US companies ranked by size (or, Russell 3000 which measures 98% of US market cap less the S&P 500 names).
International Emerging	MSCI EM NR	7.35%	19.70%	18.31%	18.31%	Index comprised of large and mid-cap stocks across 26 Emerging Market countries.
S&P 500 Equal Weight	S&P 500 Equal Weighted TR	4.27%	18.46%	12.83%	12.83%	Index based on 500 large US companies ranked equally.
International Developed	MSCI EAFE NR	4.65%	16.05%	7.82%	7.82%	Index comprised of large and mid-cap stocks across Developed Markets around the world, excluding US and Canada.
U.S. Large Cap	S&P 500 TR	3.84%	12.15%	18.40%	18.40%	Index based on 500 large US companies ranked by market capitalization (size).
U.S. Real Estate (REIT's)	MSCI US REIT GR	3.35%	11.52%	-7.57%	-7.57%	Index comprised of equity REITS including industrial, mortgage, office, residential, retail, specialized and diversified REITS.
Commodities	Bloomberg Commodity TR	4.97%	10.19%	-3.12%	-3.12%	Index tracks price of basket of commodities including energy, grains, industrial metals, precious metals, softs (sugar, coffee and cotton) and livestock.
U.S. High Yield (Low Quality)	Barclays US Corporate High Yield TR	1.88%	6.45%	7.11%	7.11%	Index comprised of U.S. non-investment grade corporate bonds.
Global Bonds	Barclays Global Aggregate TR	1.34%	3.28%	9.20%	9.20%	Index is comprised of global investment grade bonds from twenty-four Developed and Emerging local currency markets.
U.S. Core Bond (High Quality)	Barclays US Aggregate Bond TR	0.14%	0.67%	7.51%	7.51%	Index comprised of U.S. government and investment grade corporate bonds. 45% of index is government related.
U.S. Small Cap	Russell 2000 TR	8.65%	31.37%	19.96%	19.96%	Index based on 2,000 small U.S. companies ranked by market capitalization (size).
International Equity	MSCI ACWI Ex USA NR	5.41%	17.01%	10.65%	10.65%	Index tracks the performance of publicly traded large- and mid-cap stocks of companies in 22 Developed and 26 Emerging Markets.
U.S. Stocks	Russell 3000 TR	4.50%	14.68%	20.89%	20.89%	Index based on 3,000 companies representing approximately 98% of the investable U.S. equity market.
Pacific Rim	FTSE Developed Asia Pacific NR	6.11%	19.24%	16.07%	16.07%	Index comprised of large and mid cap stocks providing coverage of the developed markets in Asia Pacific.
Europe	FTSE Developed Europe NR	4.89%	15.77%	6.05%	6.05%	Index comprised of large and mid cap stocks providing coverage of the developed markets in Europe.
Value	Russell 3000 Value TR	4.09%	17.21%	2.87%	2.87%	Index comprised of the broad value segment of U.S. equity value universe.
Growth	Russell 3000 Growth TR	4.89%	12.41%	38.26%	38.26%	Index comprised of the broad growth segment of the U.S. equity growth universe.
Energy	S&P 500 Sec/Energy TR	4.40%	27.77%	-33.68%	-33.68%	Index comprised of those companies included in the S&P 500 that are classified as members of the GICS energy sector.
Financials	S&P 500 Sec/Financials TR	6.28%	23.22%	-1.69%	-1.69%	Index comprised of those companies included in the S&P 500 that are classified as members of the GICS financials sector.
Industrials	S&P 500 Sec/industrials TR	1.20%	15.68%	11.06%	11.06%	Index comprised of those companies included in the S&P 500 that are classified as members of the GICS industrials sector.
Materials	S&P 500 Sec/Materials TR	2.54%	14.47%	20.73%	20.73%	Index comprised of those companies included in the S&P 500 that are classified as members of the GICS materials sector.
Utilities	S&P 500 Sec/Utilities TR	0.70%	6.54%	0.48%	0.48%	Index comprised of those companies included in the S&P 500 that are classified as members of the GICS utilities sector.
Consumer Staples	S&P 500 Sec/Cons Staples TR	1.78%	6.35%	10.75%	10.75%	Index comprised of those companies included in the S&P 500 that are classified as members of the GICS consumer staples sector.
Preferreds	S&P Preferred Stock TR	2.63%	6.94%	7.97%	7.97%	Index is comprised of U.S. traded preferred stocks that meet criteria relating to minimum size, liquidity, exchange listing, and time to maturity.
Ginnie Mae Mortgages	Barclays GNMA TR	0.18%	0.36%	3.68%	3.68%	Index measures the performance of mortgage-backed securities issued by GNMA.
Treasuries	Barclays US Treasury TR (1987)	-0.23%	-0.83%	8.00%	8.00%	Index measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury.
Global Equity	MSCI ACWI NR	4.64%	14.68%	16.25%	16.25%	Index comprised of large and mid-cap stocks across 23 Developed and 26 Emerging Market countries.
International Aggregate	Barclays Global Aggregate Ex USD TR	2.17%	5.09%	10.11%	10.11%	Index provides a broad-based measure of the global investment-grade fixed income markets.
Emerging Market Debt (USD)	Barclays Emerging Market USD Aggr TR	1.52%	4.50%	6.52%	6.52%	Index is a flagship hard currency EM debt benchmark that includes USD-denominated debt from sovereign, quasi-sovereign, and corporate EM issuers.
Gold	S&P GSCI Gold Spot	6.41%	-0.02%	24.42%	24.42%	Index provides investors with a reliable and publicly available benchmark tracking the COMEX gold future.
Oil	S&P GSCI Crude Oil Spot	7.01%	20.64%	-20.54%	-20.54%	Index that provides investors with a reliable and publicly available benchmark for investment performance in the crude oil market.
Master Limited Partnerships	Alerian MLP TR	2.51%	32.45%	-28.69%	-28.69%	Index is calculated using a float-adjusted, capitalization-weighted methodology, and is disseminated real-time on a price-return basis (AMZ) on a total-return basis.
Inflation	Ibbottson SBBI US Inflation	0.03%	0.01%	1.30%	1.30%	Index provides a measure of US inflation rates.
Cash (3-month T-bills)	Barclays Cash Composite TR	0.01%	0.03%	0.55%	0.55%	Index comprises a composite of short-term (1-3 month) treasury bills.
U.S. Dollar Index	Deutsche Bank Long US Dollar TR	-2.06%	-4.21%	-6.08%	-6.08%	Index that reflects the return from investing in the first USDX future contact listed on NYBOT.

Source: Morningstar. Data as of 12/31/2020. Indexes cannot be invested in directly, are unmanaged and do not incur management fees, costs and expenses.

SECTOR	DEFINITION
Stocks	Investments in stocks of small companies involve additional risks, typically have a higher risk of failure, and are not as well established as larger blue-chip companies. Historically, smaller-company stocks have experienced a greater degree of market volatility than the overall market average.
Alternatives	Investors should be aware that there are risks inherent in all investments, such as fluctuations in investment principal. Alternative investment strategies do not assure a profit, cannot protect against losses, and may involve additional risk.
International	Non-U.S. securities markets involve possibly greater risk of political instability and greater currency risk in addition to having been more volatile. These risks can be accentuated in emerging markets.
Commodities	The price of commodities, such as gold and currency, is subject to substantial price fluctuations of short periods of time and may be affected by unpredictable international monetary and political policies. The market for commodities and currency is widely unregulated and concentrated investing may lead to higher price volatility. Foreign currency trading carries a high level of risk and can result in loss of part or all of your investment.
Bonds	In general, the bond market is volatile as prices rise when interest rates fall and vice versa. This effect is usually pronounced for longer-term securities. Any fixed income security sold or redeemed prior to maturity may be subject to a substantial gain or loss.
Low Quality	Lower rated debt securities, sometimes called junk bonds, carry increased risks of price volatility, illiquidity, and the possibility of default in the timely payment of interest and principal.
Treasury	Treasuries are debt securities issued by the United States government and secured by its full faith and credit. Income from treasury securities is exempt from local and state taxes.

Endnotes: 1 Federal Reserve Economic Data (FRED) 2 APNews 3 CNBC 4 NY Times 5 Bespoke Investment Group 6 Business Insider 7 Bloomberg data