Market Review and Outlook

4Q2020

Risk assets continued to rebound in the fourth quarter and finished the year in strong positive territory. 2020 was a tumultuous year, categorized by historical highs and lows. The emergence of the COVID-19 virus during the first quarter led to the fastest bear market in history followed by a swift market recovery as the Federal Reserve (Fed) and governments provided unprecedented stimulus. A contentious US Presidential Election and an uptick in new infection rates led to increased market volatility during the second half of the year, but the emergence of a COVID-19 vaccine, additional fiscal stimulus, and an accommodative Fed helped markets rally during the fourth quarter. As we enter 2021, optimism is high that we are coming closer to containing the virus but there will likely be setbacks as pockets of additional lockdowns may occur before the vaccine can be widely distributed.

The S&P 500 Index (S&P 500) gained 12.2% in the fourth quarter and reached a new record high. For the year, the S&P 500 gained 18.3%, despite declining -34% from peak to trough in March. Information technology (+43.5%) was the top-performing sector for the year, supported by the shift to virtual learning and work from home mandates. Likewise, consumer discretionary (+33.0%) experienced tailwinds from pent-up demand when economies began reopening. Energy (-33.5%) faced the largest challenges during the year due to unfavorable supply/demand dynamics but the sector experienced a strong rebound, gaining 27.8% in the fourth quarter. Financials (-1.7%) faced headwinds when the Fed effectively cut interest rates to zero, but the sector gained 23.2% during the fourth quarter, helped by a steepening yield curve. From a style perspective, we saw a rotation in leadership with value outperforming growth and small cap equities outpacing large and mid cap equities during the fourth quarter. However, growth-oriented assets and large cap equities maintained leadership for the year.

The MSCI EAFE Index gained +16.1% for the fourth quarter, outpacing US equities. Year-to-date the index is up +8.2%. Similar to the US, new infection rates rose significantly during the fourth quarter and forced a new wave of lockdown measures to mitigate the virus spread. However, increased stimulus measures during the quarter helped boost markets. Central banks including the European Central Bank and Bank of England increased the number of planned asset purchases and European Union governments reached an agreement to provide additional fiscal stimulus to support economies until the virus is contained. Emerging markets had an exceptional fourth quarter with the MSCI Emerging Markets Index gaining 19.8%. Year-to-date the index is up 18.5%. The economic recovery in China, a weakening US dollar, and a pick-up in global trading activity served as catalysts for the strong performance within the region.

Investment-grade fixed income, as measured by the Bloomberg Barclays US Aggregate Index, gained 0.7% in the fourth quarter and 7.5% for the year. Strong performance during the year was largely attributed to the flight of safety that occurred during the first quarter and the Fed's decision to expand its asset purchase program which helped maintain a floor on corporate bond prices. The 10-year Treasury yield rose slightly during the fourth quarter to end the year at a level of 0.92%. High-yield credit spreads drastically contracted 740 basis points from their March peak, generating attractive returns for the sector. Municipals outpaced treasuries in the fourth quarter but lagged for the year.

As we enter 2021, we remain positive on risk assets and constructive on the economic recovery. The development of the COVID-19 vaccine has created a potential endpoint for the pandemic, and we expect the reopening of the economy to accelerate as the vaccine becomes more widely available. The Federal Reserve remains extremely accommodative and additional fiscal support is likely from the Biden administration in the coming months. While the Democratic sweep increases the odds for tax increases and a more stringent regulatory environment, both potential negatives for financial markets, we believe the focus will remain on defeating the COVID-19 virus before any sweeping policy changes are made. Given these factors, our overall outlook tilts positive which argues for a modest bias toward risk assets over the near term. We remain vigilant in assessing opportunities and positioning appropriately to take advantage of the compelling opportunities through our active multi-asset class approach.

Brinker Capital Market Barometer

SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum				●	Market momentum remains solid and has improved recently
Trend				●	Market trend positive; US markets above 50-day and 200-day moving averages
Investor sentiment		●			Surveys and other sentiment measures pointing toward excess optimism
Seasonality	←		●		Entering relatively weaker seasonal period post election

INTERMEDIATE-TERM FACTORS (6-36 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Fiscal policy				●	Additional fiscal stimulus likely in near-term with Democratic sweep
Monetary policy				●	Fed and global central banks remain supportive
Inflation				●	Inflation at low levels but watch for increasing inflation expectations
Interest rate environment				●	Treasury yields remain low but biased higher; yield curve to steepen
Macroeconomic			●		Macroeconomic data has improved; recovery will be driven by vaccine/reopening
Business sentiment			●		Both CEO confidence and small business confidence surveys have improved
Consumer sentiment		●			Consumer confidence measures declined in 4Q2020
Corporate earnings			●		Expect improvement in earnings growth to continue in 4Q2020
Credit environment				●	Credit environment is stable; spreads continue to tighten

LONG-TERM FACTORS (36+ months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Valuation		●			Equity valuations above long-term averages but not a near-term driver
Business cycle			●		US exited recession that began in February; recovery uneven in short term
Demographics			●		Mixed - US and emerging markets positive but developed international negative

Source: Brinker Capital. Information accurate as of January 11, 2021.