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LLC

# Quarterly Market Review



# Q4

Fourth Quarter 2020

# Economy

## Monetary Policy



### What's Happening:

In 2020, the Federal Reserve provided unprecedented amount of support and liquidity to both the US and Global financial systems, lowering short term rates to zero, setting up special lending facilities to increase liquidity, and compressing long term rates through the purchasing of trillions of dollars' worth of government and corporate bonds. Indicating its intention to keep rates steady for the next couple of years, the Fed updated its language to incorporate flexibility around its 2% inflation target\*.

### What does this mean?

The Fed has shown the willingness to do everything in their power to maintain credit and liquidity in the financial system. These actions have provided an immense backstop to the risk markets, subsequently transforming a bear market sell off into a bull market rally. The responding conditions have created a wide dichotomy between public and private enterprises, as small business directly affected by social distancing measures have suffered while industries with the flexibility to work remotely or connected to capital markets thrived. As with all broad based measures, there will most likely be unintended consequences and moral hazards.



# Economy

## Fiscal Policy



### What's Happening:

The US government has passed a number of legislative acts in as a response to the coronavirus pandemic throughout the year:

- Coronavirus Preparedness and Response Supplemental Appropriations Act
- Families First Coronavirus Response Act
- The Coronavirus Aid, Relief, and Economic Security (CARES) Act
- Paycheck Protection Program and Health Care Enhancement Act
- HEROES Act

The net total of the programs equates to over 10% of US GDP (Figure 1)

### What does this mean?

The response has helped alleviate the immediate impact on social distancing protocols. Emergency funds have been provided to small businesses, displaced workers, as well as support to health care workers, state medical care, and pharmaceutical companies to research vaccines.

## Geopolitics



### What's Happening:

Donald Trump has joined a short list of one term presidents, helped by a worldwide pandemic that has created major disruptions in US lives coupled with a divisive rhetoric and governing style. With a backdrop of the social upheaval of the summer, 2019's trade disputes with China have taken a backseat to domestic change.

### What does this mean?

The general consensus is a Biden administration will usher in a "normalization" in foreign relationships, as well as a more progressive stance on policy at home. Time will tell if there will be enough votes to push through the most far-reaching agendas on taxes, health care and climate change, but the administration will face new challenges with a more proactive and belligerent China.



# Economy



## What's Happening:

After enjoying sub 3.5% employment, the current crisis witnessed a rapid rise in unemployment peaking at almost 15% (higher than during the Great Financial Crisis). There has been a recovery in reported unemployment, with the latest numbers falling to around 6.7%\*\* . The second quarter saw a historic contraction in GDP of 31.4%\*\*\* (revised from negative 34%). With a strong rebound in over the summer, third quarter GDP growth hit 33.4%, with projections of a further 8.9% expansion in the fourth quarter\*\*\*\*.

## What does this mean?

The shutdown had major impact on transportation, entertainment and hospitality industries. There has also been a major shift in the way people have adapted to the pandemic, with an emphasis on remote working and learning instead of traditional campus and office life for a large segment of the population. As in all crisis, there have been winners and losers, and an acceleration of longer term trends.

# Markets



## Equity

After the sharp selloff in March, the equity markets had a strong year with the S&P 500 gaining 18.4%, MSCI EAFE returning 8.28% and MSCI Emerging Markets up 18.69%. Following the US Election and positive news on a vaccine, the markets continued to surge through the end of the year, led by small capitalization and cyclical companies, along with emerging markets.

## Fixed Income

Interest rate have drifted up as hope for a vaccine, combined with expectations for continued spending from the government, in government bonds, but credit spreads have remained tight. Even though corporate and municipal bond defaults rates have increased steadily throughout the year, yields have not been reflective of the additional risk.



# Current Strategy

## Reasons To Be Optimistic



In historic fashion, the accelerated development of COVID-19 vaccines provides a window to a more normal life. Although the impact has been profound, the coordinated reaction by central banks and the federal government have been equally unprecedented. The change in the Presidency also brings hope of normalized relations internationally, as well as increased focus on providing the means to repair the damage of the last 9 months.

## Reasons To Be Cautious



Markets tend to discount future events, and although we have begun administering vaccines the effectiveness is not a given, and the time to dispense enough vaccines to eliminate the spread of the virus is still unknown. Also with the change of office, the potential switch in Washington from a business first agenda may have long term implications to corporate profitability. Given the low interest rates, stretched equity valuations can be justified, but a future inflationary environment has the potential to reverse the present economic state.



# Current Strategy

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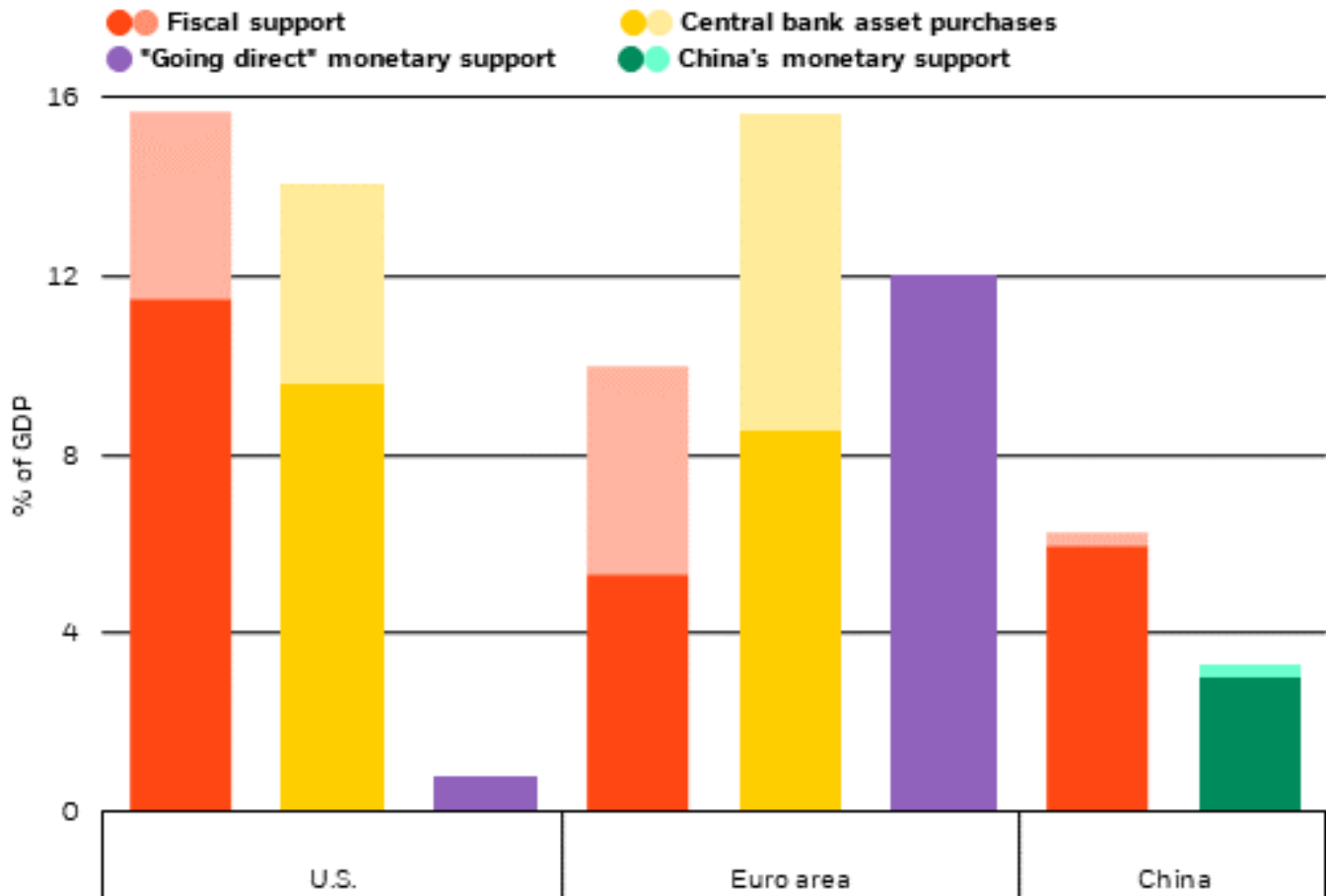


For our advisory clients, we have made changes to our models by reducing our exposure to market capital weighted indices to overweight companies experiencing continued growth, as well as tactically adding to Technology, Medical, and Financial sectors. We also reduced our allocations to core government bonds, adding to 5 year Inflation Protected Treasuries, Investment Grade Corporate and High Yield Bonds. We reduced our allocation to alternative strategies, while increasing our exposure to precious metals. These changes are in response to the low interest rate environment, along with the stimulative efforts by Central Banks of US Government to increase market liquidity and fuel the economy during the pandemic.



(Fig 1)

## Estimated fiscal and monetary support in key economics, 2020 and 2021



Source: [https://www.blackrock.com/us/financial-professionals/insights/weekly-commentary?cid=emc:MIAT:FA:ENL:US:NA&elq\\_mid=53058&elq\\_cid=192517&elq\\_cmp=17622#latest-commentary](https://www.blackrock.com/us/financial-professionals/insights/weekly-commentary?cid=emc:MIAT:FA:ENL:US:NA&elq_mid=53058&elq_cid=192517&elq_cmp=17622#latest-commentary)

\* <https://www.wsj.com/articles/fed-signals-interest-rates-to-stay-near-zero-through-2023-11600279214>

\*\* <https://www.bls.gov/news.release/pdf/empst.pdf>

\*\*\* <https://www.bea.gov/data/gdp/gross-domestic-product>

\*\*\*\* <https://www.frbatlanta.org/cqer/research/gdpnow>

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The Standard & Poor's 500 Index is a capitalization weighted index of top 500 stocks representing all major industries. The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. The MSCI EM (Emerging Markets) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the emerging market countries of the Americas, Europe, the Middle East, Africa and Asia. All indices are unmanaged and may not be invested into directly.

The economic forecasts set forth may not develop as predicted. International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price. No strategy assures success or protects against loss and there is no guarantee that their objectives will be met.

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