Market Perspective

Q1 2021

All data and information as of December 31, 2020
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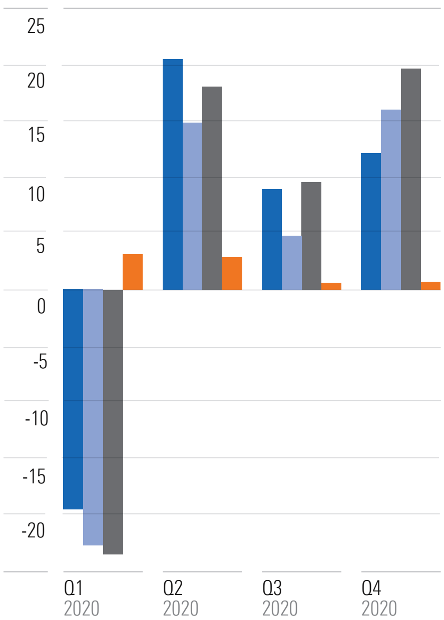
Morningstar Investment Management LLC



Returns %	Q1 2020	Q2 2020	Q3 2020	Q4 2020
U.S. Stocks				
S&P 500	-19.60	20.54	8.93	12.15
International Stocks				
MSCI EAFE	-22.83	14.88	4.80	16.05
Emerging Markets				
MSCI Emerging Mkts	-23.60	18.08	9.56	19.70
Bonds				
BBgBarc U.S. Agg.	3.15	2.90	0.62	0.67

Is 2020 Really Over?!

The holidays are a wonderful time of year, and I hope you've made the best of it! Most early-year messages are full of hope; this one is, too, but I want to start with some depressing statistics.

1.6 million People who've died from COVID-19 globally[1]
70 million Confirmed global coronavirus cases[1]
60 million U.S. jobs lost in 2020[2]
300,000 U.S. coronavirus deaths[1]
2 billion World Health Org's vaccine dose goal for 2021[3]
2 Doses needed per person for many vaccines
7.8 billion World population in 2020[4]

In short, I think these statistics remind us that this virus is serious and will continue to create uncertainty for markets and the economy. We just don't know for sure when bustling—or normal—life may return. Still, with the vaccines coming and the turmoil of the presidential election behind us, there's reason for optimism, and that optimism has helped move markets higher. We certainly expect to see improvements in 2021—lower spread rates, fewer deaths—which should lead to fewer restrictions. That should in turn boost the economy and … lead to additional stock market gains?

Unpredictable in the Short Run

Not necessarily so. U.S. stocks have made big gains in 2020 since the trough in March, despite rolling COVID-related lockdowns and slow economic recovery. That doesn't mean that if recovery should accelerate, stocks will rise more. In fact, if the good news isn't as good as investors are expecting today, it could actually lead to short-term declines in the future, such is the forward-looking nature of markets.

If, like me, thinking about the stock market in the short term gives you a headache, take heart. We believe investors are best served by ignoring short-term moves. Behavioral science tells us that we are hard-wired to put more faith and trust in what's happened recently than what we might expect over the long term. Behavioral scientists call this "recency bias," and it can become dangerous when we can't move back and observe the bigger picture.

[1]https://coronavirus.jhu.edu/
[2]https://www.forbes.com/sites/jackkelly/2020/10/27/us-lost-over-60-million-jobs-now-robots-tech-and-artificial-intelligence-will-take-millions-more/?sh=457f56411a52
[3]https://in.news.yahoo.com/coronavirus-eyeing-half-billion-vaccine-051302678.html
[4]https://www.worldometers.info/world-population/

Valuations in Focus

As your professional money managers, my team and I look carefully at each investment's valuation, which is just a fancy word for what we think it's worth. How can you know what something's worth? It's not an exact science, but it's not magic, either. Consider this example, which is a take on one that Warren Buffett uses. Imagine you're a farmer and your neighbor comes out every day and announces to anyone who'll listen the price at which she'll sell her land. Her farm is the same size as yours, same quality, and grows the same crops. You know how much you make every year from your farm, so presumably the purchase price must take that into consideration. Who would pay the same price for two farms if one produces $100,000 in annual income while the other produces $10,000? Sure, sometimes prices get overheated, sometimes they get depressed, but somewhere in the middle is the "fair price" of the land.

Now imagine one day your neighbor's announced sale price is half the amount you think your farm is worth. If you were to buy it, you might expect to a) get the annual income from it, same as with your farm; and b) eventually sell the farm (if you want) for twice what you paid. If prices are depressed today, it might take awhile to get that fair price, but you'd be paid to wait by the annual income from the property.

More Predictable in the Long Run

Stocks and other investments are similar to the farms in this example. Investments produce cash flows (like farming income), and we use those cash flows to determine a fair price for each asset. Then, as you would if you were the farmer, we look to buy assets attractively and sell or avoid assets priced richly.

We do all of this with a focus on the long term—we expect prices to revert to a "fair" level eventually. Until they do, we try to be patient and collect the income an investment provides.

Today, we view many asset classes as being unattractively priced, so a weakening pandemic might not push markets higher. But we do see some value out there—some assets selling below their fair prices—and a recovering economy certainly is good news for the long-term health of stocks. Some of those opportunities are at home here in the U.S.; we continue to find financial stocks attractively priced, for example. Other opportunities are abroad; we consider segments of emerging-markets stocks, and particular countries such as Mexico, appealing valuation opportunities.

Looking at 2021, we can't see the future with a crystal ball, but valuations give us an idea of what investments might eventually produce strong returns. Fortunately, we can ignore all of the short-term noise—when vaccines will be released, what the latest jobs report looks like, or whether schools will reopen or stay closed—and stay focused on providing long-term returns to our investors. We suggest you stay focused on the financial plan your advisor has helped you create. Doing these things should give us hope, not only for a better 2021 but for the long haul!

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S&P 500 Index—An index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. The S&P 500 is a market value weighted index.

MSCI EAFE Index (Europe, Australasia, Far East)—A free float-adjusted market capitalization index designed to measure the equity market performance of developed markets, excluding the U.S. & Canada.

Bloomberg Barclays U.S. Aggregate Index—A market value weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities, with maturities of at least one year.

MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.