

HAYES ASSET MANAGEMENT LLC



Quarterly Insights – January 2021

S&P 500 Total Returns by Month in 2020											
Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
-0.16%	-8.41%	-12.51%	12.68%	4.53%	1.84%	5.51%	7.01%	-3.92%	-2.77%	10.75%	3.71%

US Equity Indexes	Q4 Return	2020 Return
S&P 500	12.15%	18.40%
DJ Industrial Average	10.73%	9.72%
NASDAQ 100	13.09%	48.88%
S&P MidCap 400	24.24%	13.10%
Russell 2000	31.37%	19.96%

Commodity Indexes	Q4 Return	2020 Return
S&P GSCI (Broad-Based Commodities)	14.49%	-23.72%
S&P GSCI Crude Oil	20.64%	-20.14%
GLD Gold Price	0.70%	24.81%

US Bond Indexes	Q4 Return	2020 Return
BBgBarc US Agg Bond	0.67%	7.51%
BBgBarc US T-Bill 1-3 Mon	0.02%	0.54%
ICE US T-Bond 7-10 Year	-1.30%	10.00%
BBgBarc US MBS (Mortgage-backed)	0.24%	3.87%
BBgBarc Municipal	1.82%	5.21%
BBgBarc US Corporate Invest Grade	3.05%	9.89%
BBgBarc US Corporate High Yield	6.45%	7.11%

We hope this letter finds you safe and healthy during these still-unprecedented times.

The most tumultuous year in recent memory ended on a high note for markets as the fourth quarter brought political and medical clarity, and that resulted in substantial market gains over the past three months which helped to make 2020 a surprisingly strong year for market returns.

The fourth quarter started with investors facing substantial uncertainty across multiple fronts. Politically, President Trump contracted COVID-19 which underscored the prevalence of the virus and added further uncertainty to the looming election. Regarding the pandemic, after several months of relative stability in COVID-19 cases, infections began to rise rapidly across much of the United States as fall set in. Additionally, despite multiple rounds of negotiations, Congress and the White House were unable to come to a compromise on a new economic stimulus bill. That uncertainty weighed on markets in October, and the S&P 500 finished the month with modest losses.

But the first two weeks of November provided the clarity markets desired, and that paved the way for substantial gains in stocks over the next month. First, the presidential election was executed successfully, and while there were multiple accusations of election fraud and numerous legal challenges brought by the Trump campaign, Joe Biden was widely accepted as the winner and President-elect. Furthermore, it appeared that Republicans would continue to hold a small majority in the Senate, potentially ensuring a market-friendly, divided government for the next two years.

Then, on Monday, November 9, less than a week after the election, Pfizer announced that its COVID-19 vaccine was more than 90% effective at preventing infection, which was substantially better than initial estimates. A week later, Moderna announced its COVID-19 vaccine was 95% effective at preventing infection. This double dose of positive medical news provided hope for investors that the end of the pandemic was now only months away, and that fueled a strong rally that lasted for the remainder of the month, sending the S&P 500 to new all-time highs.

As we began December, the consistency of the good news in November helped investors look past the surging number of new COVID-19 cases and the growing intensity of lockdown measures implemented across the country to slow the spread of the virus. But by mid-December, New York City school closures and new dining restrictions, along with a near state-wide “Safer at Home” order in California, began to weigh on economic activity and that became a headwind on stocks. Shortly thereafter, however, the FDA approved the distribution of both the Pfizer and Moderna vaccines, and the roll out of the vaccine helped to remind investors that the end of the pandemic was hopefully only months away. As such, the surging number of coronavirus cases and widespread economic lockdowns did not cause a material decline in stocks. Finally, just before the end of the year, Congress approved a \$900 billion stimulus bill that would help support the economy as it continues to recover from the pandemic. That news helped the S&P 500 hit a new all-time high just before year-end.

In sum, markets ended a historic year on a high note, as federal economic support, record-breaking vaccine development, and an incredibly resilient corporate America helped to more than offset the worst global pandemic in more than a century.

[4th-Quarter and Full-Year 2020 Performance Review](#)

All the major U.S. stock indices were solidly higher in the fourth quarter, led once again by the tech-heavy Nasdaq, which mildly outperformed on still-lingering concerns about near-term economic growth following the surge in COVID-19 cases into year-end. But the Nasdaq outperformance was minor relative to earlier in the year, and the S&P 500 and Dow Jones

Industrial Average also posted solidly positive quarterly returns. On a full-year basis, however, the Nasdaq handily outperformed the other two large-cap indices in 2020 as investors sought the secular growth potential of the tech sector amidst macroeconomic uncertainty.

By market capitalization, small caps substantially outperformed large caps in the fourth quarter, and those late year gains helped small caps to slightly outperform large caps in 2020. Through the first three quarters of 2020, large-cap stocks outperformed small caps due to investor concerns about future economic growth during and after the pandemic, as large caps are historically less sensitive to an economic slowdown than small-cap stocks. However, that outperformance was reversed during the last three months of the year on vaccine optimism, more stimulus from Congress, and a reiteration of very accommodative monetary policy from the Fed for years to come.

From an investment style standpoint, value outperformed growth for the first time in 2020 during the fourth quarter. The outperformance by value stocks underscored investor optimism for an economic rebound in 2021, again, courtesy of multiple COVID-19 vaccines and more economic stimulus. For the full year, however, growth massively outperformed value due to strength in the tech sector.

On a sector level, all 11 S&P 500 sectors finished the fourth quarter with positive returns. Cyclical sectors, including energy, financials, industrials, and materials led markets higher over the past three months, which was a reversal from the underperformance those sectors saw throughout the first three quarters of 2020. The familiar influences of vaccine optimism and stimulus hopes were the primary drivers behind the cyclical outperformance in the fourth quarter. For 2020, however, the tech sector was, by far, the best-performing sector in the market as investors flocked to tech stocks that were viewed as beneficiaries of numerous pandemic-related changes in behavior, including substantial increases in online shopping and work from home.

Sector laggards in the fourth quarter were the traditionally defensive market sectors. Utilities, real estate, and consumer staples underperformed the S&P 500 on the prospects of a strong economic rebound. On a full-year basis, energy was the biggest laggard amid the threat that slowing global growth might result in a historic glut in oil inventories worldwide. Energy shares finished 2020 with sizeable losses, despite the big rebound in the fourth quarter.

Looking internationally, foreign markets saw positive returns in the fourth quarter thanks to the combination of the European Central Bank increasing its pandemic-related QE program, Brexit clarity, and general optimism that vaccine distribution would result in a future rebound in global economic growth. Emerging markets outperformed foreign developed markets and the S&P 500 in the fourth quarter thanks to a substantially weaker U.S. dollar along with an improving outlook for the global economy. For the full year 2020, foreign markets registered solidly positive returns, with emerging markets outperforming thanks to the aforementioned decline in the U.S. dollar. However, foreign developed markets underperformed the S&P 500 last year.

International Equity Indexes	Q4 Return	2020 Return
MSCI EAFE TR USD (Foreign Developed)	16.09%	8.28%
MSCI EM TR USD (Emerging Markets)	19.77%	18.69%
MSCI ACWI Ex USA TR USD (Foreign Dev & EM)	17.08%	11.13%

Source: YCharts

Commodities enjoyed strong gains in the fourth quarter, led higher by a rally in oil while gold was little changed over the past three months. Oil prices rose in the fourth quarter thanks to optimism towards a global economic rebound in early 2021 following the vaccine announcements, combined with continued production discipline by "OPEC+." Gold, meanwhile, spent much of the fourth quarter in negative territory as investors rotated out of the safe-haven metal and into more risky assets following the positive vaccine developments, election results, and stimulus bill passage. For 2020, however, commodities posted a substantially negative return largely due to a significant decline in oil futures prices, which made history by falling into negative territory for the first time ever during the month of April, as the pandemic-related

lockdowns crippled demand for refined products. Gold did notably end the year with a positive return, with the weaker dollar and firming inflation expectations buoying the precious metal.

Switching to fixed income markets, total returns for most bond classes were positive in the fourth quarter and the leading benchmark for bonds (Bloomberg Barclays US Aggregate Bond Index) experienced slightly positive returns for the ninth straight quarter.

Looking deeper into the fixed income markets, longer-duration bonds underperformed those with shorter durations in the fourth quarter, which was a reversal from most of 2020. That was reflective of a market responding to the Fed's promise of low rates, potentially for years to come.

Confirming improved sentiment in the fourth quarter, which was again due to vaccine distribution and stimulus, corporate bonds saw solidly positive returns as high-yield debt outperformed investment-grade debt. The outperformance of lower quality but higher-yielding corporate debt also underscored rising optimism for an economic rebound in 2021 given the vaccine and stimulus, and a positive view of future corporate earnings.

1st Quarter and 2021 Market Outlook

As we end 2020 and turn our focus towards 2021, we first want to acknowledge the hardship that so many have endured over the past 12 months, be it physical, emotional, or financial, and we sincerely hope that those burdens are eased in 2021 and beyond.

But as we begin a new investing year, we are pleased to say that, from a macroeconomic standpoint, the outlook for 2021 is materially more positive than it was for the majority of 2020.

First, the Fed is continuing its historic QE program and will keep rates low for years to come. That should continue to help to support asset markets broadly. Meanwhile, Congress has finally agreed on another historically large fiscal stimulus bill which will help the economy weather the still ongoing COVID-19 pandemic and related economic lockdowns. Politically, neither party has a material majority in either house of Congress and as such, markets are not concerned about policy risks to the economy (substantial tax increases, excessive regulation, or major initiatives like healthcare reform). Finally, corporate America has once again demonstrated itself to be both resourceful and resilient, and while some industries (airlines, cruise lines, hotels) face a long road to total recovery, many American companies have exited 2020 in strong financial shape. As shocking as it may sound, the fundamental outlook for stocks is positive as we start 2021.

But, as 2020 has taught us all, nothing is guaranteed, and we must expect the unexpected. To that point, unemployment remains historically high (still well above levels we saw at the depths of the Great Recession) and while many of those unemployed workers should return to work once the pandemic begins to recede, it is unclear how many small businesses will have survived to hire them back.

Additionally, as the economy begins to normalize, the appetite for more stimulus from Washington will diminish, and again, it is unclear just how quickly we can expect economic growth to return to pre-COVID levels. Regarding stimulus, investors need to remain wary of the negative consequences of the ballooning federal debt and budget deficits. We will continue to closely monitor inflation and interest rates as they are some of the most sensitive instruments to increased deficits and Federal debt. Finally, stock valuations are at multi-year highs.

None of these risks, by themselves, offset the positive factors helping the economy and markets as we begin a new year, and again, the macroeconomic outlook for 2021 is positive. But there are certainly risks and we will continue to monitor them diligently.

In sum, as we consider all that has occurred in 2020 and look forward to 2021, one of the biggest takeaways from this historically volatile year in the markets is that a well-planned, long-term-focused and diversified financial plan can withstand virtually any market surprise and a related bout of volatility, including the worst pandemic in 100 years.

At *Hayes Asset Management*, we understand the risks facing both the markets and the economy, and we are committed to helping you effectively navigate this still-challenging investment environment. Successful investing is a marathon, not a sprint, and even intense volatility like we experienced in the first half of 2020 is unlikely to alter a diversified approach set up to meet your long-term investment goals.

Therefore, it's critical for you to stay invested, remain patient, and stick to the plan, as we've worked with you to establish a unique, personal allocation target based on your financial position, risk tolerance, and investment timeline.

The resilient nature of markets in 2020 notwithstanding, we remain vigilant towards risks to portfolios and the economy, and we thank you for your ongoing confidence and trust. Please rest assured that our entire team will remain dedicated to helping you successfully navigate this market environment.

Please do not hesitate to contact us with any questions, comments, or to schedule a portfolio review.