QUARTERLY MARKET COMMENTARY: 2020-Q4

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Market resilience was a pleasant surprise during 2020 after falling off a cliff in the first quarter. The sense of a bottomless pit was driven by overwhelming uncertainty associated with the introduction of COVID-19. The recovery in market levels was a positive sign reflecting hope for the future, but when U.S. markets closed out 2020 at recent all-time highs, conflicting perspectives have developed in our thought process. We were extremely pleased that client portfolio values have not only recovered, but advanced beyond 2019 levels. On the flipside, short-term concerns of an overbought equity market persist as "resilience" evolved into "disconnect." The disconnect between Wall Street and Main Street based on market levels relative to the current state of the economy was already discussed in the prior quarter's commentary. Seeing equity prices continue their march higher without regard to fundamentals causes us to pause and shake our heads. Not even the recent political events, including runoff elections in Georgia, certification of electoral votes and the siege on the U.S. Capitol, have caused capital markets to blink.

Upon reviewing client portfolio results for the fourth quarter, we are pleased with returns that reflect the beginning of an anticipated rotation from growth to value style equities. We believe this rotation will continue in 2021 with recoveries occurring in the utility, financial and energy sectors. Valuations are a major story for such a rotation. Value stocks present attractive entry points due to their recent and rare failure as defensive equity positions during the pandemic. Meanwhile, growth stocks continue to trade at questionable lofty levels driven by the utilization of technology in remote work and school environments. The recovery in fundamentals for dividend yielding stocks will further strengthen the case for higher prices while fundamentals for growth stocks will remain strong with valuation being a short-term concern. Also, it is worth noting the technology sector may encounter certain challenges from the newly established political landscape.

While seeking individual security opportunities, several interesting items were observed during our latest analysis of the underlying companies within the S&P 500. One of which is a lack of stocks with attractive entry points relative to fundamentals which serves as another indictor of overbought markets. Our colleague and Senior Portfolio Manager, Jennifer Garrett, presented another fact to us. In November, when the S&P 500 was positive 12%, the index was up only 5% for the same period when the technology sector was removed. Another characteristic that was noted while examining the S&P 500 was that approximately 23.5% of the index was represented by just 6 stocks despite the fact there are 500 underlying companies within the index. Should this concentration of 6 companies continue to exhibit lofty price appreciation patterns, we believe the benchmark will be at the forefront in returns relative to other asset classes resulting in diversified portfolios automatically underperforming the index. It is tempting to chase after returns in a market that continues to run-up, forgetting about diversification, but as professionals we can never forget about our fiduciary duty and managing risk for our clients. We will continue to use the S&P 500 as a guideline with a better appreciation as to how it has evolved.

Despite current market levels, we remain invested due to our long-term bullish outlook based on a Nike "swoosh" type recovery. This is supported by expectations of additional stimulus packages as the pandemic unfolds, hopefully with relief on the horizon as vaccinations roll out. Please continue to contact your adviser to discuss any questions or changes to your financial situation. We sincerely appreciate your support, confidence, and patience during an unprecedented year. Happy New Year and stay safe!