

QUARTERLY Market TALK

4TH QUARTER - 2020

The fourth quarter of 2020 ends on a high note, but significant challenges remain as we enter a new year. Two major factors will spur markets in the first quarter of 2021: vaccines and government.

SCALING NEW HEIGHTS

After the shortest recession on record was wiped away in the third quarter, the upward momentum mostly continued throughout the last three months of 2020. While volatility reared its head in October preceding Election Day, markets set new records in November. In fact, the Nasdaq and Dow had their best November since 2001 and 1928 respectively, while the S&P 500 and Russell 2000 both enjoyed their best November ever.¹ The trend continued into December as the holiday season gained steam.

The growth persists despite renewed and ongoing restrictions across the country. The announcement of multiple COVID-19 vaccines and the election of Joe Biden as president have contributed to the market's optimism. The vaccines provide a path for a return to "normal" in not just the U.S. but around the world, while Biden's election (and a potentially divided government) could usher in a period of calmer gridlock in Washington.

In sharp contrast to the positive market news, headlines about the coronavirus remain grim. Cases and deaths have spiked in the U.S., with daily death rates surpassing the number of people killed on 9/11.² Some areas of the country have established new restrictions, keeping people at home through the holidays. The renewed shutdowns have stymied our economic recovery, especially for industries that were already struggling to return to normal following the large-scale shutdowns earlier this year.

Many individuals have also struggled to regain their financial footing. But despite a glaring need for support, Congress dithered on an additional stimulus package throughout the fourth quarter, split along party lines regarding who should receive aid and how much they should receive. Congress finally agreed to a \$900 billion relief package, and President Trump signed it on Dec. 27. The package included \$600 payments to individual Americans and an extension of federal jobless benefits.³

Unemployment remained a sore spot in the fourth quarter, with the number of new claims hitting 803,000 during the week ending Dec. 19.⁴ Although unemployment numbers have dropped significantly from the April high of 14.7%,⁵ they remain stubbornly high as cities and states stay partially or completely shut down.

The brighter news is that the pandemic didn't stop consumers from completing their holiday shopping, although they made most of their purchases from major online retailers. While Amazon and big box retailers have been big winners this season — and throughout 2020 — small brick and mortar businesses have suffered.

Finally, oil prices have stabilized in the mid-\$40/ppb level after their drastic decline in April.⁶ We are still well below the \$60/ppb we saw early in 2020, but given the recent coronavirus spikes,



Americans have been reluctant to venture far from home.

As we gladly say goodbye to 2020, significant challenges remain. However, several bright lights promise good things as we usher in the first quarter of 2021.

Equity Performance as of December 31, 2020				
Equity Index	Q4	2020	3 YRS	5 YRS
S&P 500:	11.69%	16.26%	12.00%	12.94%
NASDAQ:	15.41%	43.64%	23.13%	20.81%
DJIA:	10.17%	7.25%	7.38%	11.93%

Source: Morningstar. Index Performance: Return (%). <http://news.morningstar.com/index/indexReturn.html>. Accessed Jan. 4, 2021.

ON THE HORIZON

Over the next few months, two major topics will dominate headlines and influence markets. First, vaccines will continue to be on everyone's minds, as new vaccines are approved and rollouts accelerate. Vaccines are a critical component to returning to "normal," not just in the U.S. but around the world. However, it's important to note that it will take several months for vaccines to reach every person who wants one. We will most likely see continued restrictions throughout the first quarter, which will prevent businesses from reopening fully, leaving us with higher-than-usual unemployment numbers and a suppressed economic recovery.

Activities in Washington will be the second major topic, especially at the beginning of the first quarter. We'll start 2021 with a divided government, with Democrats in the White House and in control of the House and a Republican majority in the Senate. Stocks have traditionally performed well in a divided government⁷; gridlock provides the predictability that markets seek. All eyes will be on President-elect Biden and how he sets the direction for policy in the next four years.

Data has been good over the fourth quarter of 2020, and it appears that markets are not overvalued. While we are positive about stocks in the first quarter, we remain cautious. There are still many unanswered questions regarding the pandemic and our government to say for sure what direction equity markets will take over the next few months. Investors should also be cautious of bonds; bonds did well in the 2020 downturn, but yields are rising as investors shed fixed income and focus on the equity market.

The best course of action for investors as we enter 2021 is to stay the course. The pandemic will continue to be a significant factor in the first quarter, but we should start to see a return to more "normal" activity by the second quarter. Stay focused on the big picture and ignore the daily and weekly returns.

Long-term investing isn't a sprint; it's a hike. There will be gentle dips, steep



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climbs and sharp drops along the way. The important thing is to remain focused on the horizon. Sure, it's good to check your footing occasionally, especially on rough terrain, but the destination is what's important. Throughout your journey, rely on your financial professional. He or she can serve as your guide on the trail.

¹ Mark DeCambre and Sunny Oh. MarketWatch. Nov. 30, 2020. "Dow sinks 272 points, but books best November since 1928, and best month since '87." <https://www.marketwatch.com/story/stock-futures-lower-but-dow-on-track-for-best-month-since-1987-11606738776>. Accessed Dec. 14, 2020.

² Azmi Haroun. Business Insider. Dec. 9, 2020. "Daily COVID-19 death toll in the US passes 3,000 – more than the death toll from the 9/11 tragedy." <https://www.businessinsider.com/daily-us-covid-19-deaths-higher-than-911-death-toll-2020-12>. Accessed Dec. 14, 2020.

³ Jacob Pramuk. CNBC. Dec. 27, 2020. "Trump signs Covid relief and government funding bill days after he suggested he would block it." <https://www.cnbc.com/2020/12/28/trump-signs-covid-relief-and-government-funding-bill-days-after-suggesting-hed-block-it.html>. Accessed Dec. 28, 2020.

⁴ Anneken Tappe. CNN Business. "Another 803,000 Americans filed for unemployment benefits last week." <https://www.cnn.com/2020/12/23/economy/unemployment-benefits-coronavirus/index.html>. Accessed Dec. 28, 2020.

⁵ U.S. Bureau of Labor Statistics. "Civilian unemployment rate." <https://www.bls.gov/charts/employment-situation/civilian-unemployment-rate.htm>. Accessed Dec. 14, 2020.

⁶ Markets Insider. "Oil (WTI)." <https://markets.businessinsider.com/commodities/oil-price?type=wti>. Accessed Dec. 14, 2020.

⁷ Anne Sraders. Fortune. Nov. 4, 2020. "Stocks historically perform better under a divided Congress." <https://fortune.com/2020/11/04/stock-market-2020-election-results-divided-congress-house-senate-democrats-republicans-us-economy/>. Accessed Dec. 14, 2020.

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