

Raymond Capital Advisors LLC

January 24, 2021

Stock & Bond Benchmark Total Returns % For Periods Ending December 31, 2020

	QTR	1-Year	3-Year	5-Year	9-Year
S&P 500 Stock Index	12.15	18.40	14.18	15.22	15.27
Bloomberg Barclays U.S. Aggregate Bond	0.67	7.50	5.34	4.44	3.41
60/40 TAA Composite Index	7.54	14.73	11.03	11.11	10.63
3-month Treasury Bills	0.02	0.35	1.41	1.10	0.63

Returns (%) include capital gains, dividends and interest, and are annualized for periods greater than one year.

Sources: S&P Dow Jones Indices, Morningstar, Federal Reserve.

Market Review: 2020 Hindsight... A Most Divisive Year

It's hard to find a more volatile and turbulent year than 2020. The COVID-19 pandemic and the deep (albeit brief) recession that followed unleashed the fastest bear market in stocks on record. In its wake, the subsequent policy response of massive fiscal and monetary stimulus, thus far triple the response implemented following the 2008 Global Financial Crisis, also produced the fastest market recovery since the 1930s.¹ With this record amount of stimulus and zero percent interest rates, the S&P 500 Index was able to shrug-off news of surging COVID-19 deaths, protests of racial injustice, reversals in political party leadership, a second impeachment, and even an extremist insurgency on our nation's Capital. By year's end, the S&P 500 Index had managed a hefty 18.4% total return, and reached record highs 33 times! Not all stocks, however, produced positive returns. Within the market, leadership showed huge divisions. In fact, 39% of the S&P 500's constituents had negative returns for the year! And on a relative basis, only 37% outperformed the Index. Further, the 10 largest market cap stocks accounted for 28% of the Index's weight but nearly 60% of its return (mostly large-cap Tech related companies). Only in recent months has market leadership broadened out.

Throughout the quarter, RCA's heavy exposure to large-cap stocks shifted to include more mid-caps, as well as those with a greater Value-style orientation. A small position in international stocks has also been taken. For Tactical Asset Allocation portfolios, the duration of the fixed income portfolio has been shortened and also now includes a Treasury Inflation Protected Securities Exchange Traded Fund.

Outlook: Careful what we wish for?

Triage was necessary in 2020. The priority in 2020 was "Massively inject stimulus to save the economic patient now, and worry about recovery and consequences later." For 2021, economic recovery is likely to start playing out. And while earnings forecasts by Wall Street analysts suggest a return of about 4% to 6.5% may seem reasonable for the S&P 500 in the year ahead, we opine it's also likely to include some set-backs...

¹ S&P 500: Bear market 34% decline in just 33 days. Recovery to breakeven, 52% return in about five months.

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To be sure, stocks have been in a kind of “sweet-spot” in recent months. The vaccines currently in distribution hold the promise of economic reopenings and better earnings in the coming quarters. At the same time the fiscal and monetary authorities must continue to supply stimulus and keep interest rates at low levels to reduce unemployment and offset a fragile economy. It’s a wonderful environment for stocks with better economic prospects, plenty of liquidity, and few investment alternatives (e.g. bond yields are too low to be competitive). During such environments, funds not needed for economic necessity have generally found their way to the stock market. However, once investors anticipate the economic recovery is gaining traction in earnest, funds that have been used to fuel the stock market’s advance are likely to be called upon to support economic activity (e.g. spending on travel/leisure, etc.). At that point stock prices may become more vulnerable to moderate declines. This may seem counter to logic that stock prices would show weakness at the time the economy begins to strengthen, but no more so than when we saw stock prices rise during the recession last year... it’s just in reverse.

For now, however, with the economy still fragile, further stimulus appearing likely, low interest rates, and stock price trends still favorable, we will simply be watchful of this potential scenario.

Financial Planning Items: Reminders...

- Traditional and Roth IRA contributions for 2020 can be made on or before April 15th. Contribution limits are \$7,000 for age 50 and older, and \$6,000 under age 50. Deductibility subject to income limits.
- Contributions to a traditional IRA may now be made after age 70 1/2 (subject to earned income).
- SEP IRA contributions limited to 0% to 25% of compensation with each eligible employee receiving the same compensation (maximum \$57,000 for 2020).

Geoff and I are available to answer questions about your RCA investments and provide guidance for your retirement planning. These services are provided free of charge to our clients with assets under management. Feel free to email us! (Referrals are also always appreciated.)

Thank you for your continuing support,

Geoff & Lance

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A Retirement Wealth Advisor

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