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MARKET MINUTE

2020 VOLUME: DECEMBER REVIEW

This month's Market Minute reflects the views of Clearstead's Research Team and was composed by Svetlana Loshakov, CFA, Senior Managing Director, Alternatives.

OVERVIEW

As President Donald Trump signed a $900 billion COVID-19 aid bill the US stock market rallied, expecting the fiscal spending to help consumers and small businesses recover from the pandemic disruption. In Europe, the announcement of the signed Brexit deal removed the worst of the risks associated with the UK's exit from the European Union, although details will have to be sorted out. From a sector performance prospective, S&P 500 Financials sector led the December rally with a 6.3% return, still finishing the year with a loss of 1.8%.[1]

DOMESTIC EQUITY

As of December 31, 2020

U.S. EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
DJIA	3.4%	10.7%	9.7%	9.7%
S&P 500	3.8%	12.1%	18.4%	18.4%
Russell 2000	8.6%	31.4%	19.9%	19.9%
Russell 1000 Growth	4.6%	11.4%	38.5%	38.5%
Russell 1000 Value	3.8%	16.2%	2.8%	2.8%

U.S. equities continued to rise in December as ongoing optimism surrounding the releases of COVID-19 vaccines fueled markets. Small caps (Russell 2000) outperformed large caps (S&P 500) by 4.8% as investors continued their rotation into the small cap space given hopes for a domestic economic rebound and more appealing relative valuations. In the large cap space, growth stocks (Russell 1000 Growth) outperformed value stocks (Russell 1000 Value) by 0.8% as investors rotated back into more secular growth companies and sectors despite expectations for an economic rebound. We are still monitoring political developments domestically (senate race in Georgia), the evolution of COVID-19 cases (recent spike domestically), the logistics surrounding the release and distribution of COVID-19 vaccines, and the US economic growth trajectory in 2021. Despite the strong rebound in the US Equity market from its lows in March, the markets remain jittery and each of these events has potential to spark market volatility given potentially broad economic implications.

INTERNATIONAL EQUITY

As of December 31, 2020

INTERNATIONAL EQUITY MARKETS				
Index	1 Month	Quater-To-Date	Year-To-Date	1 Year
MSCI ACWI ex USA	5.4%	17.0%	10.7%	10.7%
MSCI EAFE	4.6%	16.0%	7.8%	7.8%
MSCI Emerging Markets	7.4%	19.7%	18.3%	18.3%
MSCI EAFE Small Cap	6.8%	17.3%	12.3%	12.3%

Global equity markets were up in December led by emerging market equities as the MSCI EM Index gained 7.4% during the month. Non-US markets were buoyed by the rollout of COVID-19 vaccines in the US, UK, Europe as well as in parts of Asia and the prospect that economic growth in 2021 will rebound. European equities were further buttressed by the successful conclusion of trade talks between the UK and the EU enabling a smooth exit of the UK from the EU trading bloc.

The US dollar was weaker during the month and small cap stocks (MSCI EAFE Small Cap) generally outperformed their large cap (MSCI EAFE) peers. There was little difference between growth and value stocks outside of the US.

FIXED INCOME

As ofDecember 31, 2020

FIXED INCOME MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
BarCap US Aggregate	0.1%	0.7%	7.5%	7.5%
BarCap Global Aggregate	1.3%	3.3%	9.2%	9.2%
BarCap US High Yield	1.9%	6.5%	7.1%	7.1%
JPM Emerging Market Bond	1.8%	5.5%	5.9%	5.9%
BarCap Muni	0.6%	1.8%	5.2%	5.2%

Fixed income markets benefited from the risk-on attitude with high yield corporate debt (BarCap US High Yield) leading the pack with a 1.9% return for the month. Reflecting investors' risk appetite, spreads tightened for US investment grade, high yield, and emerging markets debt. Despite tightening of the spreads, longer duration investment grade corporate debt (BarCap US Aggregate) was more negatively impacted by the rising rates at the long end of the Treasury curve comparing to high yield. The yield curve ended the month modestly steeper, with the 30-year U.S. Treasury yield up 0.08%[1] while the 2-year treasury yield declined by 0.03%.

As the US COVID-19 aid bill has been signed into law, state and municipal governments are expected to benefit from additional fiscal stimulus, leading to contraction of the muni/Treasury AAA ratio from 85% to 75%[1].

CLOSING

December has been a fitting end to the tumultuous 2020. Enthused by soaring markets, investors' risk appetite and use of margin accounts drove margin debt balance to $722.12 billion, the highest level since 1997, as reported by FINRA[2]. Remaining steadfast in our long-term approach to investing, we find it equally perilous doubling down using margins or abstaining from equity markets. We advise our clients to stay invested and focus on long-term portfolio goals and asset allocation, expecting the uncertainty to continue into 2021.

Sources:

1 *Bloomberg, as of 31-December, 2020*
2 *FINRA, as of November 2020*