NEWSLETTER – JAN 2021

MARKET TRENDS 12.31.20

Asset Class	3 Mos	YTD
US Stocks		
Large Cap	12.20%	18.40%
Mid Cap	24.39%	13.58%
Small Cap	31.30%	20.03%
International Stocks		
Developed Markets	15.74%	7.59%
Emerging Markets	18.41%	17.03%
Fixed Income		
Taxable Bonds	0.73%	7.48%
International Bonds	1.10%	4.65%
Municipal Bonds	1.78%	5.12%
Alternatives		
Emerging Markets Bonds	5.98%	5.42%
Floating Rate	0.17%	0.87%
Preferred	7.14%	7.91%
Gold	0.70%	24.81%
Real Estate	8.05%	-5.27%

Source: Factset

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A TRAGIC, HISTORIC TIME

At this heart-wrenching time in our country's history, it's hard to focus on what happened economically over the final quarter of 2020. But try we will. We feel the anxiety of the moment and a deep concern for you, our clients. Our mission is to manage your investments in conjunction with your financial plan so you can get through this world with as much grace and dignity as possible-on your terms. It's important to keep our aim true and to look ahead together to what lies ahead—and to have a strategy with some flexibility in it. Given the turmoil in which our country finds itself, our work on your behalf matters all the more.

A WIDENING GAP BETWEEN MARKETS AND LIFE

Often in our careers, we see a lack of correlation between what is happening in life versus what is happening to the investments in our portfolios. That's why we spend a lot of our time counseling our clients and colleagues NOT to make buy and sell decisions based on the news or how we feel. We have reached another time period in which there is a disconnect between our daily lives and the pricing of assets, and this was true for most of 2020.

CRISES AS OPPORTUNITIES

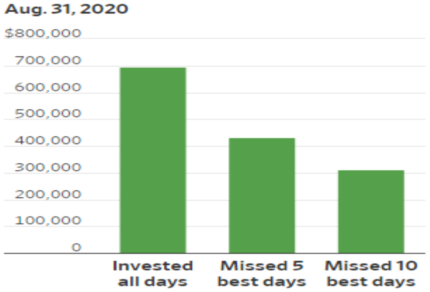
We discussed this last quarter, but it pays to AVOID trying to time the markets. With the 2000 bursting tech bubble, the financial crisis and collapse of 2008, and the pandemic of 2020, those who sold on bad news and waited for the economy to recover to get back into the market would have missed out on the bulk of stocks' upside. These calamities have almost always been buying opportunities for long term stock investors.

TIME IN THE MARKET, NOT TIMING IT

A recent analysis by Fidelity Investments shows that the returns of a hypothetical investor who put $10,000 into the S&P 500 index at the start of 1980 and missed the market's ***five best days*** through the end of August 2020 would be 38% lower than those of someone who stayed invested the whole period. The power of compounding returns is powerful! And taking your licks as stoically as you can often pays off handsomely.

Someone who isn't invested on just a handful of the market's best days will miss out on big returns over the long run.

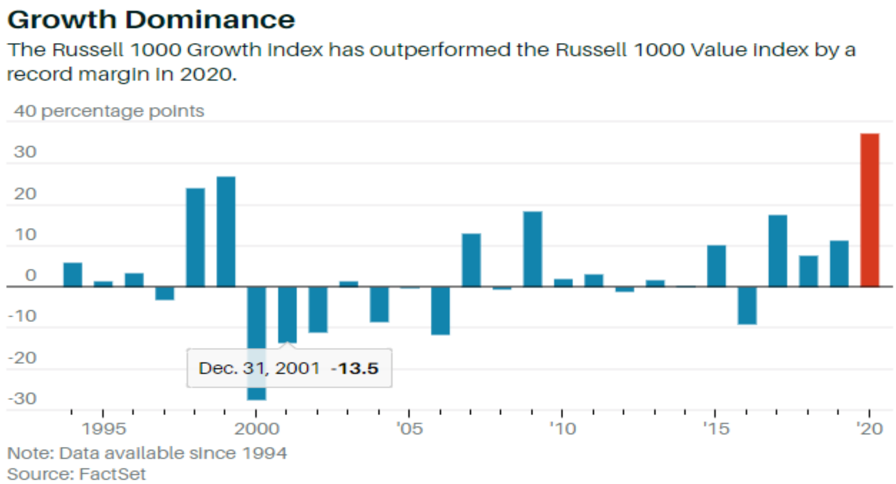
How much $10,000 in an S&P 500 index fund would have grown between Jan. 1, 1980 and Aug. 31, 2020



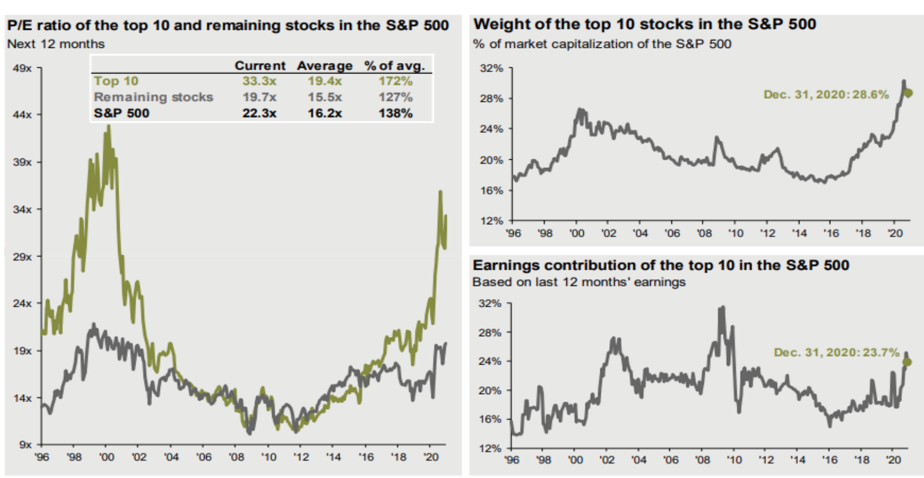
Note: Analysis included dividend reinvestments.
Source: Fidelity Investments

FOURTH QUARTER & 2020 RECAP

After plunging into a bear market in the first quarter—defined as a drop of at least 20%—a new bull market has emerged, one that raced to new highs faster than ever before. The S&P 500 rallied 12% in the fourth quarter and pushed the annual total return to 18%. For the full year, growth stocks outperformed dividend paying value stocks by 35%-the largest difference in 30 years, and the technology-heavy Nasdaq Composite gained 44%, its best year since 2009.



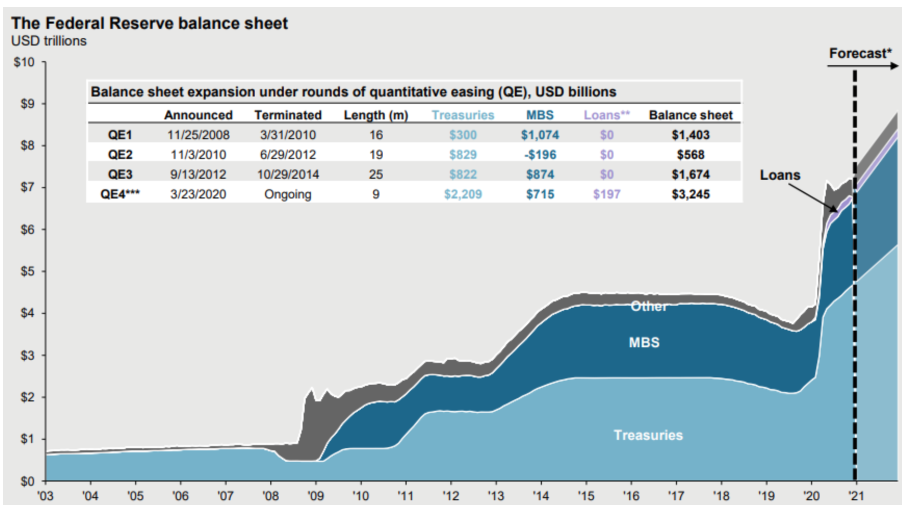
2020 was a year in which risk-takers were handsomely rewarded, but it is not as simple as that, performance was extraordinarily concentrated. The table below highlights how the top 10 companies in the S&P 500 by market capitalization, dominated by technology/FANG stocks, drove the S&P 500 strong performance in 2020.



However, there were some noticeable changes in fourth quarter. Sectors that had trailed the market for years, such as financials and energy, outperformed leading sectors such as technology and consumer discretionary. We expect strong economic growth in 2021 coming off 2020's recession, and market gains to be more broadly distributed than we have seen the last few years. At Shorepoint, we will continue to invest with discipline and identify undervalued assets and asset classes. We will reposition to take advantage of opportunities as we see fit.

2021 OUTLOOK

In 2021, we forecast widespread COVID-19 vaccinations by mid-year, continued low-interest rates, and a rebound in U.S. job growth by 6 to 7 million, according to estimates. This portends a broader equity market recovery in 2021 than 2020's pandemic related technology winners such as stay-at-home and e-commerce companies. On top of the $2.2T Cares Act last spring, a recently passed additional $900B package designed to bridge the gap until we get broad vaccinations will continue to support the economy and market. President-elect Biden has just proposed an additional stimulus plan and infrastructure spending is also on the docket to provide support for the economy and to fuel economic growth. The Federal Reserve's commitment to quantitative easing (QE) is alive and well in 2021 which provides further market support.

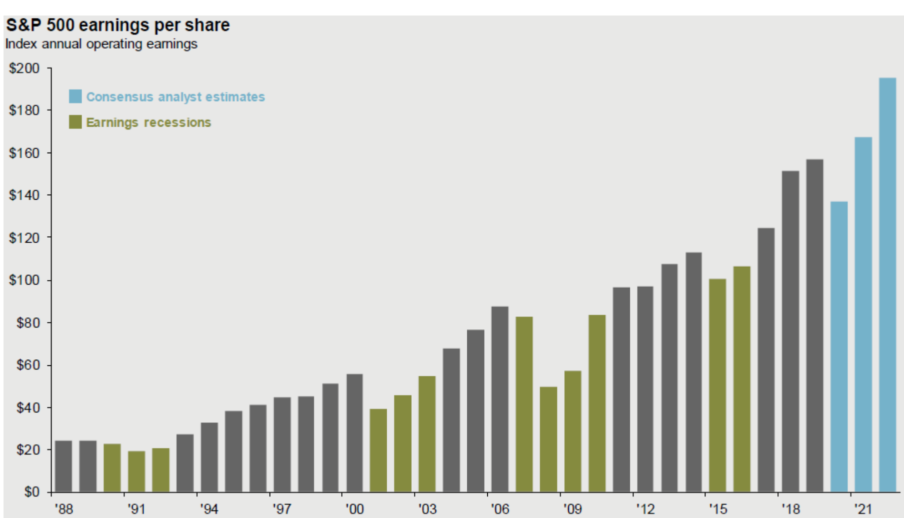


Balance sheet expansion under rounds of quantitative easing (QE), USD billions

	Announced	Terminated	Length (m)	Treasuries	MBS	Loans**	Balance sheet
QE1	11/25/2008	3/31/2010	16	$300	$1,074	$0	$1,403
QE2	11/3/2010	6/29/2012	19	$829	-$196	$0	$568
QE3	9/13/2012	10/29/2014	25	$822	$874	$0	$1,674
QE4***	3/23/2020	Ongoing	9	$2,209	$715	$197	$3,245

Source: FactSet, Federal Reserve, J.P. Morgan Investment Bank, J.P. Morgan Asset Management.

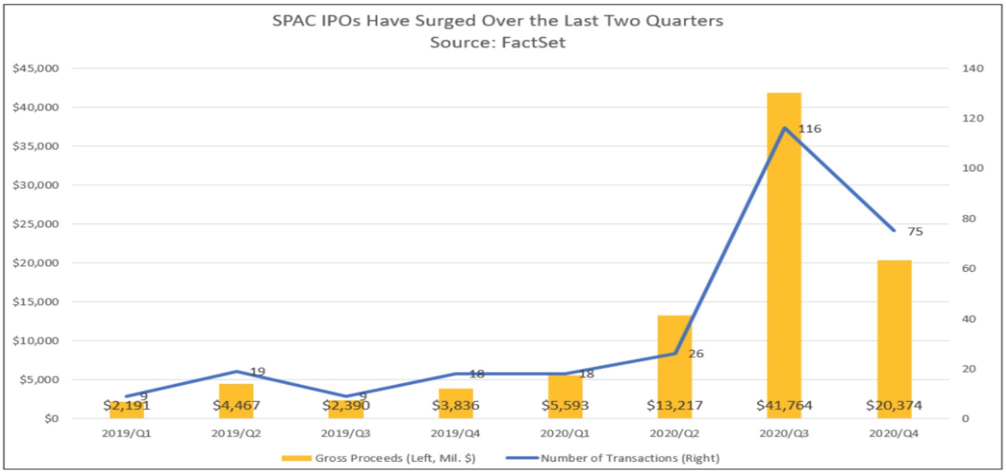
It is likely that the three levels of stimulus (monetary/fiscal stimulus/low-interest rates) stay in place through 2021. On January 20th we should see the political uncertainty begin to clear and light at the end of the tunnel for global economic reopening as vaccinations accelerate this spring. Expectations are for earnings growth of the S&P 500 to rise 25% off 2020's depressed levels.



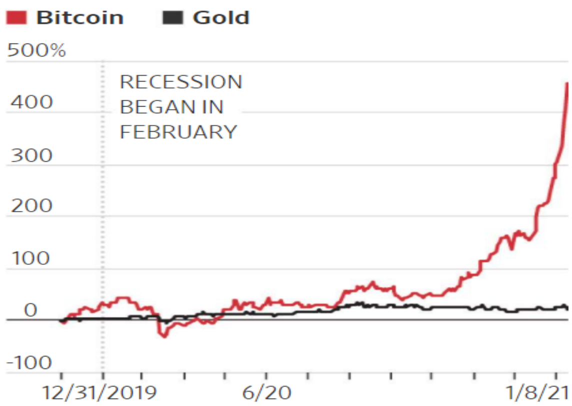
Source: Compustat, FactSet, Standard & Poor's, J.P. Morgan Asset Management.

SIGNS OF FRENZY

There are certainly signs of excess—high valuation of growth stocks, bitcoin mania, electric vehicle stocks getting bid up, and the growth of special purpose acquisition companies, or SPACs, as a means for companies to go public. More than 200 SPACs came to market in 2020 raising more than $75 billion. These shell companies raise money first and pinpoint businesses to acquire later. In the third quarter, there were a whopping 116 SPACs that went public, representing 56% of all IPOs for the quarter. In the fourth quarter, we saw 87 SPAC IPOs, making up 52% of the total number. We don't think the approach of investing money before knowing where it's going is a good sign.



Bitcoin prices more than tripled in 2020 ending the year at 30,000. A new crop of investors jumped in to gain exposure to cryptocurrency. The asset is beginning to gain traction with companies (use of cash) and some institutional investors. The volatility of bitcoin looks to continue in 2021. Bulls justify that crypto should be a market like the massive one for gold.



Sources: CoinDesk (bitcoin); Dow Jones Market Data (gold)

We are also seeing a significant amount of speculation by retail investors in these areas. However, the entire investment market isn't in a bubble. We are finding opportunities across equities, fixed income, and some international asset classes that have attractive risk/reward potential.

CONCLUSION

We prefer dividend-paying stocks to bonds, although having an allocation to bonds in portfolios is appropriate for diversification and to reduce overall volatility. The bond market, particularly government bonds, continue to be concerning, with interest rates at record lows and over $15 trillion in international government bonds trading at negative interest rates. We continue to diversify the fixed income portion of your portfolio in non-traditional bond sectors which rebounded in the later half of the year. Within equities, we will use a sizeable market pullback to add to high-quality stocks as they become more attractive.

An ever-present tendency during presidential election years is to try to ascertain how the market will behave depending on which party takes control. We believe that this is a pointless exercise. History suggests that equities will do fine with Democrats in control in Washington D.C. Historically, the Dow Jones has returned an average of 15.7% when Democrats have controlled Congress and the White House. We will likely see more of an emphasis on clean energy, higher corporate taxes, and heightened regulatory oversight in sectors such as technology and energy. As we have seen in the past, politicians talk of hitting legislative home runs but end up hitting legislative bunts. Democrats have neither the political capital nor the votes in Congress for sweeping change.

Session of Congress	Start Date	End Date	Senate Majority Margin	House Majority Margin	Dow % Change
81st	1/3/1949	1/3/1951	12	91	36.5%
82nd	1/3/1951	1/3/1953	1	36	22.2
87th	1/3/1961	1/3/1963	28	87	7.7
88th	1/3/1963	1/3/1965	34	82	33.0
89th	1/3/1965	1/3/1967	36	155	-10.0
90th	1/3/1967	1/3/1969	28	60	21.0
95th	1/3/1977	1/3/1979	23	149	-18.2
96th	1/3/1979	1/3/1981	17	120	19.0
103rd	1/3/1993	1/3/1995	14	82	16.3
111th	1/3/2009	1/3/2011	15	79	29.2
		Average:	15.7%		

Source: Bespoke Investment Group

Shorepoint's process is thoughtful, disciplined, and flexible. Please know that our team is working diligently to manage risk and returns as well as position your portfolio for the long-term. There are always reasons not to invest, but staying the course usually wins out. We believe that appropriate portfolio diversification amongst asset classes can help buffer your portfolio from the ups and downs of market volatility.

Team Shorepoint