

Global Economy

Global equity markets had another positive month as the Pfizer and Moderna vaccines began to be administered around the globe. Markets received additional encouragement when the US Congress passed a second stimulus totaling \$900 billion at the end of December. However, the latest virus surge continues to threaten economic momentum, leading to new lockdowns and weaker job growth. Optimism was further tempered as the vaccine rollout is so far proving slower than hoped in most countries, highlighting the logistical challenges that exist. The discovery of a new, more easily transmissible virus variant also threatens to complicate the road to recovery. Despite these difficulties, expectations remain high that the virus will be brought under control in the coming year.

The Federal Open Market Committee met in December but did not change policy rates, a widely expected outcome. The December meeting focused on asset purchases, with changes to the statement noting the Fed would continue to buy at least \$120 billion of bonds each month "until substantial further progress has been made toward the Committee's maximum employment and price stability goals." After expanding rapidly early in the pandemic, growth of the Fed balance sheet has slowed in recent months as strained financial conditions have eased, rising to \$7.3 trillion by the end of December.

The third estimate of 3Q-20 real GDP indicated the US GDP expanded at a record rate of +33.4% annualized, a moderate improvement from the initial and second estimates. The upward revision in the third estimate primarily reflected increases to personal consumption expenditures and nonresidential fixed investment. Analysts are expecting more moderate growth for 4Q-20, with estimates ranging from +1% to +9% annualized.

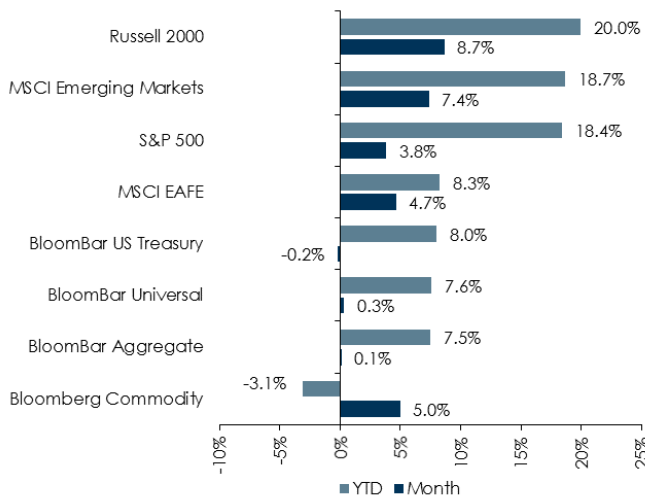
There have been more than 73 million initial unemployment claims filed since mid-March. Weekly initial claims ticked upward in December and there were 140,000 jobs lost in the month as unemployment remained at 6.7%, the first decline in jobs since April. Employment in Leisure & Hospitality was by far the biggest decline as new virus restrictions limited these businesses. Core CPI held steady at +1.6% year-over-year, while the FOMC's preferred measure, Core PCE, remained steady at +1.4% year-over-year through November.

	Current	Dec-19
US GDP (%)	+33.40	2.10
US Unemployment (%)	6.70	3.50
CPI (Core) (%)	1.60	2.30
Fed Funds (%)	0.00 – 0.25	1.50 – 1.75
10 Year UST Yld (%)	0.92	1.92
S&P 500 Div Yld (%)	1.57	1.82
S&P 500 P/E (Trailing)	29.92	21.60
Gold/oz.	\$1,895.10	\$1,523.10
Oil (Crude)	\$48.52	\$61.06
Gasoline (Natl Avg)	\$2.33	\$2.66
USD/Euro	\$1.22	\$1.12
USD/GBP	\$1.37	\$1.33
Yen/USD	¥103.25	¥108.61

Source: Bloomberg

Global Markets

Key Market Indices



Source: Bloomberg

Returns for all major equity indices were positive in December as markets continued to respond positively to vaccine news as well as additional stimulus from Congress. The S&P 500, which represents large US-based entities, returned +3.8% for the month. Financials (+6.1%) and IT (+5.7%) were the top performers in a month where all sectors had positive returns. Utilities (+0.4%) and Real Estate (+0.9%) were the laggards with the only <+1% returns. Small cap stocks, as represented by the Russell 2000, were the top performing broad equity index at +8.7%. As in large caps, sector performance was positive across the board, with Energy (+14.4%), Materials (+12.1%), and IT (+11.8%) leading and the rest in the +4.0% to +8.0% range. Growth outperformed Value across the market cap spectrum.

In the broad international developed markets, the MSCI EAFE index gained +4.7% for the month. Performance was broad-based with all sectors and nearly all countries positive for the month. Materials (+8.8%) and IT (+7.4%) were the best performers, while Health Care (+1.9%) was the laggard and the only sector to return <+3%. Among developed countries, Austria (+12.5%), Portugal (+10.6), and Israel (+8.8%) were the top performers, with New Zealand (-0.2%) the laggard and most others generally in the +2.0% to +7.0% range.

Emerging market stocks, as represented by the MSCI Emerging Markets index, outperformed their large cap developed market counterparts at +7.4%. Colombia (+24.8%) and Turkey (+20.4%) were the best performers in the month. Despite strong YTD returns for the index, most EM countries were negative for the year. Positive returns from South Korea, Taiwan, India and China (~75% of the index combined) contributed most of this YTD performance.

Real estate, as measured by the FTSE EPRA/NAREIT Developed index, performed in-line with most equities with a +3.6% return. The energy-related Alerian MLP was positive but continued to trail other equities at +2.5%. The near-month NYMEX oil also rallied (+7.0%) but remains off by -20.5% for the trailing 1-year. Gold also had a strong month at +6.7%, climbing to +24.4% on the year. The diversified Bloomberg Commodity index climbed +5.0 but was down -3.1% on the year.

Global Markets (continued)

US Treasury yields were higher across longer-dated maturities and the curve steepened. Vaccine-related optimism pushed yields higher, as did prospects of additional fiscal spending and higher inflation. Intra-month, the 10-year US Treasury reached its highest level since March, nearly topping the 100 bps threshold. Given this backdrop, the overall UST complex was negative for the month at -0.2%, with calendar year 2020 returns still at an impressive +8.0%. Sovereign yields outside of the US were mostly lower, and the global stock of negative yielding debt increased to \$17.8 trillion.

The BloomBar US Aggregate Bond index outperformed risk-free US Treasuries on both an absolute and duration-matched basis as credit spreads closed the month tighter. The benchmark gained only +0.1% in December, but the 12-month performance of +7.5% remains impressive given prevailing yield levels. IG corporate issuance was down from November but remained high. Full-year issuance of \$1.7 trillion is a new record by \$0.4 trillion. Investor demand was strong and spreads narrowed by 8 bps, approaching the year's low which occurred at the beginning of 2020. With moderately tighter spreads across most categories, the benchmark's yield-to-worst fell 3 bps to just 1.12%.

The BloomBar 1-15-Year Municipal index outperformed US Treasuries, returning +0.5% in December. Issuance remained strong in the month and yields ground slightly lower, pushing Muni/Treasury ratios down along most parts of the curve to their lowest levels of 2020. While stimulus aimed at helping local governments appears off the table for now, the anticipated economic recovery made possible by vaccinations should boost tax returns and help cash-strapped municipalities rebound.

The BloomBar US Corporate High Yield index returned +1.9% for the month, directionally consistent with higher-risk equities. Benchmark spreads tightened 52 bps with supply slowing ahead of the holidays. All-in yields continued their recent decline and are now at 4.18%. Default rates are forecast to end the year just above 5%, a level not seen since 2009. Bank loans and emerging market bonds tracked other risk-assets with strong performance in the month.

Selected Bond Yields

10 Year Sovereign Bond Yields (%)		
	Current	Dec-19
Japan	0.02	-0.02
Germany	-0.57	-0.19
France	-0.34	0.12
United Kingdom	0.19	0.82
Spain	0.04	0.46
United States	0.92	1.92
Italy	0.54	1.41
Mexico	5.53	6.89
Brazil	6.91	6.79

Source: Bloomberg

Indices Report (Periods Ending December 31, 2020)

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
Equity							
S&P 500	3.84	18.40	18.40	14.18	15.22	13.88	9.88
Russell 1000	4.23	20.96	20.96	14.82	15.60	14.01	10.07
Russell 1000 Growth	4.60	38.49	38.49	22.99	21.00	17.21	12.54
Russell 1000 Value	3.83	2.80	2.80	6.07	9.74	10.50	7.34
Russell 2500	7.61	19.99	19.99	11.33	13.64	11.97	9.55
Russell 2000	8.65	19.96	19.96	10.25	13.26	11.20	8.91
Russell 2000 Growth	9.35	34.63	34.63	16.20	16.36	13.48	10.69
Russell 2000 Value	7.92	4.63	4.63	3.72	9.65	8.66	6.92
Wilshire 5000 Cap Wtd	4.48	20.82	20.82	14.46	15.52	13.79	10.04
MSCI ACWI	4.68	16.82	16.82	10.64	12.86	9.71	7.77
MSCI ACWI ex US	5.43	11.13	11.13	5.38	9.44	5.40	5.36
MSCI EAFE	4.67	8.28	8.28	4.79	7.97	6.00	4.97
MSCI EAFE Local Currency	2.48	1.28	1.28	3.48	6.32	7.32	4.57
MSCI EAFE Growth	4.89	18.68	18.68	10.08	10.93	7.91	6.53
MSCI EAFE Value	4.45	-2.10	-2.10	-0.65	4.82	3.96	3.29
MSCI Emerging Markets	7.40	18.69	18.69	6.56	13.22	4.00	6.95
Fixed Income							
ICE BofA ML 1-3 Yr Treasury	0.05	3.10	3.10	2.75	1.90	1.30	2.25
BloomBar US Aggregate	0.14	7.51	7.51	5.34	4.44	3.84	4.49
BloomBar Gov't Bond	-0.22	7.94	7.94	5.17	3.76	3.26	3.99
BloomBar US Credit	0.46	9.35	9.35	6.80	6.44	5.40	5.60
BloomBar 10 Yr Municipal	0.61	5.62	5.62	4.88	4.05	4.80	4.81
BloomBar US Corp High Yield	1.88	7.11	7.11	6.24	8.59	6.80	7.50
FTSE World Gov't Bond	1.36	10.11	10.11	4.96	4.78	2.32	3.88
BloomBar Global Aggregate	1.34	9.20	9.20	4.85	4.79	2.83	4.09
BloomBar Multiverse	1.42	9.02	9.02	4.83	4.99	2.98	4.22
Real Assets							
NCREIF Property	0.00	0.45	0.45	4.49	5.67	8.88	7.06
NFI ODCE Net	0.00	-0.75	-0.75	3.61	5.04	8.75	5.38
FTSE NAREIT US Real Estate	3.29	-8.00	-8.00	3.40	4.77	8.31	6.52
Bloomberg Commodity	4.97	-3.12	-3.12	-2.53	1.03	-6.50	-4.01
Cash and Equivalents							
US T-Bills 90 Day	0.01	0.67	0.67	1.61	1.20	0.64	1.24

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