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Fourth-Quarter 2020 Market Review

Stocks Get Booster Shot On Vaccine Hopes

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- Stocks move to record levels despite once-in-a-century pandemic.
- Dow Jones hits new milestone, surpassing 30,000.
- Interest rates at record-low levels.

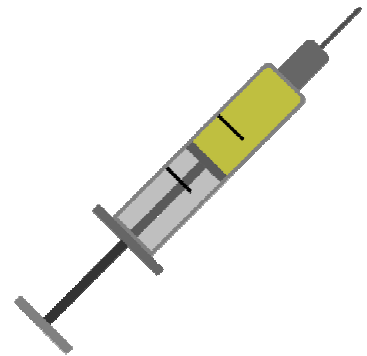
Despite a once-in-a-century pandemic that brought much of the global economy to a standstill, stocks finished 2020 at record levels. At the closing bell, the Dow Jones Industrial average and Standard & Poor's 500-stock index set all-time highs, gaining 7.3% and 16.3% for the year, respectively. The tech-heavy NASDAQ Composite index was buoyed by work-from-home stocks and soared 43.6%.

As the coronavirus began its swift sweep through the world, leaving behind death and unknown consequences in its wake, stocks tumbled in the first quarter by approximately 30%. It was the quickest move in history from a stock market top to a bear market. Although coronavirus-induced business closures resulted in record unemployment levels and a contracting economy, much of the first-quarter collapse was reversed in the second quarter. With additional advances in the third quarter, most broad-market barometers were above water for the year.

The coronavirus brought about a significant disconnect between Wall Street and Main Street. Large, well-established, publicly traded companies quickly recovered, while smaller domestic and all international stock indexes remained negative through the third quarter. With uncertainty about the ultimate impact of the virus and some of the economy remaining in "time-out", how the coronavirus affects smaller publicly traded and privately owned companies has yet to be fully determined.

With hopes of an economic recovery from the rollout of vaccines, stocks got a booster shot in the fourth quarter. All major indexes jumped by double digits, led by a rebound of domestic small cap stocks, surging 31.4%. The rally was widespread, with all international indexes advancing in the high teens. In the U.S., the Dow Jones hit a new milestone, surpassing the 30,000 level.

As the crisis loomed large early in the year, central banks lowered interest rates and implemented monetary policies to support financial markets. With stock and oil prices sinking, and central bank actions underway, interest rates fell to record lows. Both the 10-year U.S. Treasury note and 30-year U.S. Treasury bond dropped below 1.0% for the first time ever. On Monday, March 9, as virus concerns



heightened and oil prices collapsed by 24%, the 10-year note and 30-year bond slipped to intraday lows of 0.32% and 0.70%, respectively. With lower interest rates, after some disruptions in the first quarter, all bond sectors moved ahead for the year, up 5.2% to 11.0%.

To maintain low interest rates and keep markets flowing, the U.S. Federal Reserve continues to purchase \$120 billion per month in fixed income securities. The Fed expects to keep short-term rates near zero until it sees clear signs of an economic and employment recovery, projected until at least 2023.

At year end, the yields on the 10-year U.S. Treasury note and 30-year Treasury bond were 0.91% and 1.64%, respectively, down 101 and 75 basis points, respectively, for 2020.

Lower mortgage interest rates have provided a great opportunity to refinance or purchase a home. As reported by Freddie Mac, the average rate for a 30-year mortgage dropped from 3.74% at the outset of 2020 to a record low of 2.66% in December, the 16th all-time low for the year.

Below are rates of return for selected market indices for the fourth quarter of 2020, full-year 2020, and the three, five, and 10-year compound annual returns as of December 31, 2020.

<u>Equity (Stock) Indices</u>	<u>4Q:2020</u>	<u>2020</u>	<u>3-Year</u>	<u>5-Year</u>	<u>10-Year</u>
Domestic					
Russell 1000 - Large Cap	13.69%	20.96%	14.82%	15.60%	14.01%
Russell Midcap	19.91%	17.10%	11.61%	13.40%	12.41%
Russell 2000 - Small Cap	31.37%	19.96%	10.25%	13.26%	11.20%
Real Estate (FTSE NAREIT Equity REITs)	11.57%	-8.00%	3.40%	4.77%	8.31%
Commodity (Dow Jones Commodity Index)	14.03%	-2.98%	-0.90%	2.84%	-4.83%
International					
MSCI EAFE Developed Large Cap	16.09%	8.28%	4.79%	7.97%	6.00%
MSCI EAFE Developed Small Cap	17.33%	12.75%	5.25%	9.80%	8.23%
MSCI Emerging Markets	19.77%	18.69%	6.56%	13.22%	4.00%
Global - MSCI All Country IMI	15.81%	16.81%	10.28%	12.73%	9.66%
<u>Fixed-Income (Bond) Indices</u>					
Bloomberg Barclays					
Global Aggregate - Unhedged	3.29%	9.20%	4.85%	4.79%	3.05%
Global Aggregate - Hedged	0.89%	5.58%	5.15%	4.49%	NA
U.S. Aggregate	0.67%	7.51%	5.34%	4.44%	3.84%
U.S. Treasury TIPs	1.62%	10.99%	5.92%	5.08%	4.54%
U.S. Corporate High Yield	6.45%	7.11%	6.24%	8.59%	6.41%
Municipal	1.82%	5.21%	4.64%	3.91%	4.93%
International Emerging Markets	4.50%	6.52%	5.53%	6.91%	6.59%

Source: ftserussell.com, reit.com, us.spindices.com, msci.com, bloomberg.com