

Nauset Market Commentary Fourth Quarter 2020

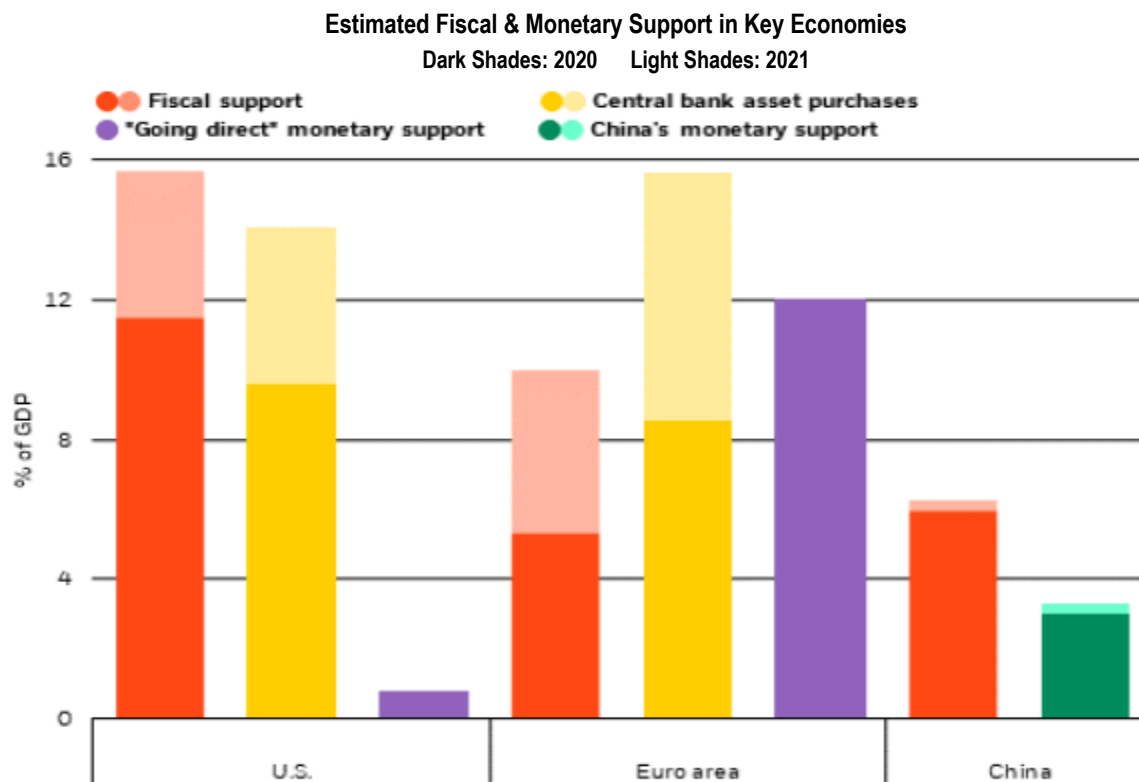
Market Performance Recap: **Stocks Close 2020 on New Highs**

The strong stock market rally off March lows continued in Q4 on the news and rollout of two highly effective vaccines. This occurred while the US economic recovery slowed in the face of surging Covid-19 infections. Forward-looking investors drove the Russell 1000 up +13.7% in the quarter to finish the year at +21.0%. Tech and consumer stock sectors outpaced the market, while energy and real estate lagged. US small cap stocks were the big winner for the quarter with a gain of +31.4%, up +20.0% for 2020. International stocks posted 2020 gains of +7.8% for EAFE and +18.4% for Emerging Markets index. Bonds posted a small Q4 gain of +0.5% to finish the year at +6.4% per the Barclays Intermediate Gov't/Credit bond index.

Economic & Market Discussion: **Market Rally Redux?**

Investor consensus points to another positive year for the US and global stock markets. With effective vaccines expected to tame the ongoing Covid-19 pandemic, investors foresee a ramp up in the synchronized global economic recovery. Is the optimism justified and what could go wrong?

- **Massive Government Support** – The US and most major global economies are being supported by historic levels of monetary support from aggressive bond-buying programs and zero or near-zero short-term rates. Add to that, record levels of fiscal help from commercial loans and grants to direct stimulus checks to individuals. The chart below shows this tremendous economic support as a percent of GDP offered by major governments and central banks around the world.



Source: BlackRock Investment Institute with data from Haver Analytics, December 2020

- **Light Blue Policy** – With Biden as the new President, we must consider the prospect of new or changing policy in key areas. We do expect new stimulus programs, as well as indications of potential change in tax, trade and infrastructure policy. While immediate major policy shifts are unlikely given the slim Democratic Senate advantage, these hot button policy issues can positively or negatively impact the

ongoing economic recovery and thus the markets. We welcome more stimulus to support the economic recovery, and will closely monitor any policy shifts that might create economic headwinds.

- **Unknown Unknowns** – With economies poised to recover and vaccines being rolled out, all signs point to a favorable market outcome. Right? If 2020 has taught anything, it is unforeseen factors and events that roil the markets can and do happen. Given the unusual nature of the pandemic and its impact we feel the current economic recovery is particularly vulnerable to the unexpected. Therefore, we all need to keep in mind that there are a multitude of uncertainties that could derail the economy and the markets as the new year unfolds.

Portfolio Strategy: Conviction with Flexibility

Our base case is that easy money policies and positive earnings growth will continue to support stocks despite current full valuations. We are optimistic for gains in 2021, but will remain balanced and ready to adjust allocations as we move forward.

- **Stay with Stocks** – Even with the strong 2020 results, we believe stocks continue to show favorable relative value compared to other asset classes. Therefore, we will continue to hold slight overweight equity allocations in most portfolios.
- **Tech and Industrial Overweights** – We continue to focus on tech and tech-enabled investments across our equity allocations. While some mega-tech stocks may face possible legislation, we believe tech-related investments will continue to provide attractive long-term value, especially during the continued pandemic-induced uncertainty. We have added a new allocation to industrial stocks which we believe will benefit from the expected economic recovery.
- **Maintain Flexibility** – As the economy continues its recession recovery, we expect new opportunities to arise. We intend to seek attractive new investments in stock as well as bond areas as they develop during the next several quarters.

Market Index	Market Performance				
	% Change for Periods Ended 12/31/2020				
	Fourth Quarter	2020	1-Year	3-Year Annual.	5-Year Annual.
Russell 1000	13.69	20.96	20.96	14.82	15.60
MSCI EAFE – Non-US	15.76	7.81	7.81	4.28	7.45
Russell 2000	31.37	19.96	19.96	10.25	13.26
MSCI Emerging Markets Equity	19.43	18.35	18.35	6.21	12.82
DJ US Real Estate	7.72	-5.29	-5.29	5.42	6.72
NASDAQ Composite	15.63	44.92	44.92	24.39	22.12
Barclays Gov't/Credit Intern. Bond	0.48	6.43	6.43	4.67	3.64
Wilshire Liquid Alternative	4.37	3.18	3.18	1.76	2.52
3-Month T-Bill	0.02	0.58	0.58	1.56	1.16