

# Capital Market Review / *Fourth Quarter, 2020*

## The Big Picture

“To everything there is a season, and a time to every purpose under the heaven.”  
Ecclesiastes 3:1

Yes, that is right, this is not just a song by the Byrds, it is scriptural wisdom and whether one learned it in Sunday school or by singing along to the radio it is just as true. For what seems like years now, we have been talking about the market’s unhealthy skew towards large growth companies.

The rising tide has not lifted all ships and investors who buy value stocks, or the stocks of smaller companies and those



headquartered overseas have seen little in the way of growth.

Some of our clients have even taken to making fun of me (to my face – they always make fun of me behind my back) because of my insistence that this will pass. The season will change, value is coming. Not only has my tune not changed, but we may have already seen the change.

The trigger for this season change appears to be Wall Street’s hope for stimulus. The focus on the word stimulus was translated economic growth. We have seen false starts in this transition before, and it is possible that is all the last four months have been. These larger trends do however go on for years, and lately a decade seems to be the life span. “To everything there is a season...a time to plant, and a time to pluck up that which is planted.” We appear to be in the time to plant some diversification.

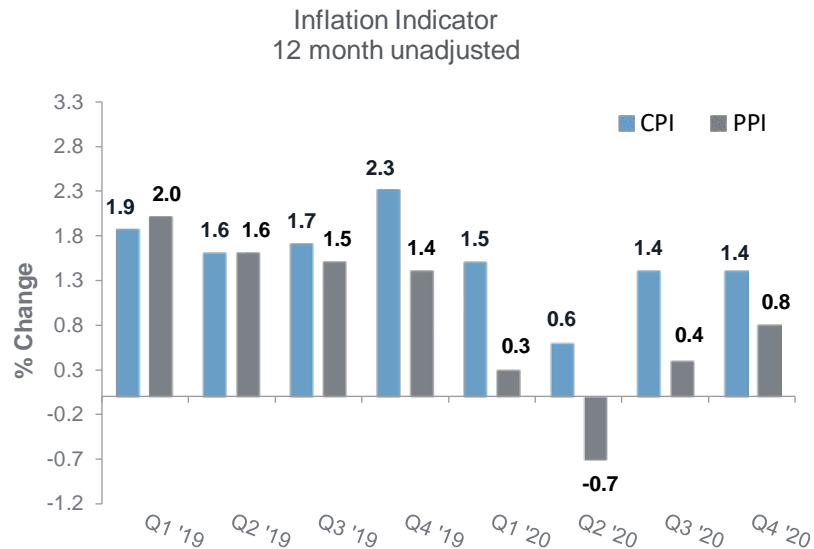
*The trigger for this season change appears to be Wall Street’s hope for stimulus*

## The Economy

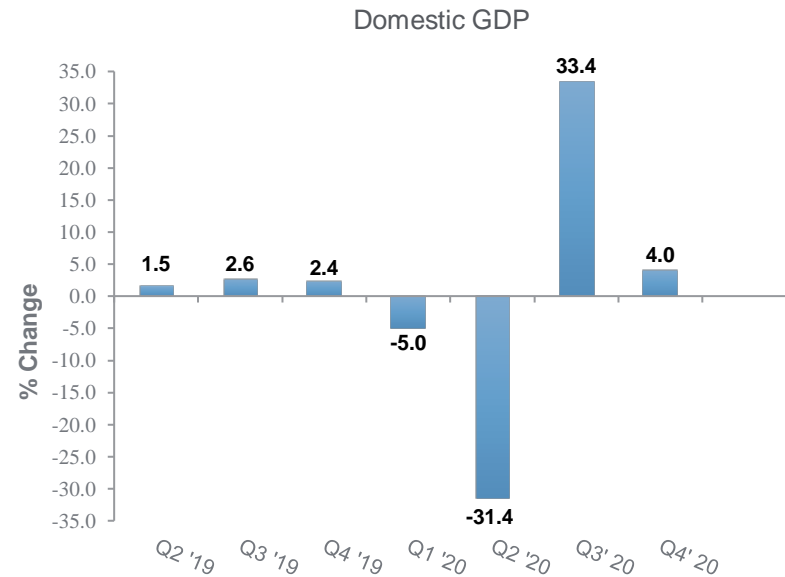
**The 3rd quarter 2020 GDP growth came in up 33.4 percent on an annualized and seasonally adjusted basis.** In plain English economic activity was up just under 10 percent from the 2nd quarter. The 4th quarter's first reading was a more normal 4 percent.

The official unemployment rate is 6.7 percent in November. Jobs have come back at a rapid clip. While still higher than we like, this is getting back to normal range. The traditional belief was that 6 percent represented full employment, although we had been well below that before Covid-19.

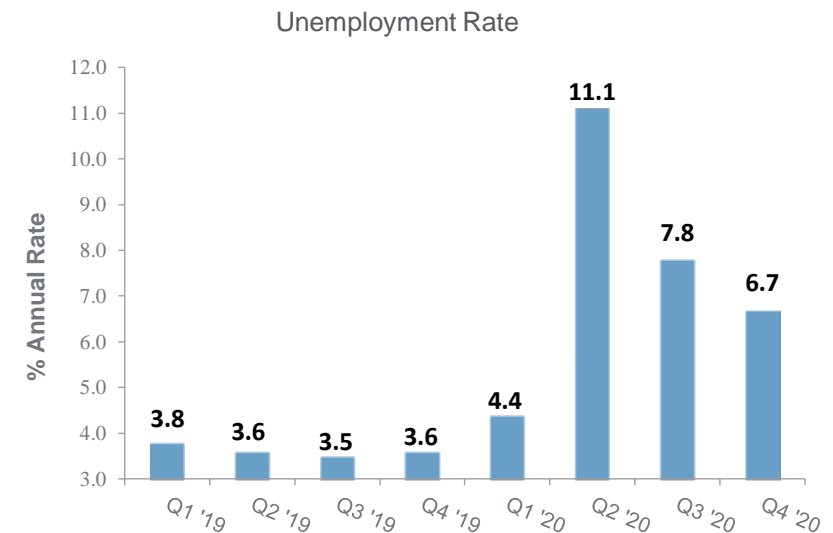
Inflation is 1.4 percent based on the latest consumer price index report. That is improved from the crisis but still well below the Fed's 2 percent target. Expect the Fed to continue to be very aggressive.



Source: Factset



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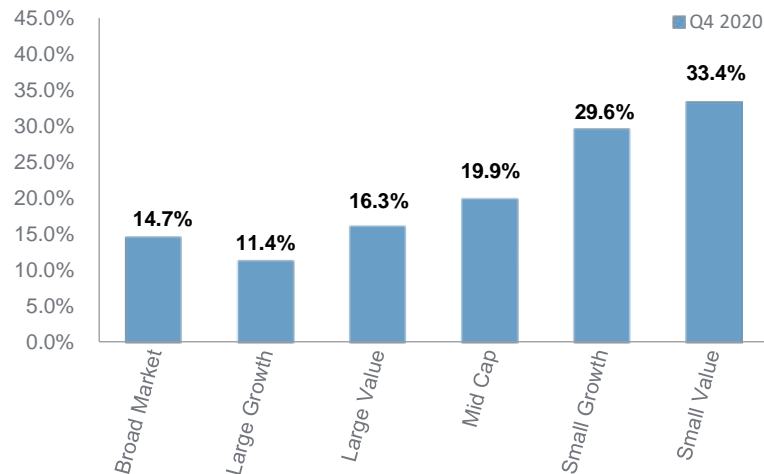
Source: Factset

## Domestic Equity Markets

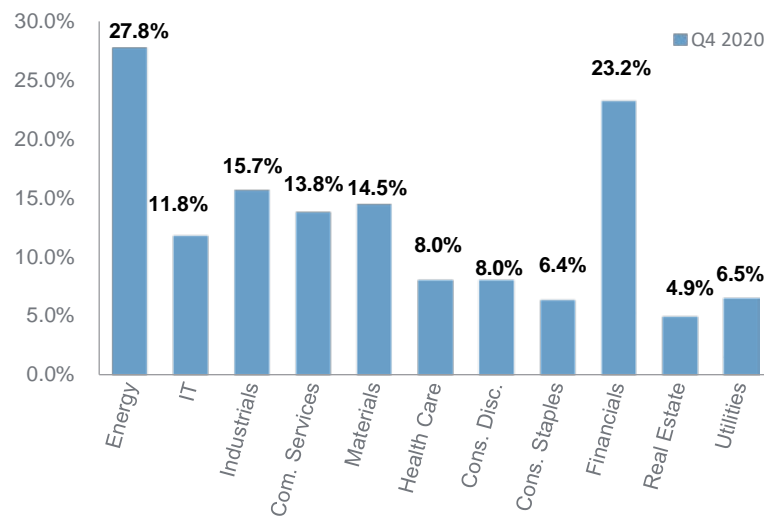
**The market finally rotated.** For the quarter the S&P 500 finished up 12.15 percent and small company stocks represented by the Russell 2000 index were up 31.37 percent. Value had its long-awaited comeback outperforming growth for the quarter.

Energy was the best place to be followed by financials. These are two of the stereotypically value areas of the market. The focus was on the hope for stimulus and stronger economic growth.

Domestic Equity Market Returns



S&P GICS Sector Returns

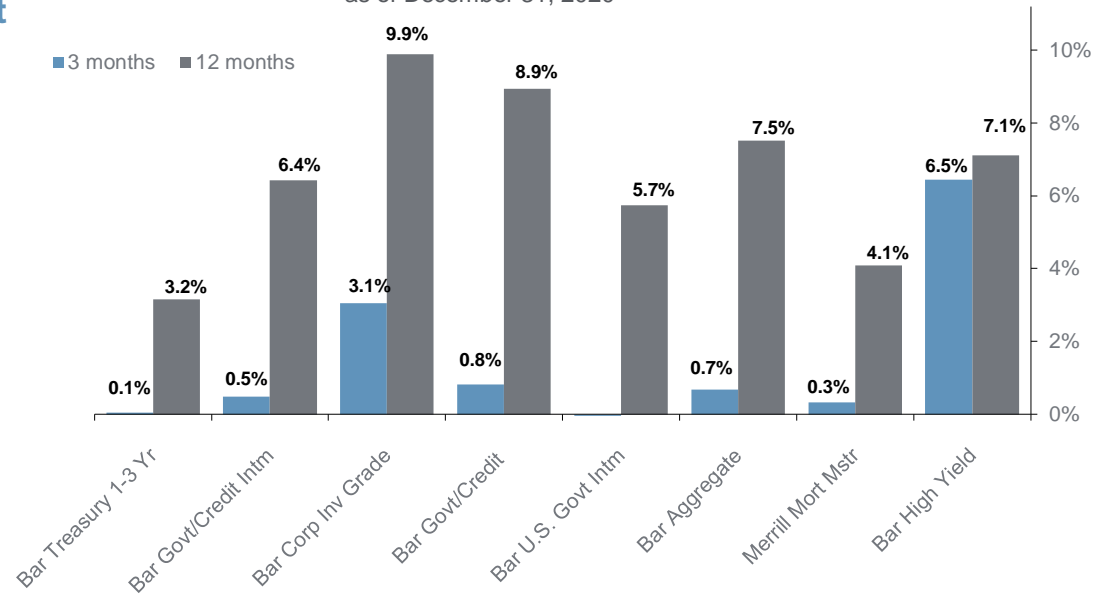


## Domestic Fixed Income Market

**Bonds were up slightly for the quarter.** The Barclays US Aggregate Bond index ended up 0.67 percent. High yield bonds rose 6.48 percent.

The ten-year Treasury ended the quarter with a 0.93 percent yield. That will not pay for retirement, so bonds remain unattractive.

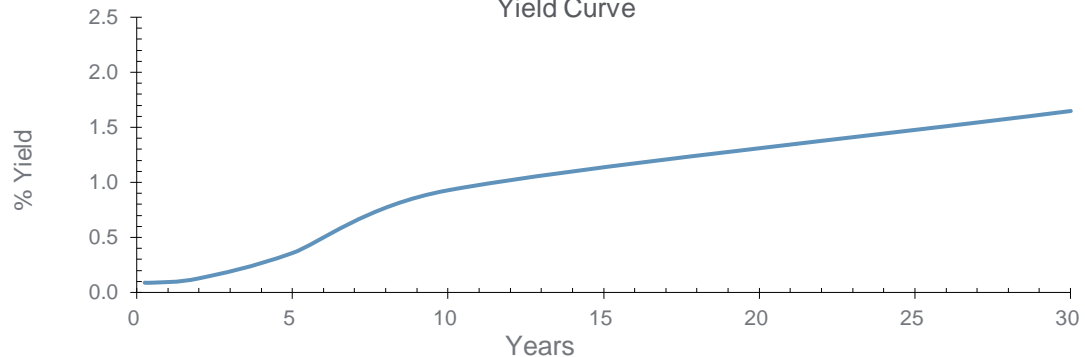
U.S. Fixed Income Market Performance as of December 31, 2020



Yield Curve as of December 31, 2020

Time to Maturity	Interest Rate
3 Month	0.09
6 Month	0.09
2 Year	0.13
5 Year	0.36
10 Year	0.93
30 Year	1.65

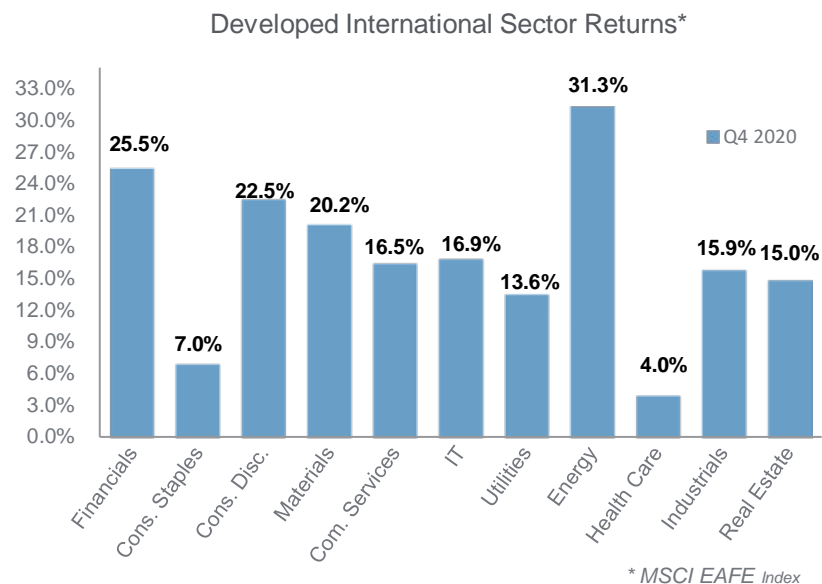
Yield Curve



## International Markets

**International stocks outperformed as well.** The EAFE index finished up 16.09 percent while the MSCI Emerging Markets index ended the quarter up 19.77 percent.

Once again international markets followed the US with energy and financials leading the way. They also saw strong returns in consumer stocks and the stocks of materials companies.



Source: T. Rowe Price

## MSCI Country Returns Three Months Ending December 31, 2020

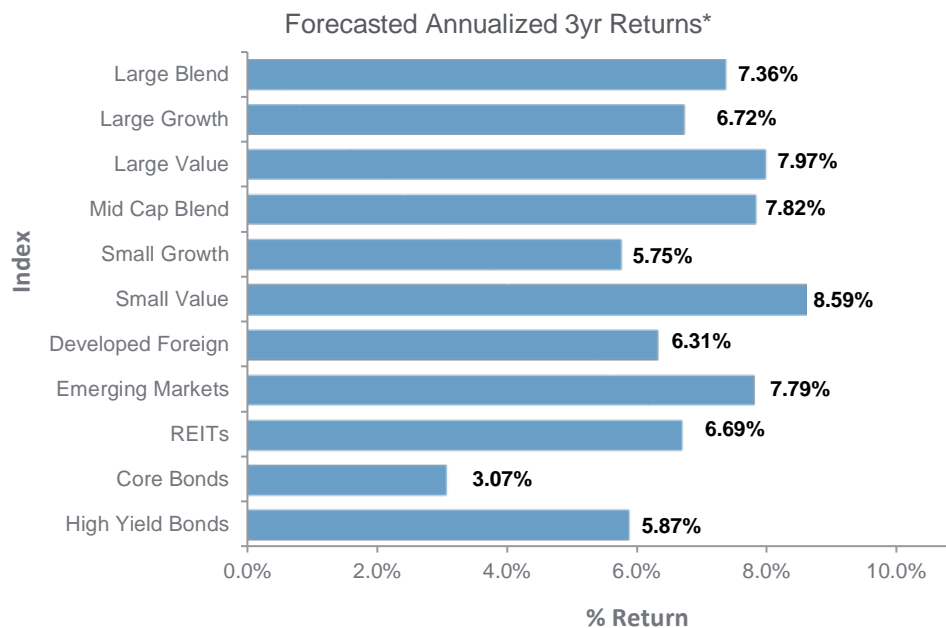
	Return US\$ (%)	Return Local Currency (%)	Currency Effect (%)
Austria	47.89%	41.74%	6.15%
Belgium	18.51%	13.58%	4.93%
Denmark	14.05%	9.30%	4.75%
Finland	10.21%	5.62%	4.59%
France	20.41%	15.40%	5.01%
Germany	11.52%	6.88%	4.64%
Ireland	13.01%	8.31%	4.70%
Italy	22.44%	17.35%	5.09%
Netherlands	18.45%	13.61%	4.84%
Norway	19.16%	9.04%	10.12%
Portugal	21.61%	16.55%	5.06%
Spain	27.81%	22.49%	5.32%
Sweden	14.66%	5.21%	9.45%
Switzerland	8.27%	4.17%	4.10%
UK	16.95%	10.61%	6.34%
<b>Europe Total</b>	<b>15.66%</b>	<b>10.31%</b>	<b>5.35%</b>
Australia	22.94%	14.20%	8.74%
Hong Kong	15.46%	15.51%	-0.05%
Japan	15.29%	12.80%	2.49%
New Zealand	13.20%	3.92%	9.28%
Singapore	18.88%	15.09%	3.79%
<b>Pacific Total</b>	<b>16.75%</b>	<b>13.24%</b>	<b>3.51%</b>
Brazil	37.08%	26.32%	10.76%
Canada	14.14%	8.87%	5.27%
China	11.21%	10.67%	0.54%
Greece	16.40%	11.56%	4.84%
Hungary	39.19%	33.22%	5.97%
India	21.17%	20.00%	1.17%
Indonesia	31.83%	24.48%	7.35%
Korea	38.58%	28.72%	9.86%
Mexico	31.17%	18.40%	12.77%
Poland	16.56%	12.33%	4.23%
Russia	22.01%	16.98%	5.03%
Thailand	25.48%	18.64%	6.84%
<b>Emerging Markets</b>	<b>19.77%</b>	<b>16.09%</b>	<b>3.68%</b>

## Market Forecast

**We have finally gotten a rotation into value and small stocks.** The question is, can this last or is it yet another false start? We believe it can last.

Value stocks and small company stocks still have more room to run. International stocks have had a lost decade and their outperformance should continue as well.

Bonds still make no sense at these prices. High yield bonds may be the only place to get positive long-term returns.



Changes in Return Expectations  
as of December 31, 2020

Asset Class	Change Over Quarter	Change Over Year
Large Blend	-0.13%	-0.44%
Large Growth	-0.06%	-0.36%
Large Value	-0.16%	-0.48%
Mid Cap Blend	-0.07%	-0.32%
Small Growth	0.37%	-0.08%
Small Value	0.24%	-0.12%
Developed Foreign	-0.20%	-0.42%
Emerging Markets	-0.03%	-0.53%
REITs	0.06%	-0.18%
Core Bonds	-0.07%	-0.62%
High Yield Bonds	-0.38%	-0.36%

\*Forecasted 3-year annualized returns represent Iron Capital's investment return expectations for various asset classes over the next 3 years. They are calculated using a weighted average of historic returns and forward return assumptions. They are meant to be a tool to judge relative attractiveness of asset classes and not a guarantee of future investment returns.

## SELECTED INDEX RETURNS - PERIODS ENDING December 31, 2020

	Quarter	Year-to-Date	One Year	Three Years	Five Years	Ten Years
<b>US EQUITIES</b>						
Broad Stock Market - Russell 3000	14.68%	20.89%	20.89%	14.49%	15.43%	13.79%
Large Stocks - S&P 500	12.15%	18.40%	18.40%	14.18%	15.22%	13.88%
Dow Jones Industrial Average	10.73%	9.72%	9.72%	9.90%	14.65%	12.97%
Medium-Size Stocks - Russell Mid-Cap	19.91%	17.10%	17.10%	11.61%	13.40%	12.41%
Small Stocks - Russell 2000	31.37%	19.96%	19.96%	10.25%	13.26%	11.20%
Small Value Stocks- Russell 2000 Value	33.36%	4.63%	4.63%	3.72%	9.65%	8.66%
Small Growth Stocks- Russell 2000 Growth	29.61%	34.63%	34.63%	16.20%	16.36%	13.48%
Large Value Stocks - Russell 1000 Value	16.25%	2.80%	2.80%	6.07%	9.74%	10.50%
Large Growth Stocks - Russell 1000 Growth	11.39%	38.49%	38.49%	22.99%	21.00%	17.21%
<b>US FIXED INCOME</b>						
1-3 Yr Treasury (Govt) Bonds - Barclays Capital	0.05%	3.16%	3.16%	2.77%	1.91%	1.31%
US Government Bonds Int - Barclays Capital	-0.22%	5.73%	5.73%	4.10%	2.89%	2.46%
US Corporate Inv Grade Bonds - Barclays Capital	3.05%	9.89%	9.89%	7.06%	6.74%	5.63%
Government/Credit (Corp) Bonds - Barclays Capital	0.82%	8.93%	8.93%	5.97%	4.98%	4.19%
Int Govt/Credit (Corp) Bond - Barclays Capital	0.48%	6.43%	6.43%	4.67%	3.64%	3.11%
US Aggregate Bond Market - Barclays Capital	0.67%	7.51%	7.51%	5.34%	4.44%	3.84%
Mortgage Master - Merrill Lynch	0.33%	4.09%	4.09%	3.84%	3.13%	3.03%
US Corp High Yield Bonds - Barclays Capital	6.45%	7.11%	7.11%	6.24%	8.59%	6.80%
<b>INTERNATIONAL (Measured in US Dollars)</b>						
Non-US Stocks - MSCI EAFE	16.09%	8.28%	8.28%	4.79%	7.97%	6.00%
World Stocks (includes US) - MSCI World	14.07%	16.50%	16.50%	11.15%	12.82%	10.48%
European Stocks - MSCI Europe	15.66%	5.93%	5.93%	4.18%	7.42%	5.94%
Japanese Stocks - MSCI Japan	15.29%	14.91%	14.91%	6.45%	9.04%	6.80%
Asian Stocks (Ex-Japan) - MSCI Pacific ex-Japan	20.10%	6.65%	6.65%	4.31%	9.09%	4.96%
Chinese Stocks - MSCI China	11.21%	29.67%	29.67%	9.22%	15.25%	7.84%
Indian Stocks - MSCI India	21.17%	15.90%	15.90%	4.94%	9.59%	3.41%
Emerging Markets - MSCI EM	19.77%	18.69%	18.69%	6.56%	13.22%	4.00%
Int'l Govt Bonds -Citi World Govt Bond (Non USD)	4.82%	10.78%	10.78%	4.63%	5.17%	1.88%
<b>REAL ESTATE</b>						
FTSE NAREIT Equity-Reits Index	11.57%	-8.00%	-8.00%	3.25%	4.68%	8.26%
<b>SHORT TERM INTEREST RATES</b>						
T-Bills	0.02%	0.58%	0.58%	1.56%	1.16%	0.60%

Note: Returns for periods longer than 12 months are annualized.