

~ Prevailing Winds ~

A Quarterly Market Update

December 31, 2020

Quarterly Recap:

Given the degree of tragedy, despair, and unease, it is fair to characterize the final quarter and the entire year as being difficult. Inappropriate though it may be, the past quarter has been amazingly good for the financial markets. While Covid-19 cases and deaths rose globally, modern science delivered its first doses of effective vaccines. We also somehow made it through a difficult electoral period. With this backdrop, investors recognized the beginning of the end of a dark period and the market indices reflect recovery and optimism.

Quarter Ending December 31, 2020

Equity Indexes	Close	% Change
DJIA	30606.48	10.2%
S&P 500	3756.07	11.7%
NASDAQ	12888.30	15.4%
Treasuries	Close	Change
10-Year Yield	0.93%	0.24
2-Year Yield	0.13%	0.00

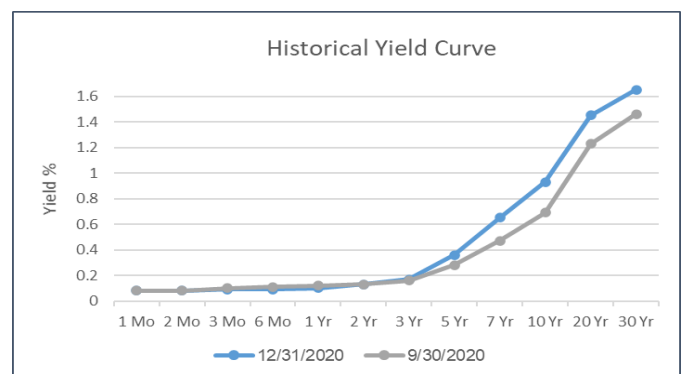


The Stock Market:

The stock market returned another impressive rally during the final quarter of the year. Once again, corporate profits proved to be somewhat resilient and much better than what was feared back in March and April. Investors also began to flock towards more cyclical parts of the market, believing that a return to normalcy will allow for increases in capital spending. Going forward, the debate as to whether the market is overvalued will continue. While we agree that high valuations may preclude outsized gains, we do not see signs of widespread market "bubbles".

The Bond Market:

Interest rates took a backseat for the most part during the quarter. The Federal Reserve controls rates for the shorter maturities and they made no indications that they plan to change their approach anytime soon. Buoyed by the optimism from the vaccine, investors in longer term bonds saw rates rise (while prices fell). This represents at least some indication that there is indeed a light at the end of the tunnel for those seeking a reasonable income from fixed income. The unfortunate reality is that the so-called tunnel is a long one.



Looking Ahead:

As we close out 2020, we are advised by health experts to brace for a "dark winter". Market strategists, however, remain somewhat optimistic. Like traditional warfare, it may be that we will win the war but the struggle will be difficult and the costs will be high. The same is often true with time tested investment strategies- at times battered and bruised but generally prevail over longer periods of time. We wish for nothing more than the health, happiness, and financial well-being for our clients and friends.