MARKET OVERVIEW
Fourth Quarter 2020

OPAL WEALTH ADVISORS

Outlook

The beginnings of a global push on Covid-19 vaccinations, lifting of U.S. election uncertainty, ultra-accommodative policies, and a continuation of the cyclical economic recovery drove equity markets to all-time highs in the fourth quarter. The S&P 500 rally kicked off after the election, finishing the quarter up 12.2%, the best Q4 since 1999, and +18.4% on the year. Non-U.S. developed markets benefited from a weak U.S. dollar (-4.4%) in the fourth quarter, helping push developed and emerging market equities higher by 16.1% and 19.8% respectively. Longer term interest rates edged up slightly during the quarter while short rates remained anchored by a static Fed policy, leaving the investment grade bond market up 0.7% and long-term Treasuries down 3.0%. Overall, the bond market finished the year with a healthy 7.5% return. The commodity complex surged broadly higher on the back of strong moves in oil, grains, as well as industrial and precious metals.

As our observations detail below, a continuation of improvement in the global economy and highly accommodative policies lay a nice foundation to maintain a relatively constructive view looking forward into 2021. Conversely, known and unknown risks always present ample reasons for caution. Overall, we are maintaining an overweight to equity over fixed income with a cyclical tilt to equities and a short duration tilt in fixed income coming into 2021.

Constructive Observations

- Highly accommodative (monetary & fiscal) policy for the foreseeable future, loose financial conditions, and excessive market liquidity all remain very supportive to risk assets globally.
- The Fed and most foreign central banks are maintaining aggressive QE and low (or negative) interest rate policies.
- Fiscal policies in Europe, Japan, and particularly the U.S. remain very stimulative and should further support consumer spending and risk assets.
- Markets have priced in the pro-growth D-sweep considerations including large fiscal stimulus, reduced tariffs and free trade while discounting the restrictive considerations including higher taxes, increased regulations and soaring twin deficits. The very slim Democratic majority poses material obstacles to some of the more progressive initiatives.
- Expectations are for most developed markets to have reached critical mass vaccination progress by mid-2021 with emerging markets reaching some semblance of normalcy during the second half of 2021.

Cautious Observations

- The progression and path of Covid-19 in 2021 remains highly unpredictable, a potentially significant detractor to economic growth.
- Efficacy of the global vaccination effort given global populist agendas, complicated logistics, and the reliance on voluntary individual participation may delay the drive toward immunity.
- Interest rates rising beyond 2020 bunker mentality levels could pose risks to equity valuations and the general cost of capital.
- Risks of unanticipated inflation forcing monetary policy makers to remove accommodation would pose real headwinds to risk assets.
- Increases in taxes in the early stages of this recovery, particularly those that impact the consumer balance sheet, would jeopardize growth.
- We see potential destabilizing regulatory risks including major healthcare reform and censorship/anti-trust momentum across technology.
- Continued social unrest surrounding the U.S. Presidential election may tilt public support away from the current slim Congressional majority.

Economic Overview

Growth

During the fourth quarter, US and global economies continued to rebound from the pandemic-induced recession which began in February. Continued fiscal and monetary stimulus from governments and central banks globally have allowed businesses to continue to stabilize and recover towards normalization. However, the return to "normal" for many countries and industries still comes with a high level of uncertainty due to the uncertain nature and path of the virus.

The Federal Reserve Bank of Atlanta's GDPNow model, a running estimate of growth during the quarter, projects an increase of +7.4% growth, down from +8.7% as estimated earlier for the 4th quarter.

Employment, Consumer, Housing

The unemployment rate declined to 6.9% in October and to 6.7% in December from 11.1% in June. The jobless rate is well above February's generational low of 3.5%, despite the improvement in the unemployment rate. Weekly jobless claims have continued to decline, however, the level remains higher than any point during the past seven recessions.

Housing and mortgage markets continue to perform well. S&P CoreLogic Case- Shiller U.S. National Home Price index was up 8.2% year-over-year in October Home sales and mortgage applications are at levels not seen since 2006-2008. Mortgage rates are at all-time lows, with 30-year mortgage rates currently in the 2.5% – 3.0% range. Housing remains affordable despite recent price increases. Inventories of homes for sale are near historical lows and homebuilding is constrained by labor, materials, and ongoing public health policies.

The Conference Board Consumer Confidence Index slipped below expectations in December (88.6 v 97.0), from November's 92.9 reading. Confidence has declined and remains well below the pre-Covid 19 highs of earlier in the year. The Expectations Index – based on consumer's short-term outlook for income, business and labor market conditions did increase from 84.3 in November to 87.5 in December.

December retail sales missed expectations (-0.7% v -0.1%), evincing the effect of the dwindling fiscal stimulus and labor market momentum. On the contrary, reopening of the economy and a strong fiscal stimulus early in the pandemic helped retail sales recover their pre-recession peak as early as June. On a yearover- year basis, retail sales increased 2.9%, the fastest pace since February, and in line with the average annual gain over the past five years.

Inflation

The most recent BEA data show a year-over-year headline PCE Price increase of 1.1% in November. Core PCE of 1.4% remains significantly below the Fed's 2% target rate. The 5-Year, 5-Year forward inflation expectation rate (measuring average inflation over the five-year period that begins five years from now) is currently registering 2.03%

Central Banks and U.S. Dollar

Although meaningful progress has been made on the development and distribution of vaccines for the coronavirus, cases continue to rise rapidly across the world. Central banks around the world have responded to their struggling economies with historic aggressive monetary stimulus. The BOE has been openly contemplating the possibility of negative interest rates. The ECB is maintaining negative deposit rates, massive QE, and several emergency lending programs. The Federal Reserve's rhetoric has also been decidedly dovish as well. Monetary accommodation appears here to stay for the foreseeable future.

The U.S. Dollar index reached its peak for 2020 on March 19th as pandemic fears reached a crescendo. From that peak date, the index fell 8.9% through September. Over the course of the 4th quarter, the index lost another 4.4%, its weakest performance in the final three months of the year since a 6.4% loss in the fourth quarter of 2003. With the recent rally in risky assets, investors are bidding up assets that do well when times are good, and the U.S. dollar is generally not included in that camp. Many market participants believe the dollar remains overvalued relative to other major currencies, such as the euro and sterling.

Markets Overview

U.S. Equity

Despite an encouraging third quarter, October delivered the worst return for equity markets since

March. The S&P 500 was down 2.8% in October but, finished the year up 18.4% and +63.0% from the Covid low in late March. The market volatility of 2020 was most strikingly evidenced by the performance of the S&P 500 and longterm U.S. Treasury bonds: both finished the year with performance within +/- 0.3% of each other. Although value stocks out-performed growth stocks in the fourth quarter, growth-style equities dramatically out-performed value stocks over the course of the year. Small-cap stocks (as proxied by the Russell 2000 Index) had a banner quarter, up over 31%, and slightly out-performed large-caps for the year (20% vs. 18.4%).

Performance dispersion was dramatic at the sector level all year, and this continued during the quarter. Energy stocks were the strongest performers in Q4, returning over 27%, but still finished the year – 33%. Info. Tech was up a respectable 12% in the quarter but dominated for the year with a +43% return. Consumer Discretionary, Communication Services and Materials all out-performed broadmarket averages in 2020. Energy, Financials, Real Estate and Utilities sectors all turned in negative or flat performance for the year.

International and Emerging Market Equity

For the quarter, international developed and emerging market stocks outperformed the S&P 500 index, by 4% and 7%, respectively. Like U.S. markets, growth stocks dramatically out-performed value stocks on the global stage for the year. The Asia/Pacific region notably out-performed Europe in 2020 while Chinese stocks surged nearly 30%. Japan's stock market increased 15% for the year, while the U.K. declined -10%. Germany was up 12% and France eked out a 5% return for the entirety of 2020.

Fixed Income Markets

- Investors positioned themselves for improved economic growth and higher inflation over the coming year by pricing in a steeper yield curve in the 4th quarter. Yields on 2-year Treasuries were almost unchanged while the 5-year rose 8 bps, the 10-year rose 24 bps and the 30-year rose 19 bps. The 10-year closed the year at 0.93%. Although Treasury yields rose, they remain at historically low, almost bunker mentality, levels.

- The Bloomberg/Barclay's Capital Aggregate Index returned 0.7% in the 4th quarter, driven by the performance of investment grade corporate bonds. Lower quality securities had the highest returns with both high yield and emerging markets debt posting above 5% for the quarter. Treasury prices declined for intermediate and longer maturities after experiencing massive price increases earlier in the year due to a flight to quality. Mortgages managed returns slightly above 0% for the quarter.

- Spreads were tighter across all credit sectors as investor sentiment continued to express optimism about the vaccine and long-term economic growth. Spreads have tightened dramatically since late March and have recovered most of the widening from early in the year. Investment grade spreads declined from 1.35% to 0.95% in Q4, while high yield spreads fell from 5.47% to 3.87%.

Real Assets

Oil prices recovered off pandemic lows of -$36 in April to settle around $40 for most of the year but surged 29% after the election, still finishing the year down over 40%. Gold took a breather in the fourth quarter (-0.4%) but finished the year up over 20% while silver rode the global industrial recovery to post quarter and calendar year gains of 11.8% and 42.5% respectively. Industrial metals and agricultural commodities both increased by doubledigits in Q4 and finished the year with similar returns just above 16%.

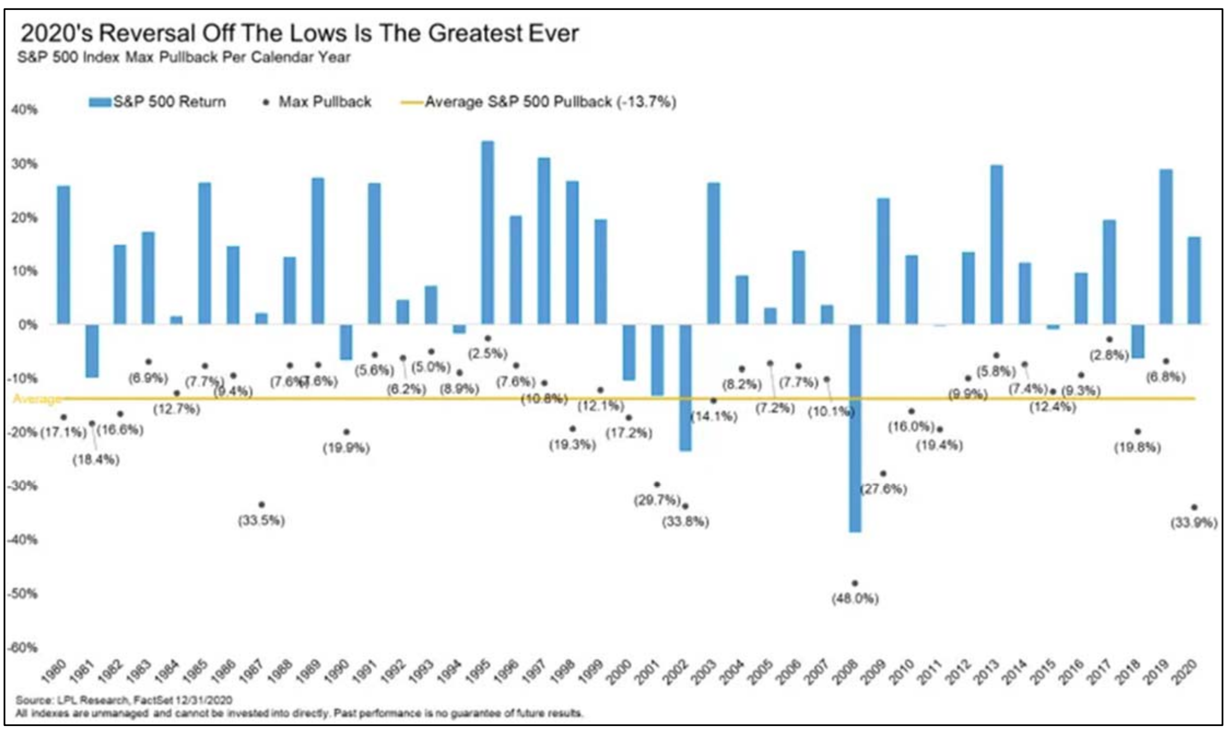
Charts of Interest

Anatomy of 30% Declines in S&P 500 Index						
Peak Date	**Bottom Date**	**Peak to Bottom (Months)**	**Peak To Bottom (% Change)**	**New High Date**	**Bottom Date to New High Date (Months)**	**Peak Date to New High Date (Months)**
11/29/68	5/26/70	17.8	-36.1	3/6/72	21.4	39.2
1/11/73	10/3/74	20.7	-48.2	7/17/80	69.5	90.2
8/25/87	12/4/87	3.3	-33.5	7/26/89	19.7	23.0
3/24/00	10/9/02	30.5	-49.2	5/30/07	55.7	86.2
10/9/07	3/9/09	17.0	-56.8	3/28/13	48.6	65.6
2/19/20	3/23/20	1.1	-33.9	8/18/20	4.9	5.9
Median		**17.8**	**-48.2**		**48.6**	**65.6**

2020 case not included in summary statistics. Source: S&P Dow Jones Indices

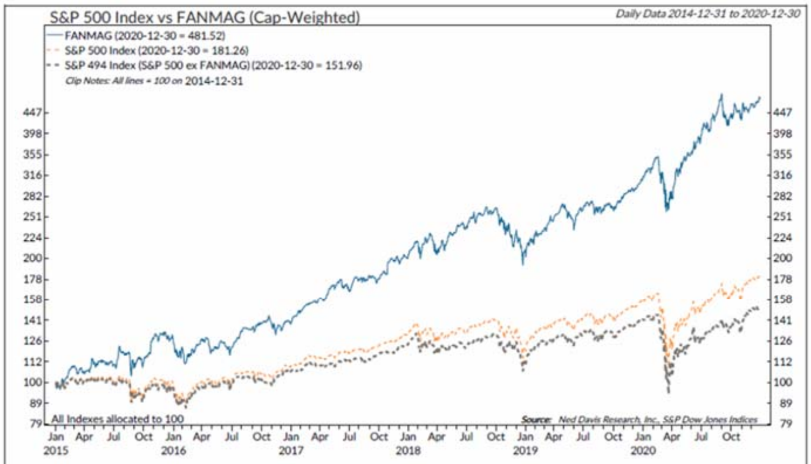
Ned Davis Research T_SSF20_29.1

Source: Ned Davis Research.



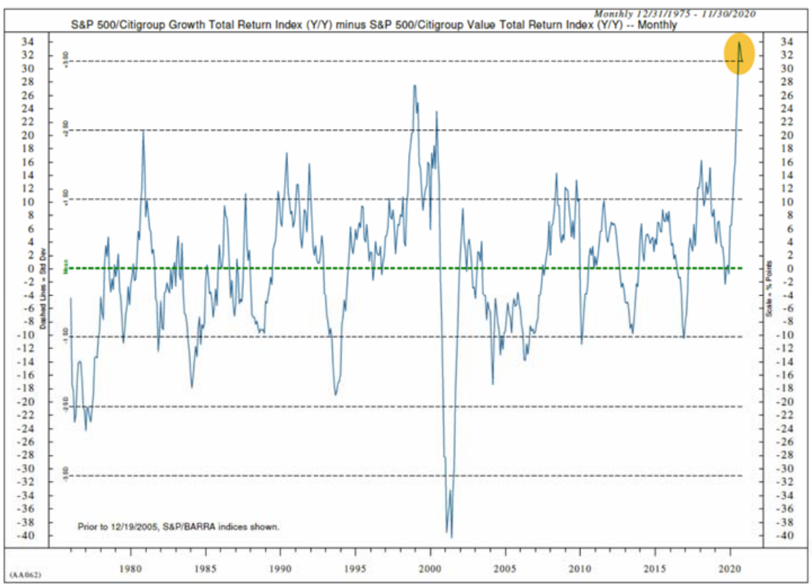
Source: LPL Financial / FactSet.

Charts of Interest



Ticker	Name
FB	Facebook
AMZN	Amazon.com
NFLX	Netflix
MSFT	Microsoft
AAPL	Apple
GOOGL	Alphabet

Index (Cap-Weighted)	Gain/Annum % 2014-12-31 to 2020-12-30	YTD % 2019-12-31 to 2020-12-30
FANMAG	29.93	56.23
S&P 500 Index	10.42	15.52
S&P 494 Index (S&P 500 ex FANMAG)	7.22	7.37



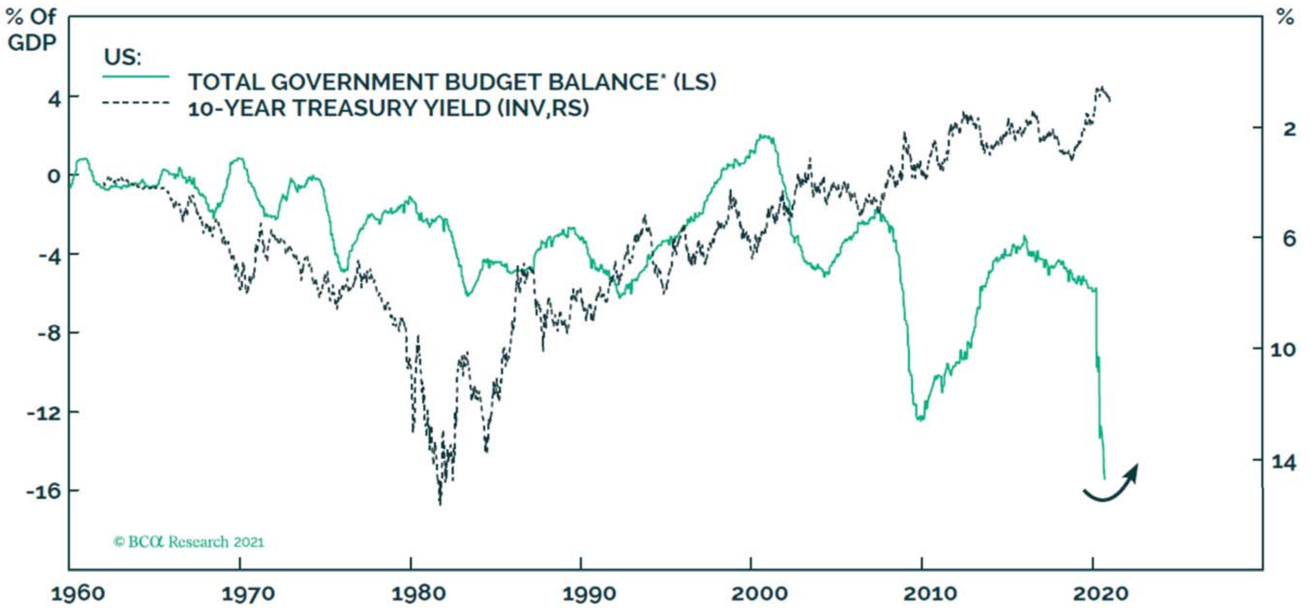
Source: Ned Davis Research.

Average Inflation, Treasury Yields, Valuation, Tax Rates & Nominal GDP by Decade

	CPI Y/Y % Change	S&P 500 Operating P/E	10 Year Treasury Yield	Dividend Tax Rate	Capital Gains Tax Rate	Nominal GDP
1950s	2.1%	12.6	3.0%	91.0%	25.0%	7.1%
1960s	2.3%	18.1	4.7%	80.3%	25.4%	7.0%
1970s	7.1%	12.5	7.5%	70.2%	36.0%	10.2%
1980s	5.6%	11.7	10.6%	48.4%	23.6%	7.8%
1990s	3.0%	19.5	6.6%	37.0%	26.0%	5.6%
2000s	2.6%	20.1	4.4%	23.4%	16.8%	4.0%
2010s	1.8%	17.7	2.4%	21.2%	21.2%	4.1%
Average	3.5%	16.X	5.6%	53.1%	24.9%	6.6%
Current	1.2%	31.1X	0.9%	23.8%	23.8%	38.0%

Source: Strategas.

Charts of Interest



Source: Bank Credit Analyst.

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Opal Wealth Advisors / 2 Jericho Plaza / Suite 208 / Jericho, NY 11753 / t. 516.388.7980 / f. 516.388.7968 / **opalwealthadvisors.com**