MONTHLY MARKET UPDATE
December 2020

OPAL WEALTH ADVISORS

The year 536 AD, which included a climate catastrophe, a plague, and the beginning of the Dark Ages, is the year many consider to be the worst in human history. 2020 may not have reached that bar, but it certainly flirted. Regardless, we can finally declare 2020 a memory with December delivering several reasons for the financial markets to be cheerful, with the most notable being another Covid relief bill in the U.S. and the first push of Covid vaccines globally. The reflation trade remained the dominant theme during the month with U.S. stocks finishing up 4% to close the year at record highs. Aided by further weakening in the USD (-2.1%), both developed (+4.6%) and emerging markets (+7.4%) posted robust gains for the month. The reflation trade also pushed precious metals higher as gold (+6.4%) and silver (+16.9%) posted strong risk-adjusted performance. Yields remained relatively flat for the month despite the reflationary momentum seen across the equity and commodity markets and credit spreads tightened in sympathy with the rally in risk assets. High yield spreads tightened from 4.33% to 3.86% and investment grade spreads compressed from 1.12% to 1.03%.

After many fits and starts on a Covid fiscal relief package, a $900b deal finally came together just before the Christmas holiday which, combined with the beginning of global Covid vaccine rollouts, represent a big relief to risk markets given the increasingly mixed bag of economic reports in December. Many eyes were trained on Georgia throughout the month with the balance of power for the U.S. senate hanging in the balance, albeit a historically slim margin either way. Ultimately, team D would prevail in early January, providing the Trump administration the dubious distinction of being the first administration since Herbert Hoover to complete a first term and be swept out of both chambers in Congress and the White House.

Market Anecdotes

- The Russell 2000 hit a Covid-19-panic low of The S&P 500 and nearly all other major U.S. equity indices ended 2020 with all-time record highs. The S&P finished up 16.26% for 2020 and +71.4% from the March 23rd Covid low.
- 2020 was a barbell sort of year in that the top performing stocks of 2020 consisted of the best and worst performers of 2019 and the highest and lowest leveraged balance sheets entering the year. The clearest winning factor last year was high P/E ratios - the more expensive the better.
- Bespoke noted an amazing fact that despite all the stock and bond market volatility in 2020, it ended as just the third time in over 40 years where the S&P 500 and long-term U.S. Treasury bonds finished within +/-1% performance of each other.
- Bottom up FactSet EPS estimates for 4Q20 increased by 2.3% during the quarter, the second consecutive quarterly increase following eight consecutive quarterly declines.
- ICI mutual fund and ETF data released in December showed $43b of equity fund inflows in November, the first net positive flow since February 2019 and the largest in nearly two years.
- Bond yields and the associated ripple effects (growth/value, USD, small caps, etc..) are very much in focus with both monetary and fiscal stimulus we see today.
- The 30yr UST yield bottomed on March 9th at 0.997% and moved to 1.65% at year end. The 10yr UST yield bottomed on August 4th at 0.509% and moved to 0.93% at year end.
- December saw the 10yr inflation breakevens move from 1.77% to flirt with the 2% level by year end in another sign that inflation dynamics may be starting to normalize.
- A $900b Covid relief package and $1.4t funding bill finally made it through Congress just before Christmas along with a CR to fund the government. Key stimulus contents included

checks of $600/$1,200, extended unemployment benefits of $300/week, and new PPP loan parameters.

- Fed policy remained unchanged in December while the ECB expanded its massive monetary stimulus program by another €500b ($605b) and Japan also announced a new $700b Covid relief economic package.
- Anti-trust headlines hit the wires again last month with the FTC and several states filing suit against FB in a notable U.S. bi-partisan push. The tragic events in early January are sure to add to this momentum. Europe, Canada, and Indonesia are all following a similar trajectory.
- A last-minute push between the U.K. and EU to reconcile their remaining issues led to an uninspiring Brexit agreement and signing on Christmas Eve. Big issues remain concerning financial services, but the fishing rights issue was resolved.
- The highly anticipated Covid-19 vaccinations received emergency approval and inoculations began before year end. This happening as case counts, hospitalizations, and death tolls in the U.S. all moved toward record highs.
- December was the first time since May 2011 that 45 or more commodities were up in price for three straight months.

Economic Release Highlights

- The December U.S. Manufacturing PMI of 57.1 beat consensus estimates and remained solidly in expansionary territory. The global manufacturing PMI for December was unchanged at 53.8 with EZ increasing to 55.2, Japan finally hit the 50 mark, and China declining slightly to 53.
- The December jobs report continued the slowing trend. Payrolls missed consensus calls for +50,000, instead falling by 140,000. Unemployment rate fell to 6.7%.
- U.S. retail sales are showing the effect of waning fiscal stimulus and slowing labor market momentum. They missed expectations by a pretty decent margin (-1.1% v -0.3%). The EU showed effects of the lockdowns, declining 6.1% in November.
- The November Personal Income and Outlays report showed both income (-1.1% v -0.3%) and PCE (-0.4% v -0.2%) falling more than expected while headline and core PCE price index remained very soft at 1.1% and 1.4% respectively.
- December wage growth looked better with average hourly earnings of 0.8% M/M and 5.1% Y/Y, both well in excess of forecasts.
- Consumer confidence of 88.6 slipped from November's 92.9 reading and was well below consensus expectation of 97.0. The UofM consumer sentiment report was also soft but sustained most of the vaccine related rebound, coming in at 80.7.
- The December Housing Market Index remained very elevated but missed expectations (86 v 89) and was down slightly from a 90 reading last month while home prices were robust given October's Case-Shiller Price Index data M/M (1.6% v 0.7%) and Y/Y (7.9% v 6.9%).
- November housing data remained strong. Housing starts (1.547M v 1.530M) and permits (1.639M v 1.553M) came in higher than the prior month and well above expectations. Existing home sales (6.690 v 6.720) came in under expectations for the first time since August and new home sales of 841k cooled off a bit from October's red hot 999k level.

Positioning

Portfolio positioning heading into the new year remains very much in alignment with a global cyclical recovery we believe has ample fuel thanks to ultra-accommodative monetary and fiscal policy backdrops both here and abroad. The clouds of uncertainty surrounding Covid vaccinations, U.S. election outcomes, and fiscal stimulus lifted materially in December. Additionally, a booming manufacturing sector, the robust housing market, and recovering corporate earnings should provide a strong foundation for risk assets.

The trajectory of the economy likely added some near-term tailwinds from the outcome of the elections as pro-growth global trade, domestic infrastructure, and aggressive fiscal stimulus measures are expected to receive a boost. Longer term risks, including massive twin deficits, tax policy, and increased regulation, loom as concerns on the horizon but the narrow majorities in Congress will likely limit the more ambitious aspects of the Biden agenda.

As in November, our research efforts suggest maintaining an overweight to broad equity markets while leaning slightly more into international and emerging markets in lieu of high-grade fixed income (U.S. Treasuries). Additionally, we continue to favor cyclical areas of the equity markets including industrials, materials, and semiconductors.
We transitioned from a growth overweight to a neutral value/growth view in September and are maintaining a weak USD view in light of its counter cyclical nature, massive twin U.S. deficits, ultra-accommodative U.S. monetary policy, and stubbornly negative real yields.

Equity	Level	1 Mo	3 Mo	YTD	1 Yr	3 Yr
Dow Jones	30606	3.41	10.73	9.72	9.72	9.90
NASDAQ	12888	5.71	15.63	44.92	44.92	24.39
S&P 500	3756	3.84	12.15	18.40	18.40	14.18
Russell 1000 Growth		4.60	11.39	38.49	38.49	22.99
Russell 1000 Value		3.83	16.25	2.80	2.80	6.07
Russell 2000		8.65	31.37	19.96	19.96	10.25
Russell 3000		4.50	14.68	20.89	20.89	14.49
MSCI EAFE		4.67	16.09	8.28	8.28	4.79
MSCI Emg Mkts		7.40	19.77	18.69	18.69	6.56
Fixed Income	**Δ Yield**	**1 Mo**	**3 Mo**	**YTD**	**1 Yr**	**3 Yr**
US Aggregate	2.14	(0.08)	(0.19)	(0.56)	(0.56)	(0.18)
High Yield	5.11	(0.16)	(0.39)	(0.32)	(0.32)	(0.48)
Municipal	1.91	(0.04)	(0.09)	(0.23)	(0.23)	(0.25)

Commodities	12/31/20	10/31/20	7/31/20	4/30/20
Oil (WTI)	52.15	35.64	40.10	19.23
Gold	1887.60	1881.90	1964.90	1702.80

Currencies	12/31/20	10/31/20	7/31/20	4/30/20
USD/Euro ($/€)	1.23	1.17	1.18	1.09
USD/GBP ($/£)	1.37	1.29	1.31	1.26
Yen/USD (¥/$)	103.19	104.54	105.78	106.94

Treasury Rates	12/31/20	10/31/20	7/31/20	4/30/20
3 Month	0.09	0.09	0.09	0.09
2 Year	0.13	0.14	0.11	0.20
5 Year	0.36	0.38	0.21	0.36
10 Year	0.93	0.88	0.55	0.64
30 Year	1.65	1.65	1.20	1.28

Style Returns

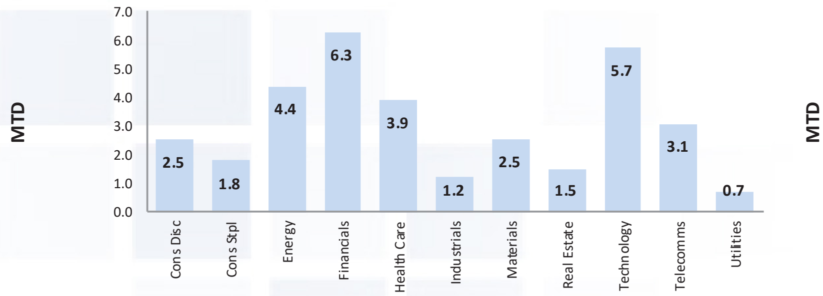
MTD

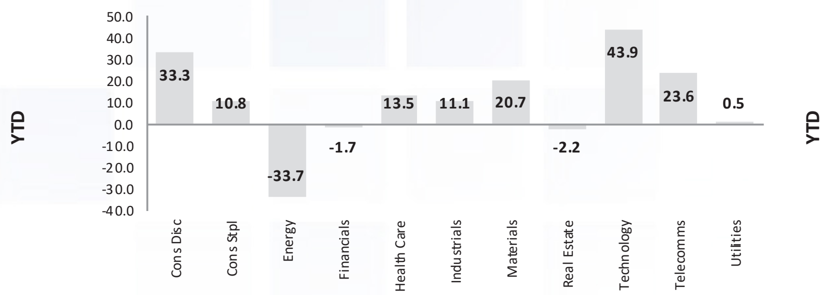
	V	B	G
L	3.83	4.23	4.60
M	4.63	4.68	4.80
S	7.92	8.65	9.35

YTD

	V	B	G
L	2.80	20.96	38.49
M	4.96	17.10	35.59
S	4.63	19.96	34.63

S&P 500 Sector Returns





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