



January 8, 2021

Here is our newsletter for the 4th Quarter of 2020

Market Update

The strong rally continued in the 4th quarter. All asset classes here in the U.S. and around the world were up in the quarter, many with double-digit gains. After lagging for many years, small cap U.S. stocks had a great rebound in the quarter.

For the year, all asset classes had gains except for real estate and commodities. The best asset classes for the year have been U.S. stocks and gold. Foreign developed and emerging market stocks also had good returns. Growth stocks continued to outperform value by a huge margin, as they have for many years. Technology was the clear winner and energy was the big loser.

Intermediate-term bonds and TIPS have done well in the bond space.

Coronavirus Stimulus in 2020

Here is a summary that shows the immense scope of stimulus spending by the U.S. government thru September of last year:

- FY 2020 U.S. Government Spending: \$6.5 trillion-up 47% from previous year
- Stimulus Spending: \$2.6 trillion last year
- FY 2020 Deficit: \$3.1 trillion.6 trillion
- Stimulus Tax Relief: \$900 billion

The increased government spending combined with declining revenue resulted in more than \$3.1 trillion added to the national debt. The federal government spend over twice as much as the revenue it took in. By comparison the stimulus in reaction to the financial crisis in 2008-2009 was \$720 Billion in 2009-2011. Below we will show how the government action has helped stabilize the economy, at least for now.

The Economy: Impacts of the Coronavirus

Below are two charts which illustrate some of the impacts of the Coronavirus on the U.S. economy. The data goes back to the late 90s. The gray shaded areas show the recessions in

Asset Class Returns- Ending 12/31/20

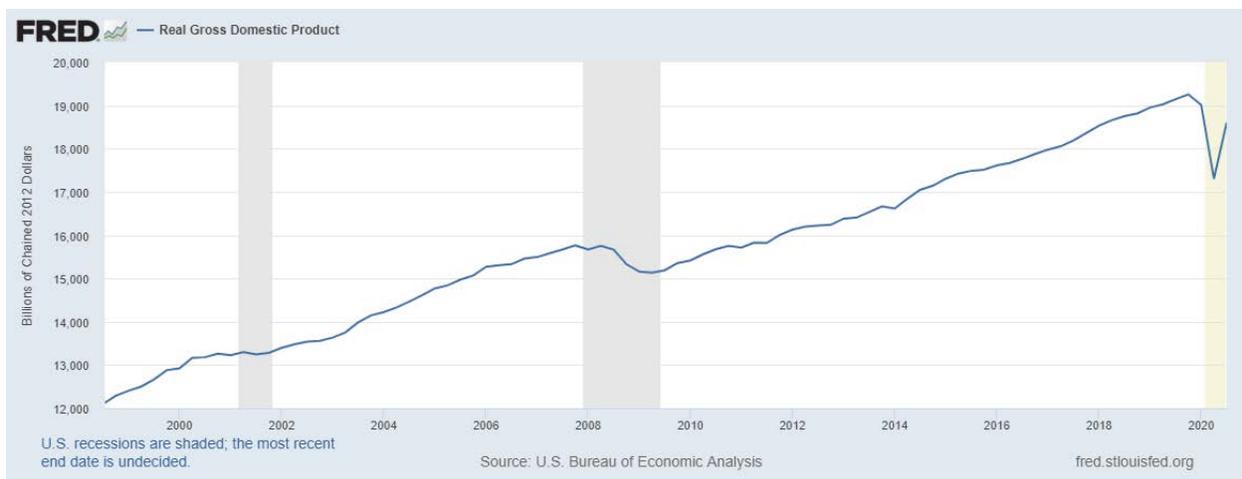
| Asset Class | 4th Qtr | Year To Date |
|---------------------------------|---------|--------------|
| US Large Cap Stock | 12.1 | 18.4 |
| US Small Cap Stock | 31.4 | 19.9 |
| Foreign -Developed Mkts Stock | 16.3 | 7.9 |
| Emerging Mkts Stock | 16.9 | 15.3 |
| US Intermediate-Term Bond | 0.7 | 7.4 |
| Emerging Markets Bond | 8.3 | 5.1 |
| High Yield Bond | 6.0 | 4.7 |
| Inflation-Protected Bond (TIPS) | 1.6 | 10.9 |
| Cash | 0.0 | 0.5 |
| US Real Estate | 9.3 | -4.7 |
| Commodities | 12.0 | -8.1 |
| Gold | 0.1 | 23.7 |

2001, 2008 and the current one. Most informative is comparing the impact now to those in previous recessions.

The first chart shows weekly initial claims for unemployment. Note the current unemployment claims dwarfs those in past recessions, even the one in 2008, which was a tough one. Also note while the numbers have improved, the claims are still running around 800,000 per week, more than the peak numbers in past recessions. Clearly employment has stabilized but with unemployment still at a high level.



The next chart shows real gross domestic product (GDP), the broadest measure of the health of the economy. Again the impacts have been larger than anything seen in our lifetimes but the rebound has been swift. Again GDP has not fully recovered and this recovery has been the result primarily of government deficit spending detailed above.



So while the economy has stabilized, there are still many challenges to face. The virus looks to be a big challenge for the next several months and the impacts are unknowable. More government action may be required, and who knows what our new elected leaders will do.

Eventually the Coronavirus will be controlled and the economy can get back to some form of normal; we just don't when that will be.

Additional Stimulus from December 2020 Act

In addition another \$900 Billion was approved in late December by congress. The legislation has a few important provisions for businesses and individuals, which I will mention briefly here. There is much complexity here, so do your homework before you act of anything.

- For business owners there are additional programs which are similar to the previous Paycheck Protection Program and Employee Retention Credits adopted in 2019. The new programs are easier to get and qualify for. In general if your revenue dropped more than 20% in any quarter year-over-year in 2020 you can qualify for payments to cushion the blow. Also, payments should be tax free for most.
- Another round of stimulus checks are going out. These will be \$600 per person (also kids under 17) for those with incomes less than \$75,000 per year. You may have already received these.
- Required Minimum Distributions are back, after being suspended last year.
- A simplification of the Education expense tax credits. The new system should be better for most with higher income limits to qualify.

New Year Resolutions

After such a tough year it might be a great time to consider setting some goals for 2021. Here are a few ideas for your finances. Imagine how good you will feel getting at least one or two of these or others done.

- Check your credit report. Not just your score, the full report. You can get them for free at Experian and the other credit bureaus.
- Review your estate plan. What happens if the worst case scenario becomes real?
- Confirm your portfolio asset allocation still meets your needs. Your situation and needs change over time.
- Update your financial plan.

Let me know if I can help with any of these. Here is wishing everyone stays safe and has a better 2021.

Sincerely,

Stan Johnson
Comprehensive Financial Planning, LLC
Registered Investment Advisor
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