



Markets At A Glance

Period	S&P 500	DJIA	INT'L (EAFE)	Emerging Markets	Barclays Intermediate Govt/Credit	Barclays 1-15 Yr Muni	INFLATION (CPI)
4th Quarter	12.2%	10.7%	16.1%	19.7%	0.5%	1.3%	0.4%
12 Months	18.4%	9.7%	7.8%	18.3%	6.4%	4.7%	1.2%

Stocks ended 2020 at record levels as vaccine approval and resolution of election uncertainty helped fuel the continued rally. Market sectors that had lagged large cap growth stocks earlier in the year outperformed in the fourth quarter. Most small cap indexes were up over 30% for the last three months. The yield on the 10-year U.S. Treasury ended the year at 0.9%, up from 0.7% at the end of September.

Massive monetary and fiscal intervention continued as central banks and governments around the world implemented unprecedented measures to support their economies. The economic recovery began to slow in the fourth quarter as virus cases surged and many restrictions were reinstated. The first few months of 2021 will also be challenging as the vaccine rollout is still in its initial stages. The second large relief package passed in December is intended to help bridge the gap. Many economists expect a broad economic recovery later this year once the vaccine is more widely distributed in the U.S and around the world. Beyond this year, after the initial strong rebound we are likely to see a return to the slow growth environment we experienced pre-pandemic, this time with a much larger debt overhang.

Although interest rates and inflation measures have started to edge up, reflecting the anticipated strong economic and earnings recovery, the Federal Reserve has made it very clear they do not anticipate raising short-term interest rates for several years. Low interest rates and moderate inflation are key factors supporting elevated valuation levels.

Investors are looking past the near-term challenges and anticipating strong earnings growth later this year. Timing remains uncertain as the logistics of the global rollout of the vaccine are daunting and will not happen without some bumps in the road. However, if we can avoid major potholes the consensus scenario of a sharp global economic recovery becomes much more likely. The elevated valuation levels do not leave much room for any negative surprises. There are still many questions regarding the new administration and which policy changes can be successfully implemented. Early policies are likely to focus on additional economic relief, infrastructure, and stimulus spending to assist the economic recovery. Potential future tax increases are a concern longer term.