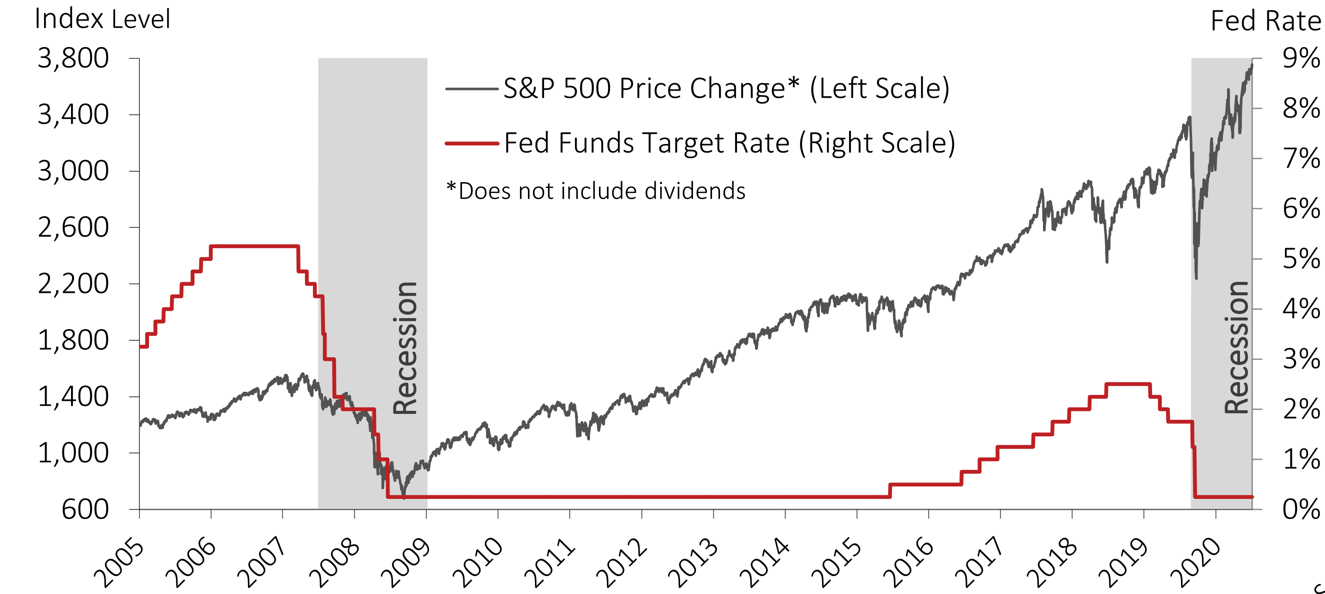
Capital Market Review

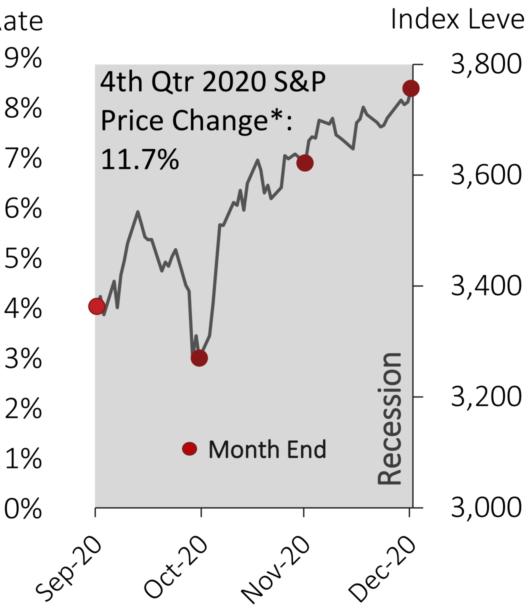
December 31, 2020



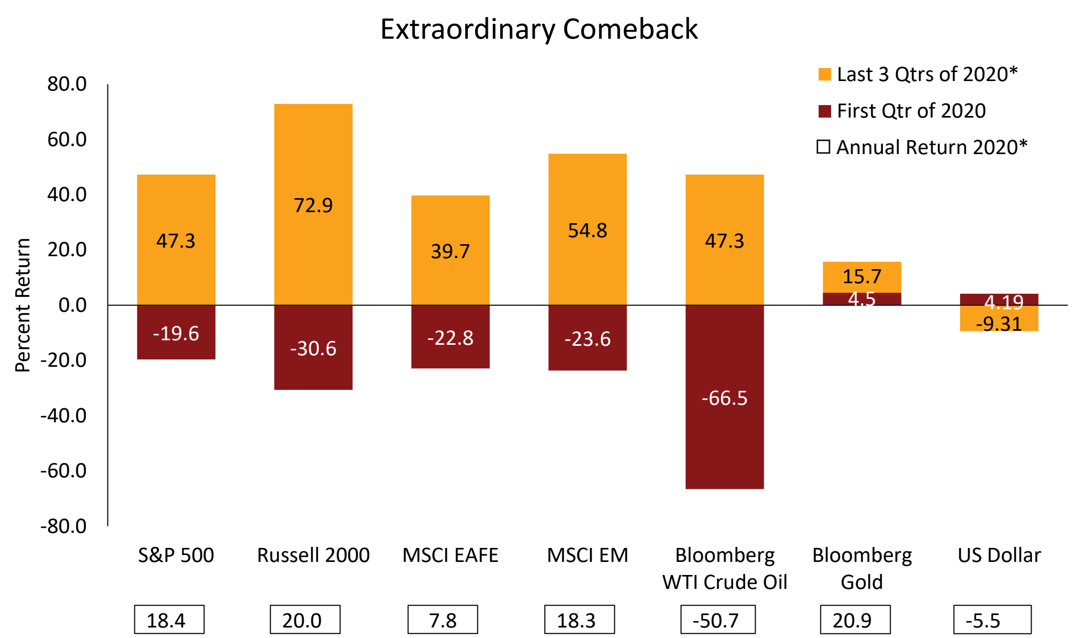

DeMarche

Stellar Stock Market Surprise





Source: Standard & Poor's, Federal Reserve



*Source: DeMarche, *Cumulative Return*

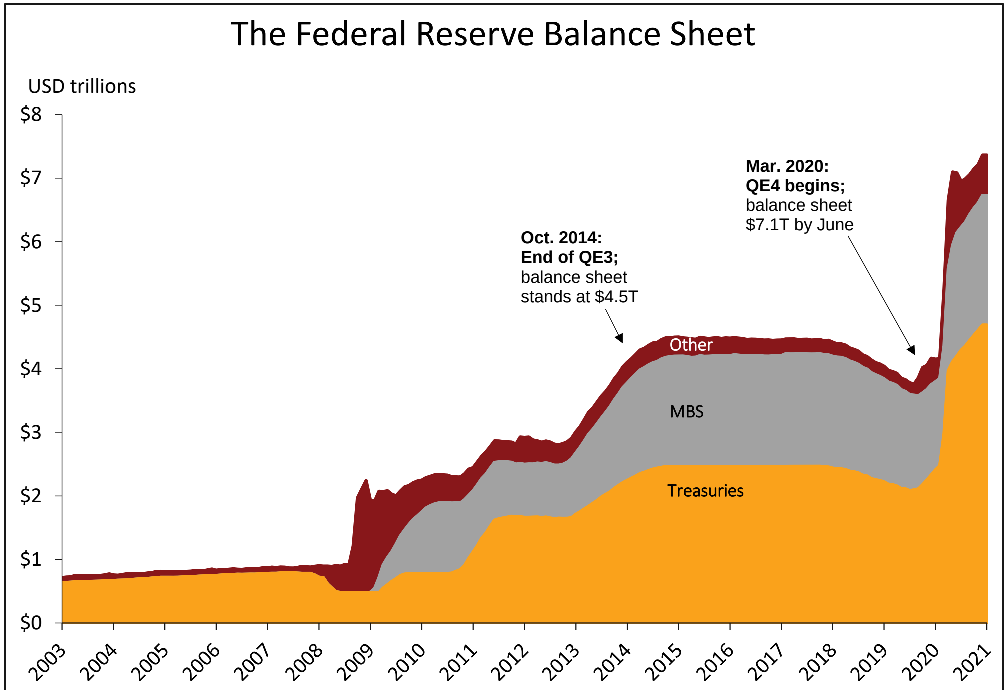
2020 was a year to remember. The year started with a disastrous first quarter. Equity prices fell precipitously. Corporate bond credit spreads went into a free fall. As a result, the Fed "printed" more money in one week than it did in all of 2008. With low interest rates and massive fiscal stimulus, the economy found its footing and somewhat normalized over the following three quarters. Markets rebounded to unprecedented levels in anticipation of a jump in 2021 economic growth. The weakening dollar helped international returns. The chart to the left illustrates the extraordinary comeback in market returns.

During 2020 consumers spooked by the pandemic refinanced mortgages, saved money instead of spending, and hunkered down. The savings rate soared to 36% before settling in at about 13%, up substantially from the 5% rate during more normal times. Refinancing made up about 75% of all mortgage applications at the end of 2020. Once this pent up demand meets a more comfortable and confident consumer, we should see a strengthening economic recovery in 2021.

INDEX	4th Qtr	1-YEAR	3-YEAR	5-YEAR	10-YEAR
MSCI World	14.0	15.9	10.5	12.2	9.9
DeMarche 3000	14.5	14.5	14.5	14.5	14.5
Russell 3000	14.7	20.9	14.5	15.4	13.8
S&P 500	12.1	18.4	14.2	15.2	13.9
MSCI EAFE USD	16.0	7.8	4.3	7.4	5.5
BlmBarc Aggregate	0.7	7.5	5.3	4.4	3.8
FTSE Non-US Gov't Bond	4.8	10.8	4.6	5.2	1.9
BlmBarc Global Aggregate	3.3	9.2	4.8	4.8	2.8
NCREIF (Private RE)	1.2	1.6	4.9	5.9	9.0
Bloomberg Commodity	10.2	-3.1	-2.5	1.0	-6.5

Notes: Data are presented as percent returns. All 3-, 5-, and 10-year returns are annualized.

U.S. Indicators Yr Ending 12/31	2020	2019	2018	2017	50 Yr Average
GDP Annual Growth Rate	-2.5	2.3	2.5	2.8	2.7
Unemployment	6.7	3.5	3.9	4.1	6.3
Inflation (CPI)	1.4	2.3	1.9	2.1	3.9
10-Year Interest Rates	0.9	1.9	2.8	2.4	6.2



Source: Federal Reserve

- Global stocks amazingly rallied during the year of 2020, even in the face of a pandemic and global shutdowns. Low interest rates and coordinated central bank monetary stimulus coupled with fiscal stimulus provided a supportive backdrop to equity markets.
- Interest rates fell dramatically during the year, driving annual bond returns significantly above three-, five- and ten-year returns. With interest rates as low as they are, it will be difficult to duplicate 2020's return going forward.
- The dollar weakened during the quarter, providing a tailwind to foreign bonds and stocks. International stocks, as measured by the MSCI EAFE, outperformed domestic stocks for the quarter. However, they continue to trail in return for the year and longer term, despite the recent weakening of the dollar.
- Commodity prices rebounded in the quarter, but show weakness over the year and longer term. Agricultural products and industrial metals pushed commodity prices upward for the quarter. Energy prices still remain decimated, down more than 40% over the past 12 months.
- Although the Federal Reserve began paring back its balance sheet at the end of 2019, it reversed course in 2020 due to the pandemic. The Fed purchased a wide variety of assets and provided loans to several parts of the financial system, nearly doubling its balance sheet. The Fed narrowed its focus later in the year, concentrating on purchasing Treasuries and mortgages while also reducing loans. This action is expected to remain for the foreseeable future, ensuring balance sheet growth, but at a slower rate than early 2020.

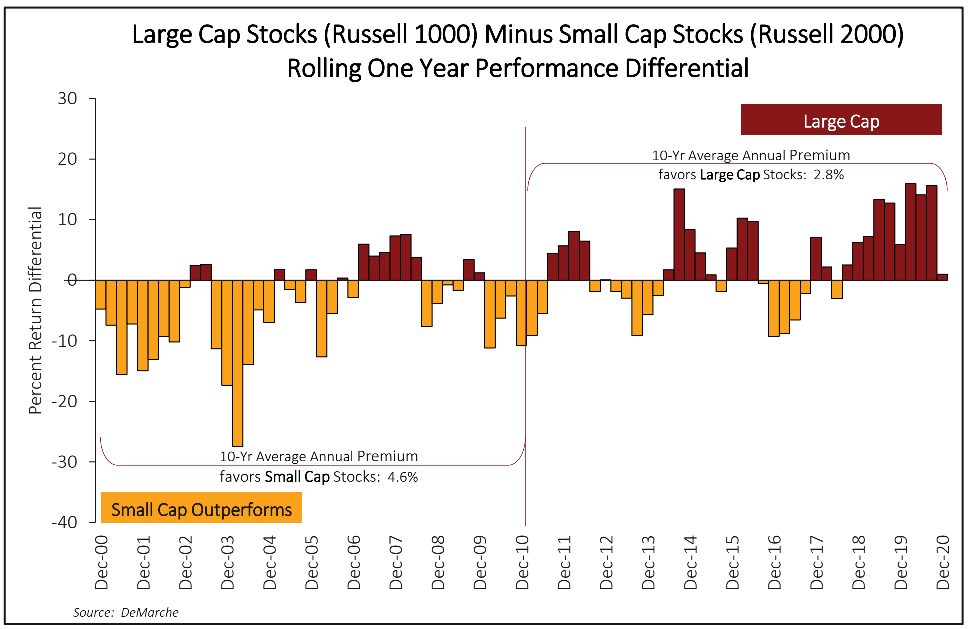
DeFact

Pandemic shocks are different from traditional recessions. Pandemics and natural disaster cycles are generally faster. Business inventories are tightening, suggesting the need for hiring and capital spending to meet demand. This further implies that unemployment, which seems to have stalled at 6.7%, should fall during the year and end 2021 at 5%. ~JPMorgan

Domestic Equities

INDEX	4th Qtr	1-YEAR	3-YEAR	5-YEAR	10-YEAR
DeMarche Growth	12.8	28.5	17.5	17.5	13.9
DeMarche Value	19.1	-2.0	1.5	6.9	6.1
DeMarche Aggressive	36.6	52.6	18.9	17.2	10.6
DeMarche Defensive	12.8	15.5	11.2	13.3	10.9
DeMarche Large Cap	12.2	18.8	12.5	13.8	10.9
Large Cap Growth	11.2	30.6	19.0	18.4	14.4
Large Cap Value	15.5	-5.1	0.6	5.9	5.4
DeMarche Small Cap	34.1	14.6	5.9	11.7	9.3
Small Cap Growth	28.9	11.6	6.9	11.1	9.0
Small Cap Value	37.7	16.4	5.1	12.1	9.5
S&P 500	12.1	18.4	14.2	15.2	13.9
S&P Mid-Cap 400	24.4	13.7	8.4	12.3	11.5
S&P Small-Cap 600	31.3	11.3	7.7	12.4	11.9
Russell 1000	13.7	21.0	14.8	15.6	14.0
Russell 1000 Growth	11.4	38.5	23.0	21.0	17.2
Russell 1000 Value	16.3	2.8	6.1	9.7	10.5
Russell 2000	31.4	20.0	10.2	13.3	11.2
Russell 2000 Growth	29.6	34.6	16.2	16.4	13.5
Russell 2000 Value	33.4	4.6	3.7	9.7	8.7

Notes: Data are presented as percent returns. All 3-, 5-, and 10-year returns are annualized.



- The small cap Russell 2000 Index led the way for the quarter and the year, finally outperforming large cap (S&P 500). This is the first annual outperformance of Russell 2000 over the S&P 500 since 2016.
- The Russell 1000 index has included Tesla since 2010. The S&P 500 just added Tesla on December 17, 2020. Tesla returned over 78% in the 4th quarter 2020 and about 745% for the past year. It is now a top 5 holding in each index. It accounts for a significant portion of the Russell 1000's outperformance of the S&P 500 for the quarter and year.
- Growth stocks have continued to bludgeon value stocks over past decade. But value finally got up off the mat in the 4th quarter, showing strong performance, especially small cap value stocks. Small cap value stocks were led by financials and healthcare but energy and material stocks posted over 45% returns for the quarter and make up just over 10% of the index. Value stocks still have a lot of ground to make up over the longer term.
- Small cap stocks have lagged large cap for the last three years or so. For 2020, small cap stocks made up a lot of underperformance, but still trailed large cap (mainly due to Tesla performance in 2020). Small cap stocks, over the much longer term, have outperformed large cap. This suggests that small cap stocks still have room to outperform compared to large cap in the coming years as the economy reopens.

DeFact

The impact of Tesla stock performance upon indexes this year cannot be understated. Tesla entered the Russell 1000 in 2010 but was not added to the S&P 500 until December 17, 2020. Tesla returned about 745% for the year and added over 150 basis points (bps) to the Russell 1000's outperformance over the S&P 500. 10 bps accounts for the average difference between the two indexes over the past 10 years, difference in 2020 was 260 bps.

~DeMarche

INDEX	4th Qtr	1-YEAR	3-YEAR	5-YEAR	10-YEAR
MSCI EAFE Local	11.4	0.8	3.0	5.8	6.8
MSCI EAFE USD	16.0	7.8	4.3	7.4	5.5
Growth	13.1	18.3	9.7	10.5	7.5
Value	19.2	-2.6	-1.2	4.2	3.4
MSCI Japan	15.3	14.5	6.1	8.7	6.5
MSCI AC Asia-ex Japan	18.6	25.0	8.2	13.6	6.5
MSCI China	11.2	29.5	9.1	15.1	7.6
MSCI Germany	11.5	11.5	1.6	6.6	5.5
MSCI France	20.4	4.1	4.5	9.0	5.9
MSCI UK	16.9	-10.5	-2.4	2.6	3.0
MSCI EAFE Small Cap	17.3	12.3	4.9	9.4	7.8
MSCI EM	19.7	18.3	6.2	12.8	3.6
MSCI All Country-ex US	17.0	10.7	4.9	8.9	4.9

Notes: Data are presented as percent returns. All 3-, 5-, and 10-year returns are annualized.

Sector	Russell 1000		MSCI EAFE	
	Weight	2020 Return	Weight	2020 Return
Information Technology	28.0%	48.3%	8.9%	31.8%
Health Care	13.5%	16.0%	12.9%	11.9%
Consumer Discretionary	12.4%	47.6%	12.5%	14.4%
Communication Services	10.4%	26.9%	5.2%	13.1%
Financials	10.4%	4.0%	16.3%	-3.2%
Others	25.3%		44.2%	

Source: Morningstar Direct

- International stocks continued the rebound from the 1st quarter drawdown. Annual returns have now turned positive. The weakening dollar provided a tailwind to international returns during the quarter. However there may be more ground to make up for international stocks. The 13.2 percentage point calendar year differential between the MSCI EAFE and U.S. returns (Russell 1000) still remains wider than the longer term 10-year return differential of 8.5 percentage points.

- The dollar continued to weaken versus a trade weighted basket of currencies during the quarter. International stocks, translated to dollar returns, are boosted by a weakening dollar. With interest rates low in the U.S. for the foreseeable future, the interest rate differential around the globe is narrower.

- Emerging market stocks posted a strong quarterly return of 19.7%, their best result since 2nd quarter 2009. The return outperformed large cap domestic stocks for the second consecutive quarter (3rd and 4th quarter 2020), for the first time since 2017. The 4th quarter return boosted the annual return to 18.3%, following up an 18.4% annual return for 2019.

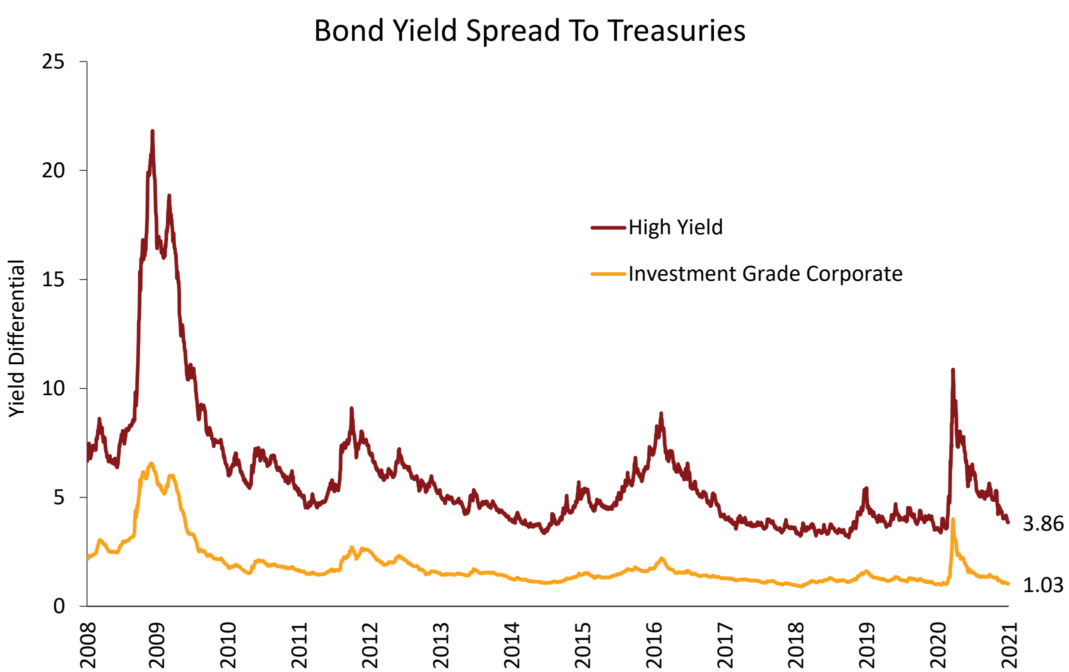
- Why does the U.S. equity market keep outperforming Europe and Japan? The U.S. has the largest and best performing tech sector in the world. Tech makes up 28% of the Russell 1000 and about 9% of the MSCI EAFE. In addition, U.S. tech stocks outperformed international tech. The drivers of return in other dynamic U.S. sectors such as consumer discretionary and communication services, outperformed their international cousins by a wide margin as well.

DeFact

Chinese stocks already make up 40% of the MSCI EM Index, and that is before the further inclusion of Chinese A-shares. Currently the inclusion factor for A-shares is 20% and accounts for 4% to 5% of the MSCI EM index. At full inclusion, A-shares would make up about 18% of the MSCI EM index. In addition, foreign ownership of A-shares is below 10%. This suggests that investment managers are systematically underweight China in their EM portfolios. This will change as A-shares advance in accessibility and liquidity. ~JPMorgan

INDEX	4th Qtr	1-YEAR	3-YEAR	5-YEAR	10-YEAR
BlmBarc 1-3 Gov Credit	0.2	3.3	3.0	2.2	1.6
BlmBarc Aggregate	0.7	7.5	5.3	4.4	3.8
BlmBarc Gov Credit Long	1.7	16.1	9.8	9.3	8.2
BlmBarc US TIPS	1.6	11.0	5.9	5.1	3.8
Merrill Lynch High Yield	6.5	6.2	5.9	8.4	6.6
CSFB Leveraged Loan (bank loans)	3.6	2.8	4.0	5.2	4.5
BlmBarc Global Aggregate	3.3	9.2	4.8	4.8	2.8
JPM EmgMkt Bd Glbl Dvrsfd (hard)	5.8	5.3	5.0	7.1	6.2

Notes: Data are presented as percent returns. All 3, 5-, and 10-year returns are annualized.



Source: FRED, ICE BofA US High Yield Index Option-Adjusted Spread and ICE BofA Corporate Index Option-Adjusted Spread

- Interest rates, as measured by the 10-year Treasury opened the quarter at 0.68% and closed the quarter at 0.92%. This increase in rates is a headwind to bond returns for the quarter. Keep in mind that the massive drop in rates in the 1st quarter drove the annual returns. The BlmBarc Aggregate returned 7.5% for the year, significantly ahead of longer-term returns.
- High yield bonds saw credit spreads widen greatly in the 1st quarter and then methodically tighten during the rest of the year. While annual performance shows no outsized return, the tightening of credit spreads in the 4th quarter led to a strong quarterly return that more than makes up all of the annual return. Even given the volatility in spreads this year, the longer-term returns are in-line with coupon yield.
- Emerging market debt posted a quarterly return that boosted calendar year performance into positive territory. The weakening of the dollar this year provides a tailwind for emerging market debt. A weaker dollar makes servicing this debt easier because local currency must be converted into dollars to cover payments and financing activity.
- Credit spreads to Treasuries widened out dramatically in March 2020, then collapsed to almost where they were before the pandemic hit. Given that Treasury rates dropped significantly in March, the yields on corporate bonds (high yield and investment grade) have dropped in kind. This tells us that best case for expected returns in the coming years will likely be the coupon rate on the bond.

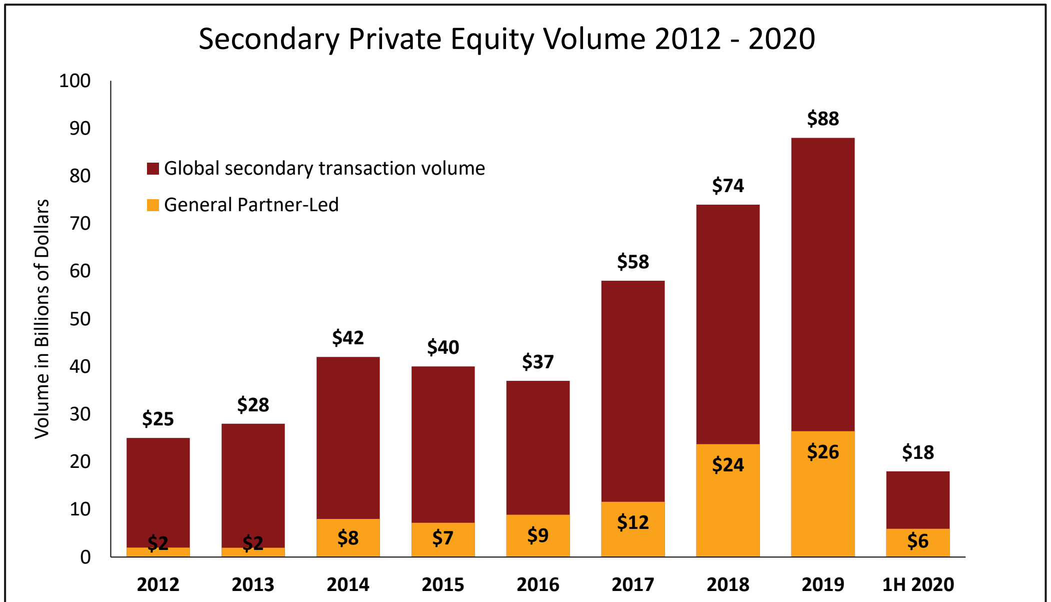
DeFact

U.S. debt levels are projected to hit WWII peaks by the end of 2021. The projected 2020 deficit is 16% of GDP, the largest deficit since 1945. The U.S. National debt is projected to increase by $4 trillion this year. To put this in perspective, the U.S. national debt to GDP ratio at the end of 2019 was 106% which has been increasing, but slowly over the past decade. It is estimated to be 136% at end of 2020, once the data are released in early 2021. ~JPMorgan, TradingEconomics, BEA

INDEX	4th Qtr	1-YEAR	3-YEAR	5-YEAR	10-YEAR
NCREIF Property (Private RE)	1.2	1.6	4.9	5.9	9.0
Apartment	1.0	1.8	4.5	5.4	8.6
Industrial	4.7	11.8	13.1	13.0	13.1
Office	0.5	1.6	5.0	5.4	8.4
Retail	-1.2	-7.5	-1.2	2.1	7.6
NCREIF Timberland	0.6	0.8	1.8	2.3	4.5
NCREIF Farmland	1.6	3.1	4.9	5.6	10.4
NAREIT (Public RE)*	9.2	-5.9	5.0	6.7	9.1
Bloomberg Commodity	10.2	-3.1	-2.5	1.0	-6.5
HFR FOF Composite	7.6	10.3	4.7	4.5	3.3
Conservative	5.1	5.7	3.7	3.4	2.8
Diversified	7.4	10.5	4.9	4.4	3.3
Strategic	9.3	13.1	5.3	5.3	3.7

Private Market Indexes as of 6/30/2020	**2nd Qtr**	1-YEAR	3-YEAR	5-YEAR	10-YEAR
Preqin Private Equity	10.3	9.5	12.4	12.0	13.4
Preqin Private Debt	7.5	2.2	4.9	5.3	8.3
Preqin Infrastructure	2.0	4.6	8.4	8.5	9.3

Notes: Data are presented as percent returns. All 3-, 5-, and 10-year returns are annualized.
**Public RE is not a less liquid strategy. It is listed for comparative purposes.*



Source: Greenhill

- Public real estate prices rose again in the quarter, posting gains three quarters in a row, as measured by the REIT index. The negative return for the past twelve months shows the severity of the drawdown in the 1st quarter.
- Private real estate posted modest returns for the year, brought down by price depreciation in the retail, office and apartment sectors. The industrial sector continues its tear, and has posted double digit returns for longer time periods.
- Broadly speaking, commodity prices advanced in the quarter, but are still down for the year. Individual commodity prices have performed in widely disparate ways. For example, in the past 12 months, energy prices have fallen over 25%, while gold prices increased and outperformed the S&P 500 by about 4 percentage points.
- Hedge funds produced competitive returns for the quarter and the year. However, over the longer term, returns have not been especially compelling. Hedge funds that were geared toward equity exposure, specifically equity long/short funds, outperformed longer term averages. Macro funds, with exposure to volatile markets, also made up some ground. After years of low volatility, managers finally got what they wanted in 2020.
- Secondary private equity transactions are becoming more and more popular. In the past transactions were typically investors selling for liquidity or for rebalance. As annual fundraising has increased in the past 10 years, secondary liquidity has increased and general partners (GP) are engaging more and more, thereby increasing liquidity and information.

DeFact

The undeniable star of the deal industry in 2020 was the SPAC (Special Acquisition Company). Investors flocked to these blank-check vehicles as they hunted for takeover targets. The numbers tell the tale: 242 SPACs were introduced this year, four times the number raised last year, according to SPAC Insider. The average size of a SPAC in 2020 was $335 million, nearly 10 times the amount in 2009. ~NYTimes

2021 DeMarche Finance and Investment Education Series

Start 2021 off on the right track. Join us for the DeMarche finance and investment webinars beginning on January 28th. Our education programs are designed to help institutional investors interact with industry experts to focus on the critical investment issues, market forces, and industry trends that will impact your investment strategies and portfolio returns in the coming year and beyond.

Winter Webinars

Registration is now open for our first three programs of the year.

2021 Market and Economic Outlook: The New Roaring 20's?

Thursday, January 28 | 9:00 – 11:00 AM Central

Join Senior Consultant Jim Dykstal, CFA as we analyze the outlook for equities, fixed income, and currencies over the coming months and examine how the change in political leadership may affect market dynamics.

Assets that Grow: An Introduction to Farmland and Timber Investing

Thursday, February 25 | 9:00 – 11:00 AM Central

Learn about the benefits and characteristics of investing in Farmland and Timber. These alternative assets can provide necessary portfolio diversification while providing the opportunity to achieve attractive risk and return characteristics, but investors must understand the tradeoffs.

Defined Contribution Plans: Emerging Trends and Best Practices

Thursday, March 25 | 9:00 – 11:00 AM Central

Explore emerging trends and best practices for Defined Contribution plans in the ever-changing environment. Understanding these trends is critical for the financial health of organizations and the retirement preparedness of their employees.

Register at https://cvent.me/vvQv3L

And watch your email for information about our Spring 2021 programs