

Market Commentary

Q4 2020 in Perspective

Our evidence-based investing portfolios are strategically invested with a focus on long-term performance objectives. Portfolio allocations and investments are not adjusted in response to market news or economic events; however, we evaluate and report on market and economic conditions to provide our investors with perspective and to put portfolio performance in proper context.

During the fourth quarter, global stock markets continued their ascent (albeit, at times bumpy) from pandemic induced lows recorded in late March 2020. Major global market indices ended the period sharply higher, each producing double-digit returns, pushing most indices comfortably higher for the year with several indices even recording record highs. During the quarter, efforts to combat COVID-19 and its impact continued as governments worked to support global economies – this included the recent U.S. fiscal stimulus. In addition, the fourth quarter saw positive developments regarding various coronavirus vaccinations and a decided U.S. presidential election.

For the quarter, U.S. stocks (as measured by the S&P 500 Index) gained 12.1%, and non-U.S. developed market stocks (as measured by the MSCI World Ex U.S.) gained 15.8%. Emerging market stocks (as measured by the MSCI Emerging Markets Index) gained 19.7%.

The U.S. Dollar Index, a measure of the value of the United States dollar relative to a basket of foreign currencies, decreased in the fourth quarter—the U.S. dollar decreased by 4.2% compared to foreign currencies. Over the past 12 months, the U.S. dollar depreciated by 6.7%. The decrease in the dollar is a tailwind to non-U.S. investments held by U.S. investors in the third quarter.

U.S. interest rates remained unchanged during the quarter as the Federal Reserve continues to maintain a target range of 0.0% to 0.25% for the Fed Funds rate.

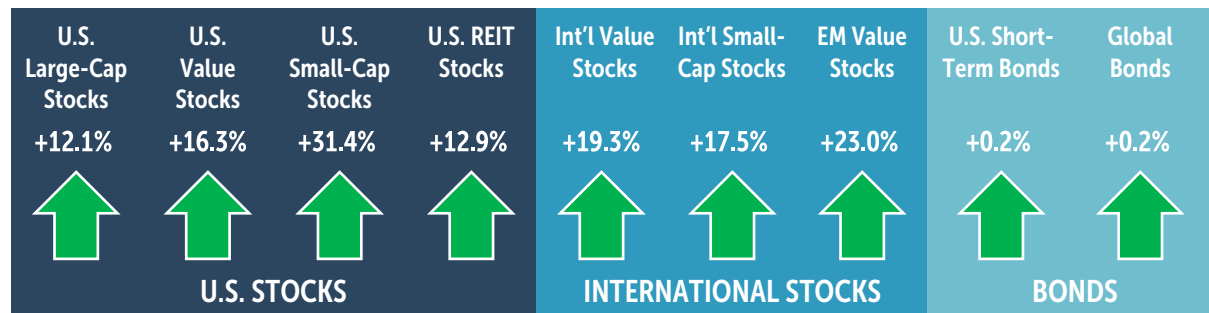
U.S. Economic Review

Following its worst quarter in history, the U.S. economy grew at its fastest pace ever in the third quarter. The final reading for third quarter 2020 GDP showed an annualized increase in economic growth of 33.4%. The unemployment rate finished the quarter at 6.7%, which shows improvement from the previous quarter's 7.9%. Domestic inflation remains low as the Fed's preferred gauge of overall inflation, the core Personal Consumption Expenditures (PCE) index, stayed below the Fed's target of 2.0% with a reading of 1.4% in November 2020.

Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, Federal Reserve Bank of St. Louis, U.S. Department of the Treasury, Morningstar Direct January 2021.

Financial Markets Review

Real estate investment (REIT) securities had positive performance during the quarter. International stock returns were also impacted by the weakening U.S. dollar. During the quarter, U.S. small-cap stocks were the best performing asset class and U.S. large-cap stocks were the worst performing. U.S. and global bonds continued performance from the previous quarter by posting positive results.



Source: Morningstar Direct January 2021. Market segment (Index representation) as follows: U.S. Large-Cap Stocks (S&P 500 Index), U.S. Value Stocks (Russell 1000 Value Index), U.S. Small-Cap Stocks (Russell 2000 Index), U.S. REIT Stocks (Dow Jones U.S. Select REIT Index), International Value Stocks (MSCI World Ex USA Value Index (net div.)), International Small-Cap Stocks (MSCI World Ex USA Small Index (net div.)), Emerging Markets Value Stocks (MSCI Emerging Markets Value Index (net div.)), U.S. Short-Term Bonds (ICE BofA 1-3Y US Corp&Govt TR), Global Bonds (FTSE WGBI 1-5 Yr Hdg USD).

In the U.S., small-cap stocks outperformed large-cap stocks in all style categories. Value stocks outperformed growth stocks in all style categories. Among the nine style boxes, small-cap value stocks performed the best and large-cap growth stocks experienced the least growth during the quarter.

Source: Morningstar Direct January 2021. U.S. markets represented by respective Russell indexes for each category (Large: Russell 1000, Value, and Growth, Mid: Russell Mid Cap, Value, and Growth, Small: Russell 2000, Value, and Growth).

U.S. Stocks Q4 2020

	Value	Core	Growth
Large	16.3%	13.7%	11.4%
Mid	20.4%	19.9%	19.0%
Small	33.4%	31.4%	29.6%

In developed international markets, all nine style boxes were positive for the quarter. Value stocks outperformed growth stocks in all style categories. Among the nine style boxes, international small-cap value stocks performed the best and international large-cap growth stocks experienced the least growth during the quarter.

Source: Morningstar Direct January 2021. International markets represented by respective MSCI World EX USA index series (Large: MSCI World EX USA Large, Value and Growth, Mid: MSCI World Ex USA Mid, Value, and Growth, Small: MSCI World Ex USA Small, Value, and Growth).

International Stocks Q4 2020

	Value	Core	Growth
Large	19.2%	15.7%	12.3%
Mid	19.6%	16.5%	13.8%
Small	20.3%	17.5%	15.0%

A diversified index mix of 65% stocks and 35% bonds would have gained 12.0% during the fourth quarter.

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65/35 Index Mix: 0.5% Cash (ICE BofA 3M US Trsy Note TR), 13.5% ST U.S. Fixed Income (ICE BofA 1-3Y US Corp&Govt TR), 21% Global Intermediate Bonds (FTSE WGBI Hdg USD), 10% U.S. Total Stock Market (Russell 3000 Index), 14% U.S. Large Value (Russell 1000 Value Index), 10% U.S. Small (Russell 2000 Index), 5% U.S. REITs (Dow Jones U.S. Select REIT Index), 13% Intl Large Value (MSCI World Ex USA Value Index (net div.)), 7% Intl Small (MSCI World Ex USA Small Index (net div.)), 6% Emerging Markets Value (MSCI Emerging Markets Value Index (net div)).

Indexes are unmanaged baskets of securities that are not available for direct investment by investors. Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results. Foreign securities involve additional risks, including foreign currency changes, political risks, foreign taxes, and different methods of accounting and financial reporting. Emerging markets involve additional risks, including, but not limited to, currency fluctuation, political instability, foreign taxes, and different methods of accounting and financial reporting. All investments involve risk, including the loss of principal, and cannot be guaranteed against loss by a bank, custodian, or any other financial institution.

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