MARKET INSIGHTS

from Ziegler Capital Management

December 2020 Market Commentary

The S&P 500 returned 3.84% in December, its second consecutive positive monthly return. The S&P 500 has returned 18.39% for the year and finished over 65% from the March 23 lows. Small cap stocks, as measured by the Russell 2000, returned 8.65% in December after returns of 18.42% in November. After lagging large cap stocks all year, small cap stocks outperformed the S&P 500 with a 2020 calendar year return of 19.93% aided by the robust returns in November and December.

The U.S. Presidential election of Joe Biden, his Administration's planned transition and the two Congressional run offs in Georgia continue to dominate headlines. The approval of two COVID-19 vaccines has been positively received with initial doses being distributed in mid-December and the hope of widespread availability during the first quarter of 2021. This positive development comes on the heels of rising cases throughout much of the country this fall. Central Bank and government stimulus measures, including an additional round of stimulus approved in late December, continue to help reduce the economic damage tied to the virus.

The final Third Quarter GDP reading was 33.4% on an annualized basis, an increase from earlier readings of 33.1%. It is a stunning and unprecedented recovery from the second quarter's annualized contraction of -31.4%. The third and final reading reflected increases in personal consumption expenditures, private inventory investment, exports, non-residential fixed investment, and residential fixed investment that were partly offset by decreases in federal government spending (reflecting fewer fees paid to administer

Returns by Sector

	S&P 500		Russell 2000	
Sector	**YTD**	**Dec 2020**	**YTD**	**Dec 2020**
Communication Services	23.61	3.08	5.05	7.12
Consumer Discretionary	33.30	2.53	32.39	7.02
Consumer Staples	10.75	1.78	26.20	6.82
Energy	-33.68	4.40	-33.65	14.52
Financials	-1.76	6.25	-4.45	8.35
Health Care	13.45	3.91	45.93	8.74
Industrials	11.05	1.19	24.55	8.25
Information Technology	43.89	5.74	38.02	11.79
Materials	20.73	2.54	16.10	12.24
Real Estate	-2.17	1.50	-5.47	6.31
Utilities	0.52	0.70	-1.28	4.78
TOTAL RETURN	**18.39%**	**3.84%**	**19.93%**	**8.65%**

Source: Bloomberg

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ABOUT ZCM MARKET INSIGHTS

A series that provides a glimpse of our internal thought process through current topics affecting our clients and colleagues.

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the Paycheck Protection Program loans) and state and local government spending. Imports, which are a subtraction in the calculation of GDP, were revised up again.

The Conference Board's GDP estimate for calendar year 2020 is -3.6%, slightly down from the previous forecast of -3.5%. This includes an upward revised forecast of 2.8% annualized gain in the fourth quarter, up from the previous estimate of a 2.2% annualized gain. The Conference Board is now estimating 2021 GDP at 3.6% (it was 3.4% previously) with the potential for a 6.1% annualized expansion. This assumes new COVID cases level off in 4Q20/ 1Q21and do not result in additional lockdowns. It also assumes a strong recovery in labor markets and consumption, continued large fiscal stimulus implemented in early 2021, vaccinations getting approved in 4Q20 and becoming widely available in early 2021, and a political transition that does not result in a hit to consumer or business confidence. These assumptions lead to US monthly economic output returning to pre-pandemic levels by April 2021. According to the National Bureau of Economic Research, the U.S. entered a recession in February and remains there.

According to the U.S. Bureau of Labor Statistics, employment increased by 245,000 and the unemployment rate declined to 6.7% in November. The unemployment rate has declined for seven consecutive months but remains 3.2% higher than in February. Labor market improvements reflect the continued resumption of economic activity that had been curtailed due to COVID-19 and efforts to contain it. In November, notable job gains occurred in transportation and warehousing, professional and business services, and health care. Employment declined in government and retail trade. The U.S. savings rate was 12.9% in November (released in December) after peaking at a stunning 32.2% in April. As previously discussed, these continued elevated rates have the potential to be a significant economic growth driver or may be used for sustenance if needed.

The Federal Reserve's December statement reiterated their commitment "to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals." They noted, "The COVID-19 pandemic is causing tremendous human and economic hardship across the United States and around the world. Economic activity and employment have continued to recover but remain well below their levels at the beginning of the year. Weaker demand and earlier declines in oil prices have been holding down consumer price inflation. Overall financial conditions remain accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses." The Committee kept the target range for the federal funds rate at zero to 0.25% and expects it will maintain this target range for the near future. In addition, the Federal Reserve said it will continue to increase its holdings of Treasury securities by at least $80 billion per month and of agency mortgage-backed securities by at least $40 billion per month until substantial further progress has been made toward the Committee's maximum employment and price stability goals. They believe these asset purchases help foster smooth market functioning and accommodative financial conditions and support the flow of credit to households and businesses.

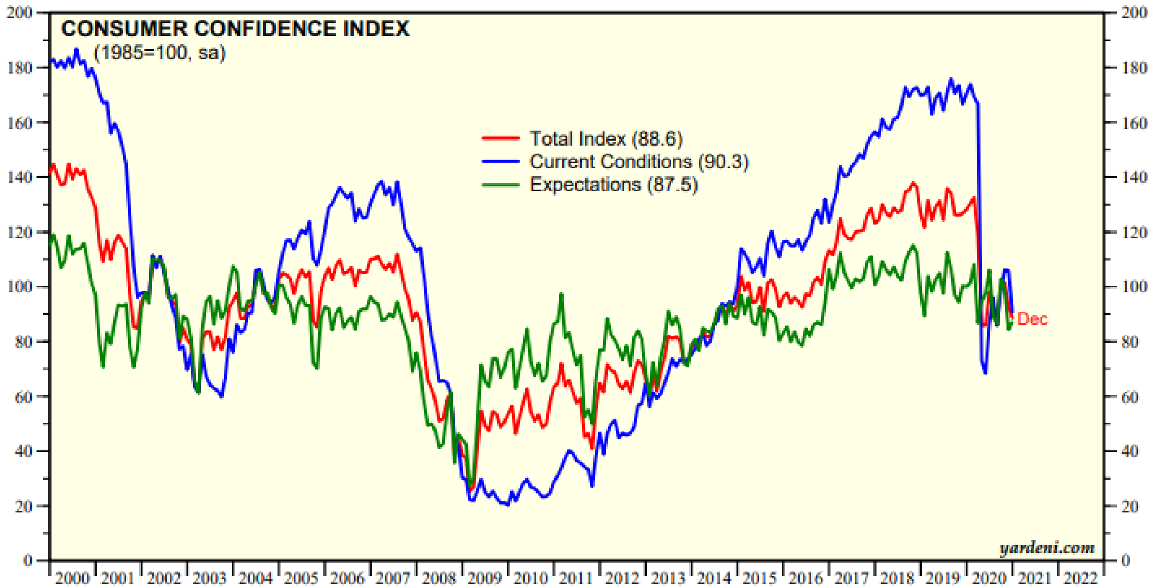
While the previously sizable return differential between large and small cap stocks balanced out as the year ended, there remains a sizeable return disparity between between growth and value in 2020.

However, this trend also reversed during the most of the latter part of the year although growth slightly outperformed value in December with the Russell 1000 Growth returning 4.60% versus the Russell 1000 Value returning 3.83%. For the year, the Russell 1000 Growth returned 38.49% versus 2.80% for the Russell 1000 Value. This pattern was similar in small cap with the Russell 2000 Growth returning 34.63% versus the Russell 2000 Value returning 4.63%.

West Texas Intermediate (WTI) finished December at $48.42, increasing since the November month-end reading of $44.98 a barrel. WTI remains significantly higher than April's close at $18.84 per barrel. Oil prices have stabilized between $35 to 45 a barrel since June. However, WTI is still down considerably after beginning the year at $61.06.

Consumer Confidence declined to 88.6 in December from 96.1 in November. The Present Situation Index – based on consumers' assessment of current business and labor market conditions – decreased sharply from 105.9 to 90.3, as the resurgence of COVID-19 was a drag on confidence. The Expectations Index – based on consumers' short-term outlook for income, business, and labor market conditions – increased from 84.3 in November to 87.5 in December. The consumer is responsible for approximately 70% of the U.S. economy.

Consumer Confidence & Sentiment



Source: The Conference Board.

The U.S. Bloomberg Barclays Aggregate Index returned 7.51% for 2020 including a return of 0.14% during December. There have been significant moves in the bond market this year with the 10-Year U.S. Treasury beginning the year at 1.92%, hitting an all-time low of 0.54% in July and ending December with a yield of 0.92%. Option Adjusted Spreads (as represented by the Bloomberg Barclays Corporate Index) continued to normalize and ended December at 96 basis points. They began the year at 93 basis points and peaked at 373 basis points on March 23 concurrent with the equity market lows.

The Volatility Index (VIX) ended November at 22.75, slightly higher than the November reading of 20.84 but significantly lower than October's reading of 38.02 that was enflamed by election related news. It is around levels last seen in February prior to the onset of market turmoil and remains considerably lower than the March 16 peak of 82.69. The long-term average of the VIX is approximately 20.

We actively monitor the capital markets and are prepared to respond accordingly. As we have stated in the past, we continue to advise our clients to adhere to their long-term plans and objectives.

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