OPUS
INVESTMENT MANAGEMENT

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# Fourth Quarter 2020 Commentary

December 31, 2020

# Executive Summary

ANN TRIPP
President

## MARKET COMMENTARY

With 2020 thankfully behind us, we recognize that markets had an extraordinary year given the pandemic and resulting economic contraction. The S&P 500 hit record highs, bond yields remain near historic lows, and the Bloomberg Barclays U.S. Aggregate Bond Index returned 0.67% for the fourth quarter. While there remains pent-up demand from consumers, and support at the federal level continues, risks to the markets and the economic recovery persist.

After a brief respite during the summer, the spread of the novel coronavirus accelerated through the fall across much of the United States. With this new spike in cases, some states reintroduced containment policies including social distancing restrictions and work-from-home advisories. While broad lockdown measures are not a base case, we are mindful that these remain a possibility, and of the consequent impact this could have on economic growth and the financial markets.

Despite the increases in cases, investors cheered the news from both Pfizer and Moderna that their vaccines proved to be highly effective in combatting the virus. It was a sign of light at the end of a very long and dark tunnel. The key variable to an ultimate economic recovery is the timing of the recent vaccine developments and distribution. While economic activity is expected to slow as a result of the recent spike in cases, vaccination programs should begin to support a recovery in the second quarter of 2021. The United States approach to improved medical treatments and widespread testing should help prevent the possibility of nationwide lockdowns, though market participants will continue to closely monitor the pace of vaccinations.

Meanwhile, the federal government has continued to aid financial markets through accommodative monetary policy and fiscal stimulus. The latest round of stimulus provided, among other things, direct payments to individuals, extended enhanced unemployment benefits, and a reintroduction of the small business aid program. The Federal Reserve has maintained interest rates near zero, with guidance suggesting that rates are expected to remain low over the next several years. Further aid, in the form of additional fiscal stimulus and, if necessary, a reintroduction of the Fed's open market purchase programs for corporate and municipal debt, will largely depend on the projected economic impact of increased case counts. This will also likely be subject to protracted negotiations between Senate Republicans and the incoming Biden Administration.

As we continue into what is expected to be a difficult winter dealing with the virus, federal government support for the economy and the vaccine roll-out bring hope that the end of the pandemic is in sight. These factors should make 2021 the year the world moved decisively toward a recovery. While there may be resurgences of the virus, it will be a reminder that there will be bumps along the recovery as the United States moves toward widespread distribution of the vaccines. Still we remain mindful of potential downside risks to this optimistic viewpoint, as we continue to manage your investments.

Ann

# Economic Outlook

*Extraordinary fiscal and monetary policy spur risk-on environment amidst global pandemic*

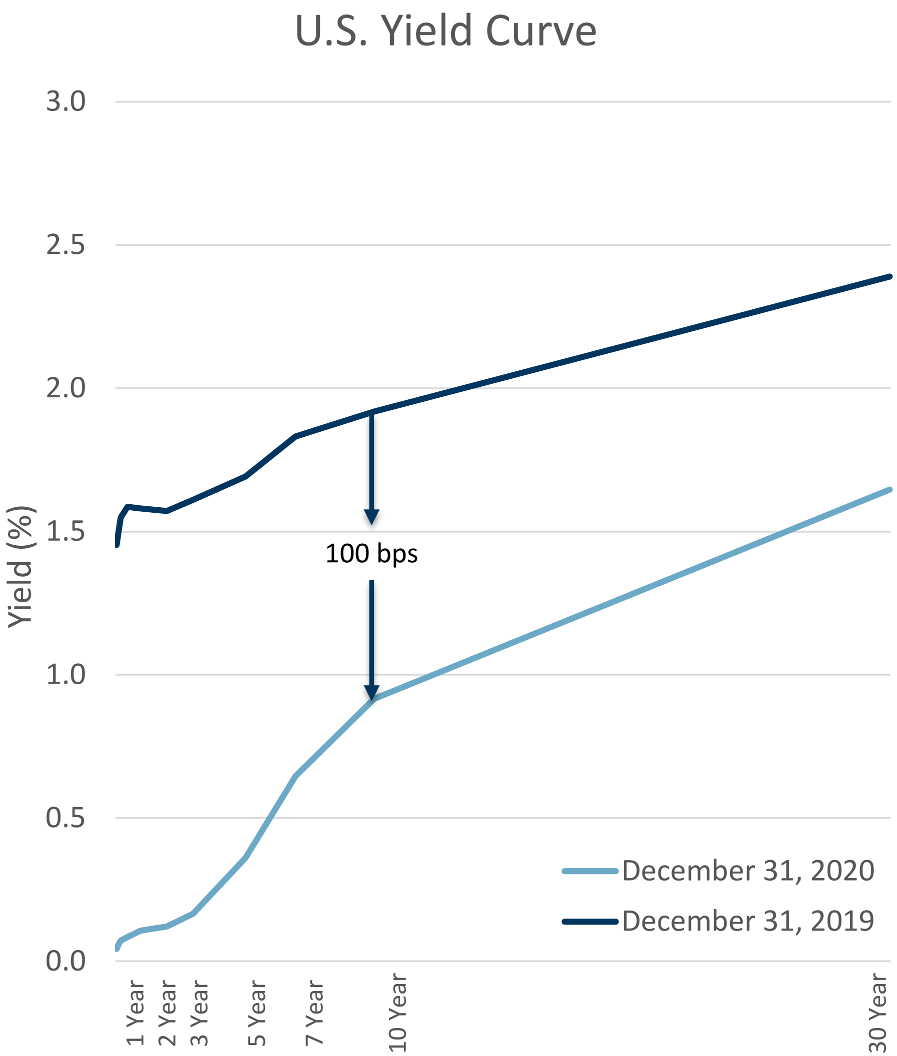
| 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|
| 18.3%, Small Cap | 22.6%, Large Cap | 1.0%, Securitized | 31.5%, Large Cap | 21.5%, Large Cap |
| 15.3%, Mid Cap | 17.1%, Mid Cap | 0.9% Treasuries | 28.1%, Mid Cap | 19.0%, Small Cap |
| 17.1%, HY Corporate | 16.2%, Small Cap | 0.3% Govt Related | 27.4%, Small Cap | 9.9%, IG Corporate |
| 11.9%, Large Cap | 7.5%, HY Corporate | -2.1%, HY Corporate | 17.6%, Commodities | 8.0%, Treasuries |
| 11.4%, Commodities | 6.4%, IG Corporate | -2.5%, IG Corporate | 14.5%, IG Corporate | 7.1%, HY Corporate |
| 6.1%, IG Corporate | 5.8%, Commodities | -3.4%, Large Cap | 14.3%, HY Corporate | 5.9%, Govt Related |
| 2.7%, Govt Related | 4.2%, Govt Related | -9.3%, Small Cap | 9.0%, Govt Related | 4.2%, Securitized |
| 1.8%, Securitized | 2.5%, Securitized | -12.4%, Mid Cap | 6.9%, Treasuries | 2.5%, Mid Cap |
| 1.0%, Treasuries | 2.3%, Treasuries | -13.8%, Commodities | 6.4%, Securitized | -23.7%, Commodities |

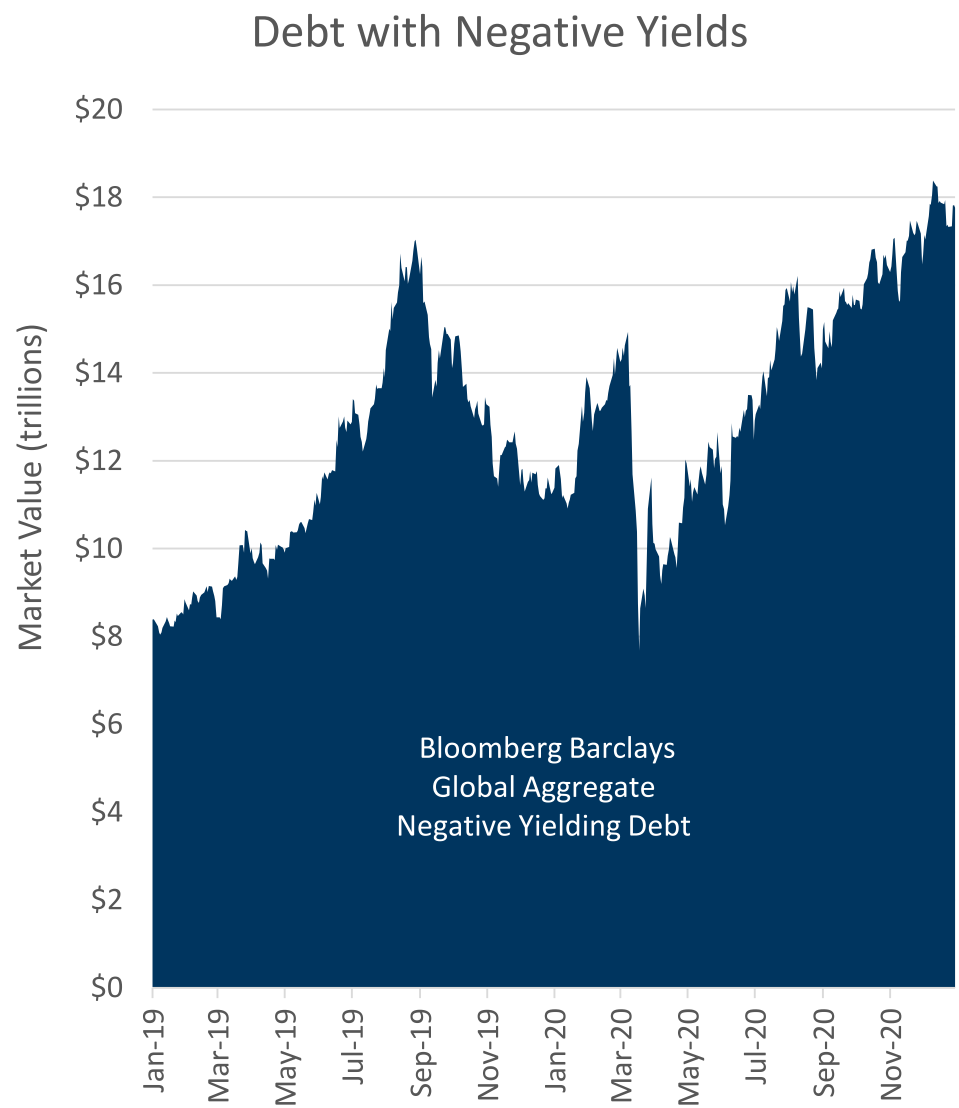
- **Large Cap** – CRSP Mega Cap Index
- **Small Cap** – CRSP Small Cap Index
- **IG Corporate** – Bloomberg Barclays U.S. Agg. Corporate
- **Treasuries** – Bloomberg Barclays U.S. Agg Treasuries
- **HY Corporate** – Bloomberg Barclays U.S. High Yield Corporate
- **Govt Related** – Bloomberg Barclays U.S. Government Related
- **Securitized** – Bloomberg Barclays U.S. Securitized
- **Mid Cap** – CRSP Mid Cap Index
- **Commodities** – Standard & Poor's GSCI Index

Source: Opus, Bloomberg, CRSP, S&P

# Economic Outlook

*Globally, interest rates remain low, with record levels of negative yielding debt*

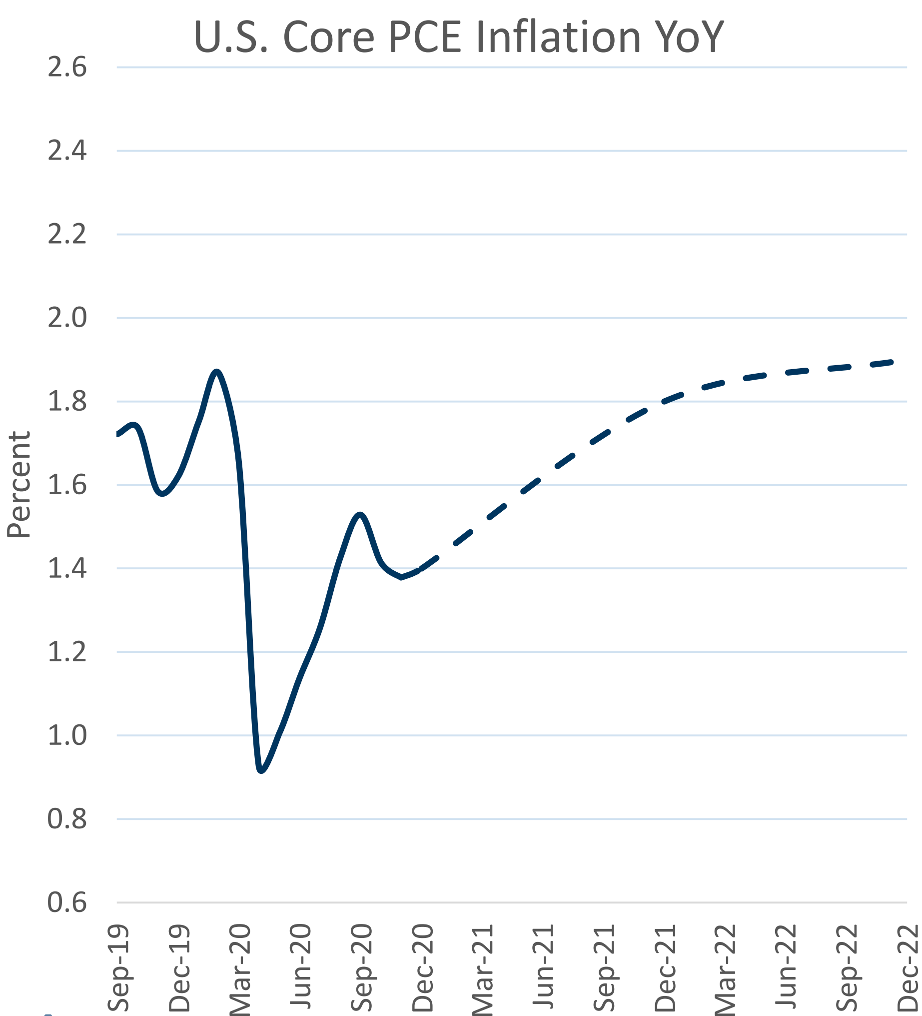


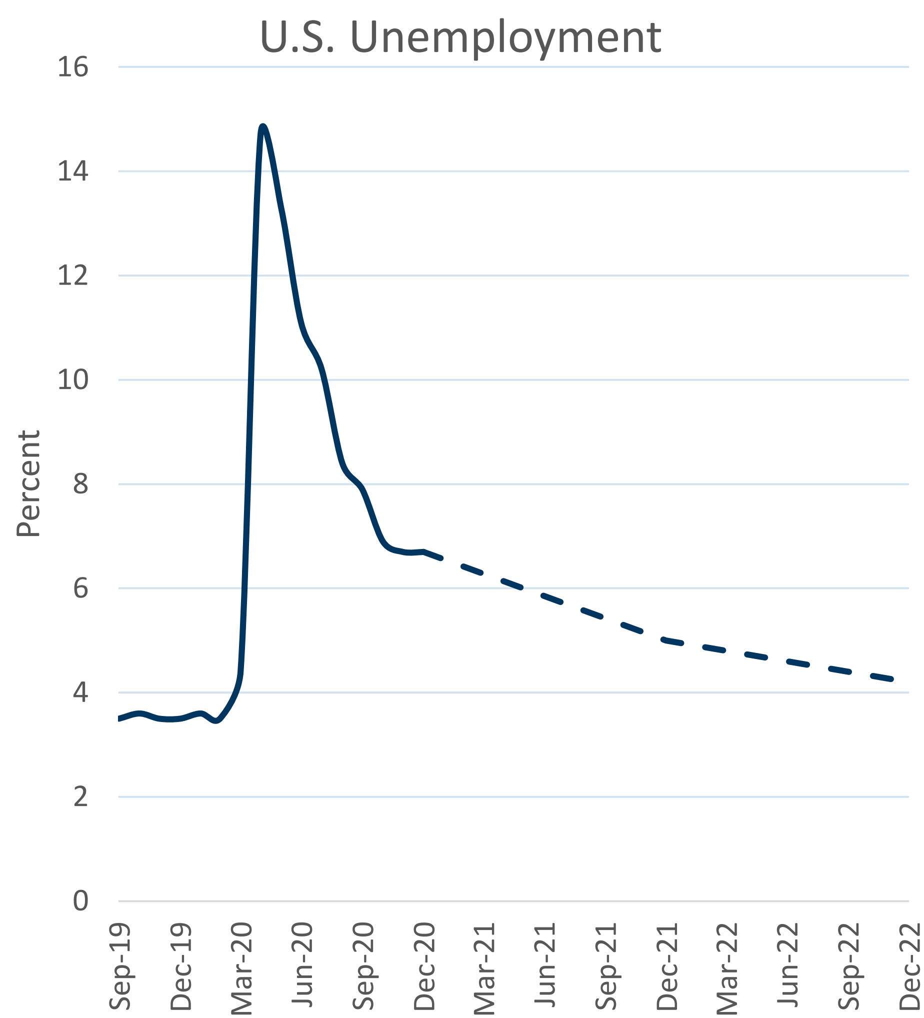




Source: Opus, Bloomberg

# Economic Outlook

*With Federal Reserve projections below their target, the Fed remains committed to their dual mandate of price stability and full employment*

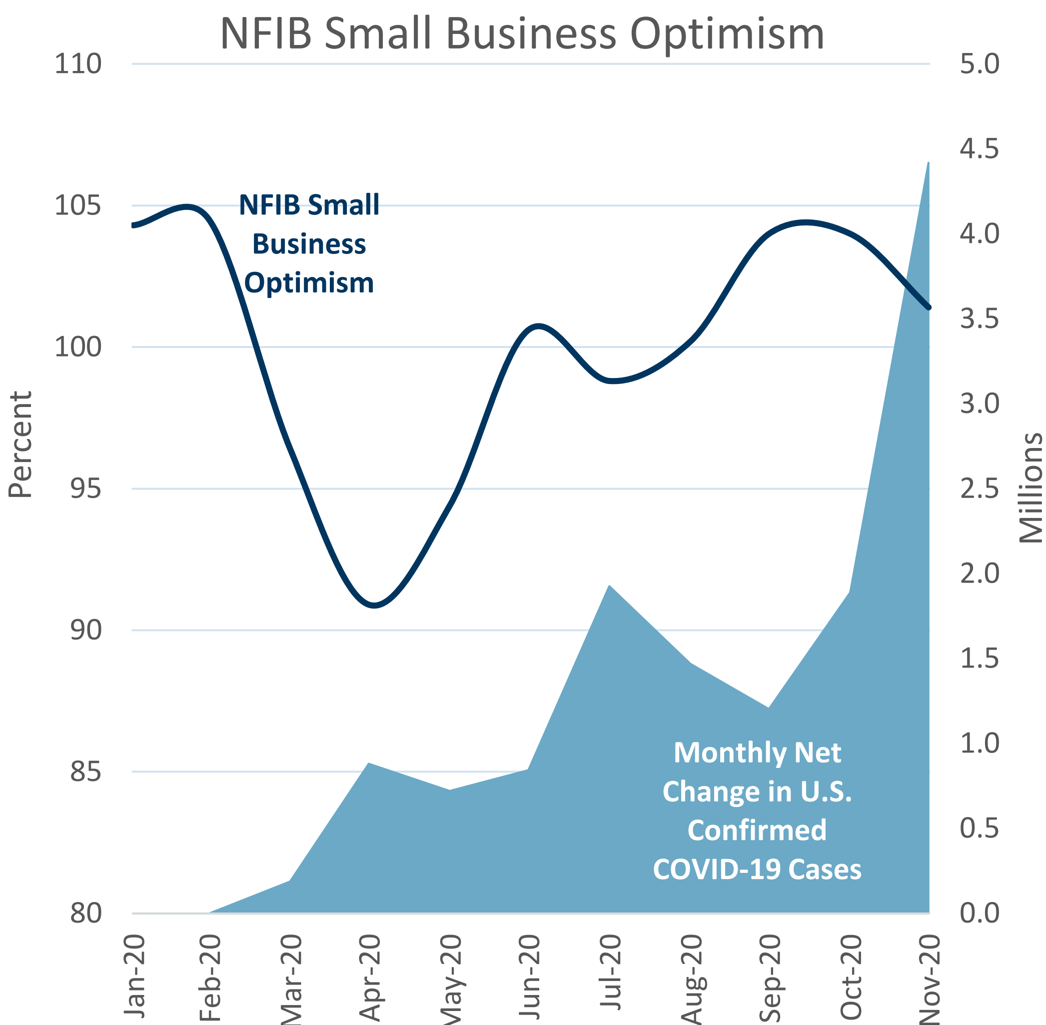


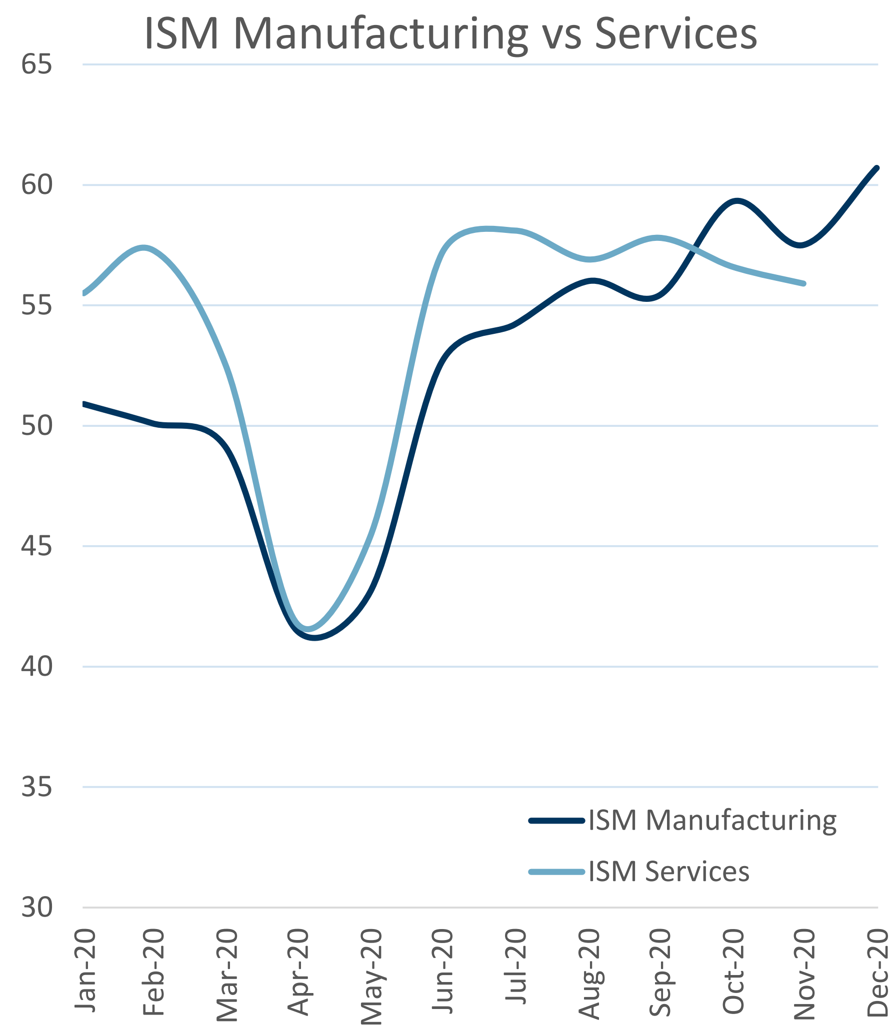




Source: Opus, Bloomberg, U.S. Bureau of Labor Statistics

# Economic Outlook

*High negative correlation between increasing COVID-19 cases and small business optimism, however, purchasing manager surveys have recovered*

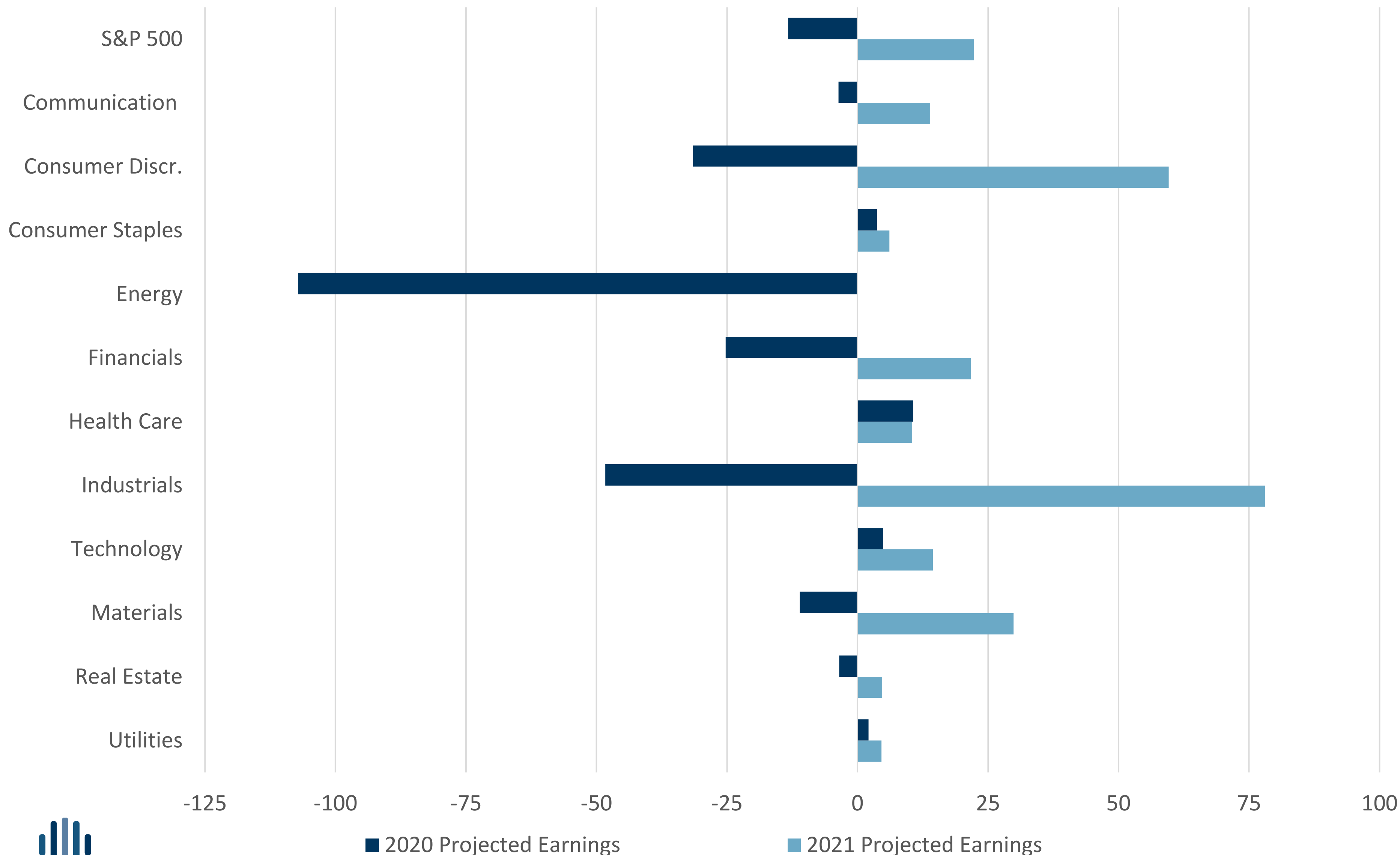



Source: Opus, Bloomberg, Institute for Supply Management, NFIB, John Hopkin's

# Economic Outlook

*COVID-19 impact on earnings was severe, however, they are forecast to rebound quickly*




Source: Opus, FactSet



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# Economic Outlook

*Vaccination momentum, a unified government, and a committed Fed should provide stability*

## Monetary and fiscal stimulus likely to continue

- Fed's target rate expected to remain near zero through 2023. Global central banks continue QE programs.
- The latest round of stimulus provided direct payments to individuals, extended enhanced unemployment benefits, and reintroduced the small business aid program.
- Fiscal stimulus is expected to continue, but will likely be subject to protracted negotiations in the Senate.

## Resulting in a rebound in risk assets

- Positive vaccine momentum has resulted in the S&P 500 hitting new all-time high in December, despite case counts also at new highs.
- Investment grade corporate bond issuance surpassed $1.7 trillion in 2020, more than 1.7 times 2019 issuance.
- All-in-Yields remain near historic lows.

## However, outlook may be underpricing risk

- Third quarter GDP increased 33.4%, but full year GDP expectations remain in contraction at -3.5%.
- Concern over increasing COVID-19 cases is causing some areas to reverse course, however, broader markets are trading on positive vaccine news.
- Uncertainty regarding policy changes remains, despite Democrats now controlling the executive and legislative branches.

Source: Opus, Bloomberg

**IMPORTANT INFORMATION**

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