

An aerial photograph of ocean waves breaking onto a sandy beach. Several surfers are visible riding the waves. The water is a deep teal color, and the foam of the waves is white. The overall scene is dynamic and energetic.

Litman Gregory

ASSET MANAGEMENT

# 2021 Market Update Webinar

with Chief Investment Officer Jeremy DeGroot

# Today's Speakers

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Gretchen Hollstein, CFP®  
Senior Advisor, Principal



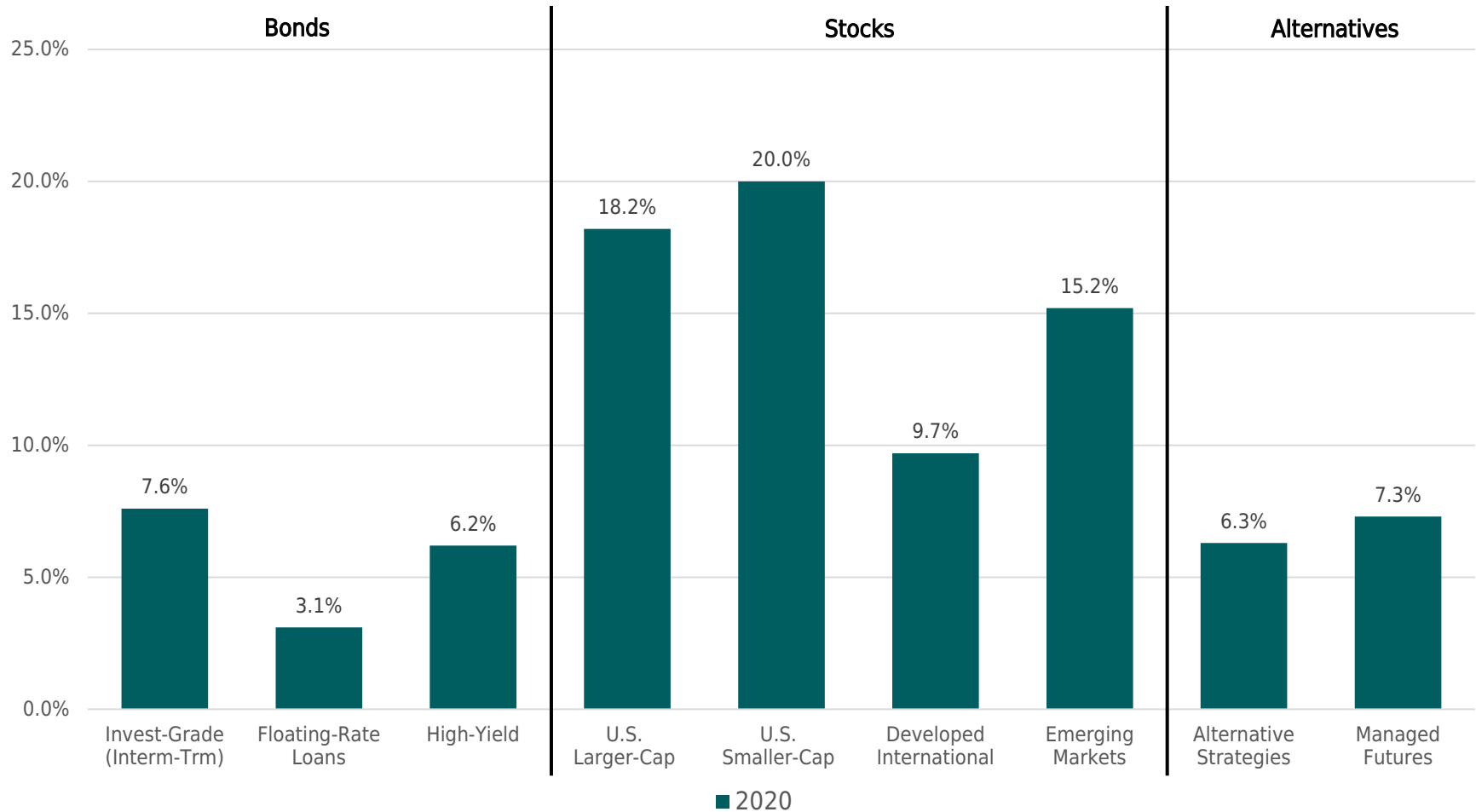
Jeremy DeGroot, CFA®  
Chief Investment Officer, Principal

# Topics We'll Address Today

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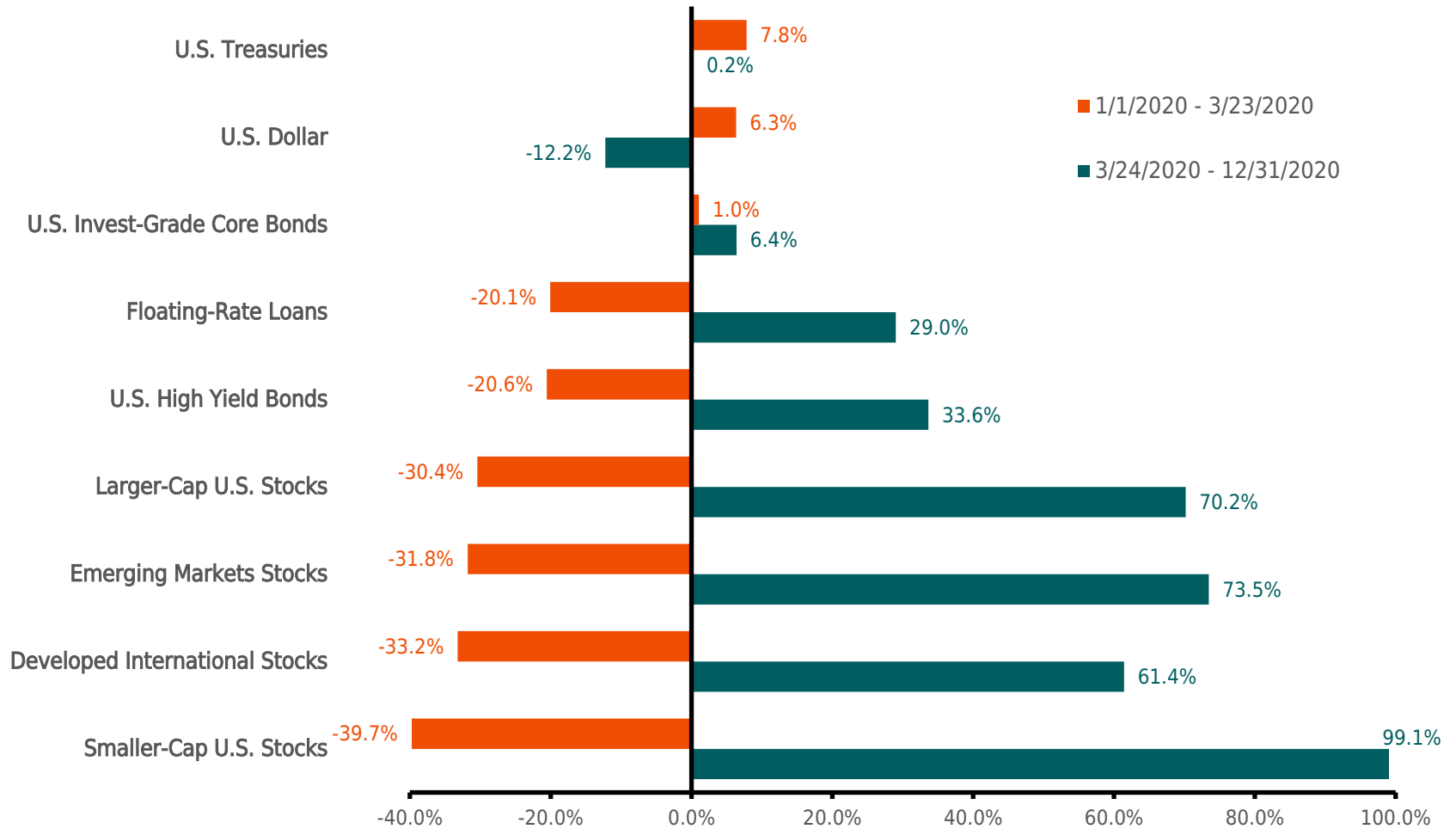
- Review of 2020; Market Performance & Portfolio Actions
- Apparent Disconnect of Wall Street vs. Main Street
- Market Trends Emerging in Late 2020
- Macro Economic Outlook for 2021
- Investment Opportunities in 2021 and Beyond
- Perception of Risks: Federal Debt/Deficits, Monetary Inflation, Dollar Debasement
- Interest in Speculative Investments
- Diversified Portfolio Management Strategy in this Environment

# Market Review: Assets Class Performance in 2020

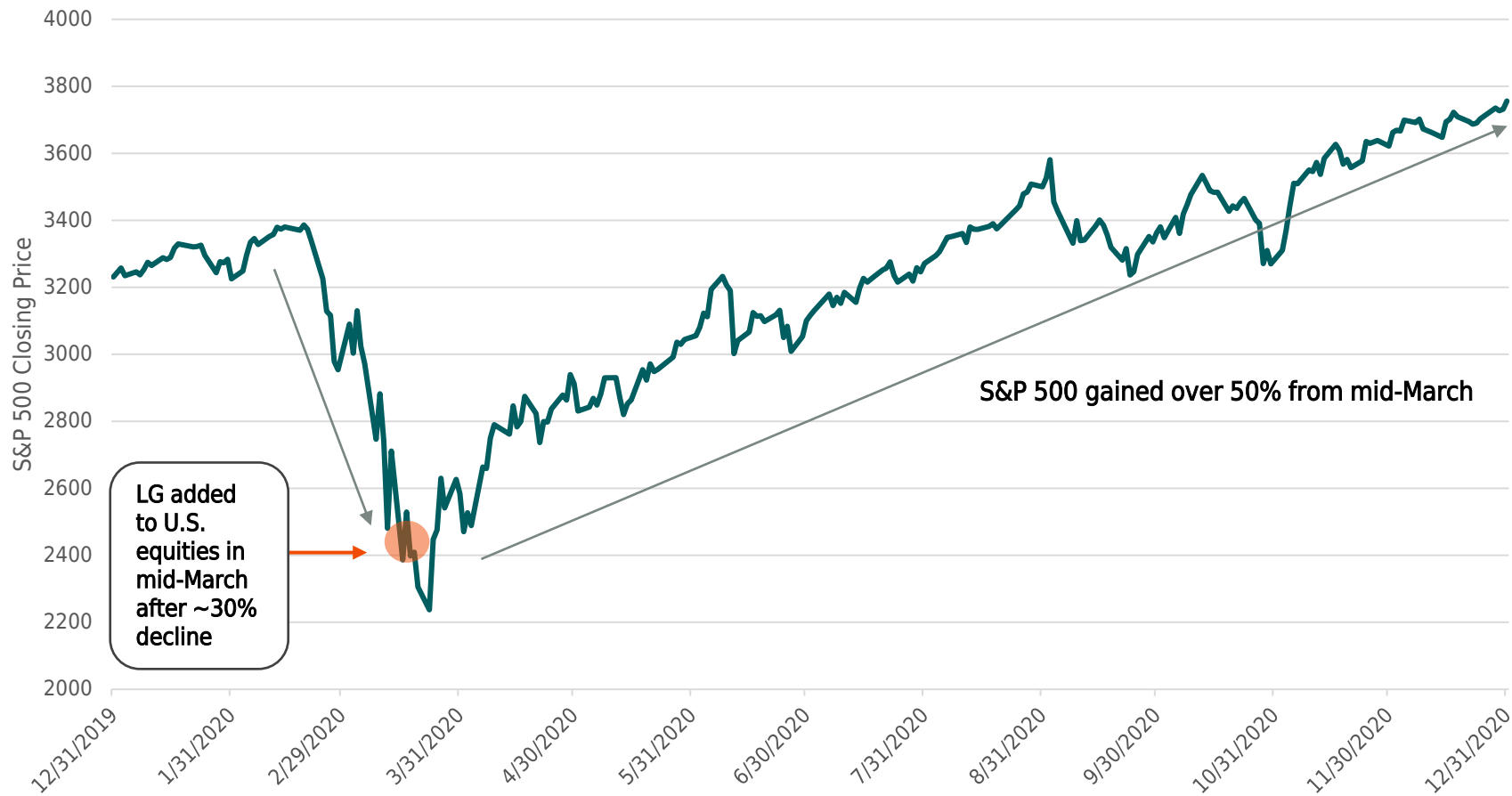


Source: Morningstar Direct. Data as of 12/31/2020.

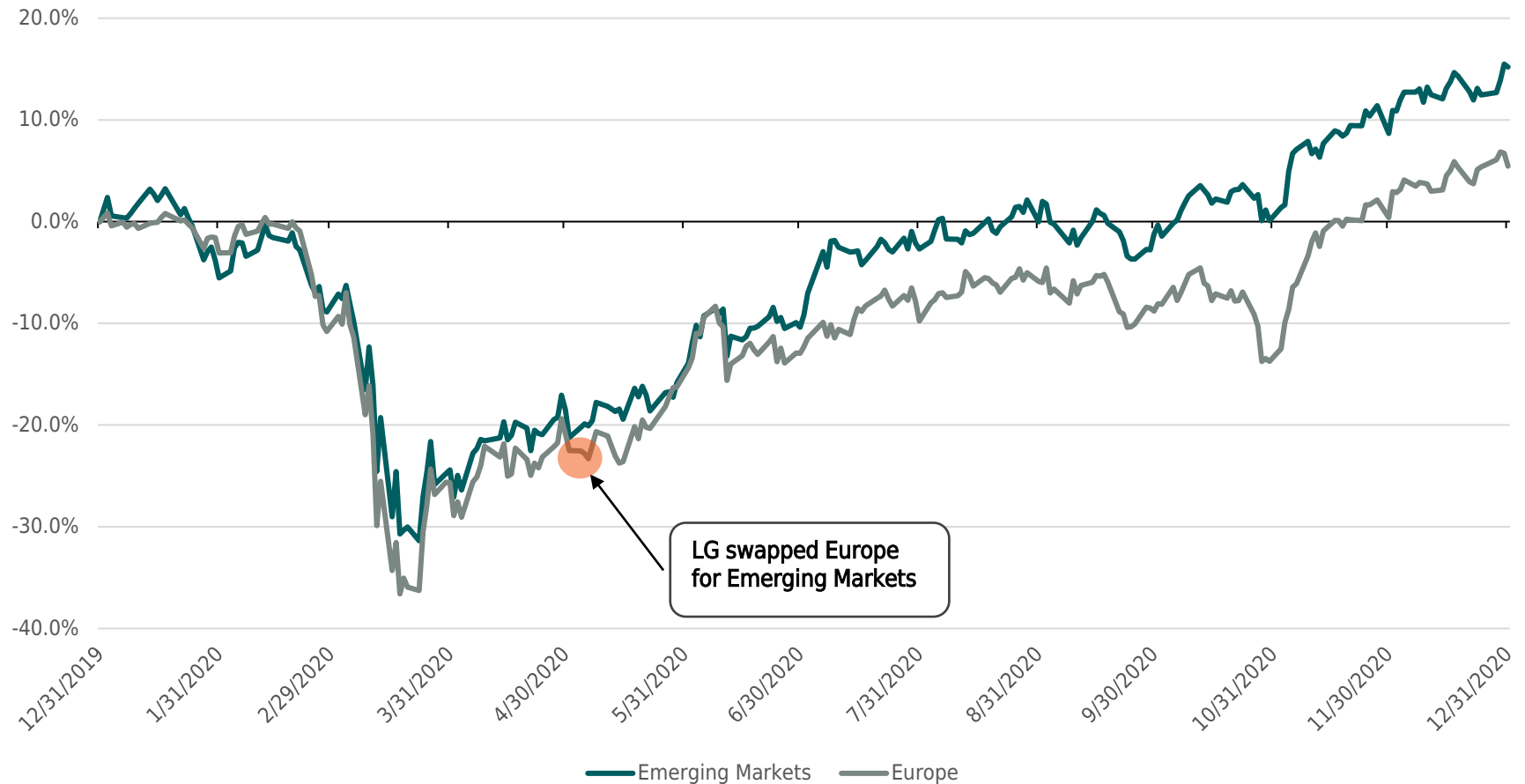
# 2020: A Tumultuous but Ultimately Positive Year



# LG Added to US Stocks in March 2020, which Gained 50% to Year-End

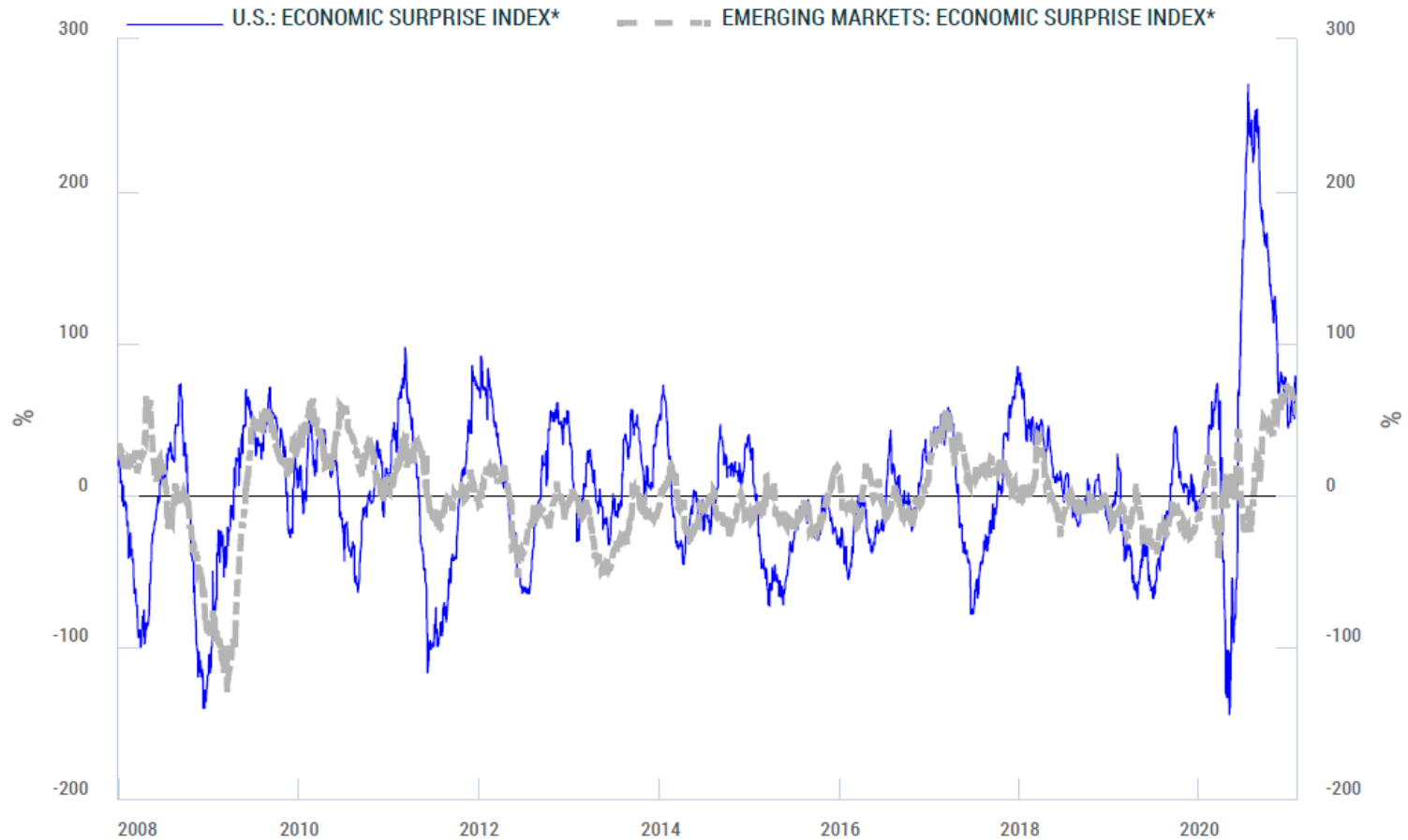


# LG Swapped Europe for Emerging Markets in May, Boosting 2020 Returns



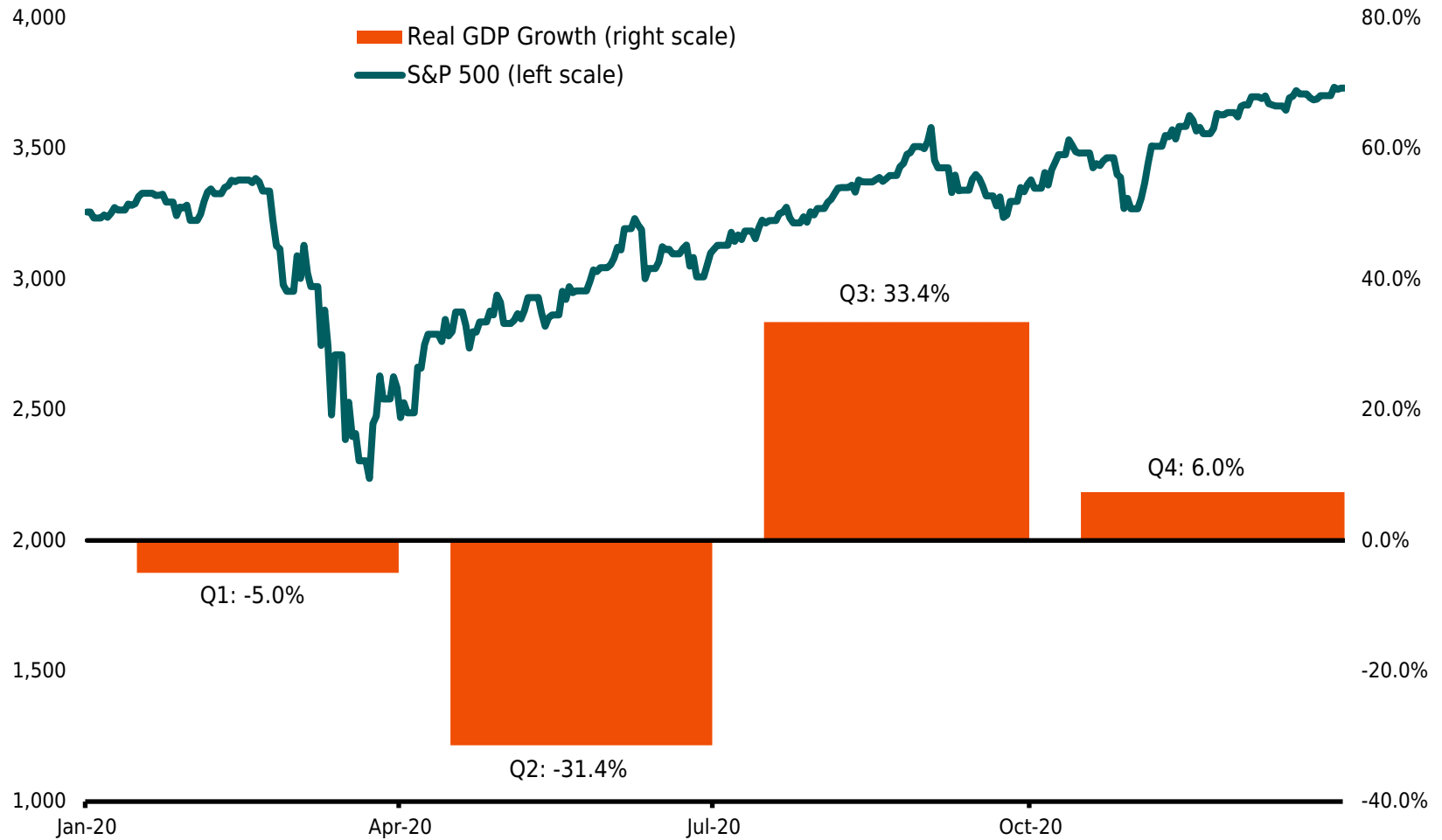
# Since the April Plunge, Economic Data Have Been Positively Surprising, Boosting Financial Markets

## Citigroup Economic Surprise Index





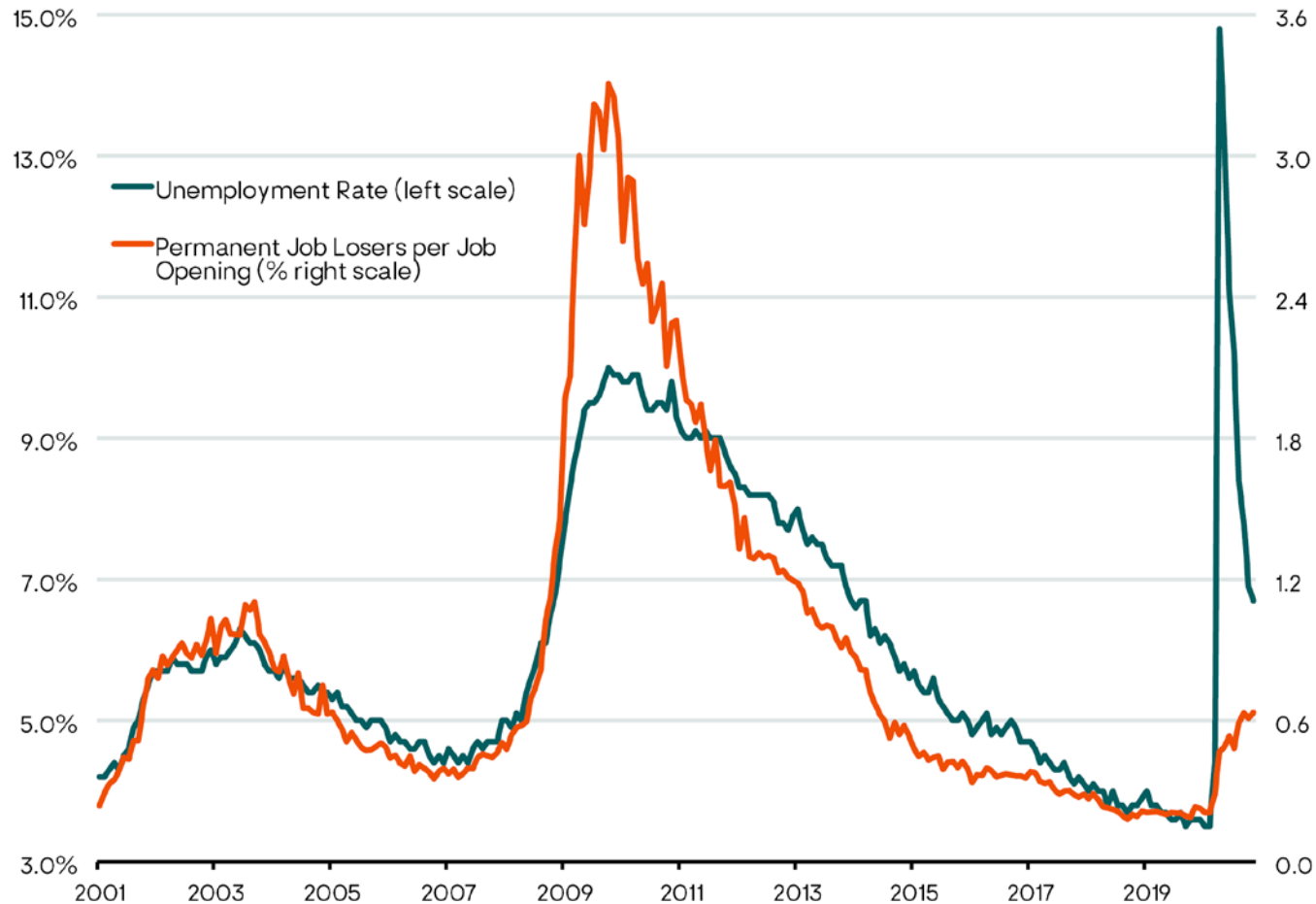
# The Market is Anticipatory: Reacts in Advance of GDP Decline and Rise



Source: U.S. Bureau of Economic Analysis, Federal Reserve Bank of Atlanta, Yahoo! Finance. Data as of 12/31/20.

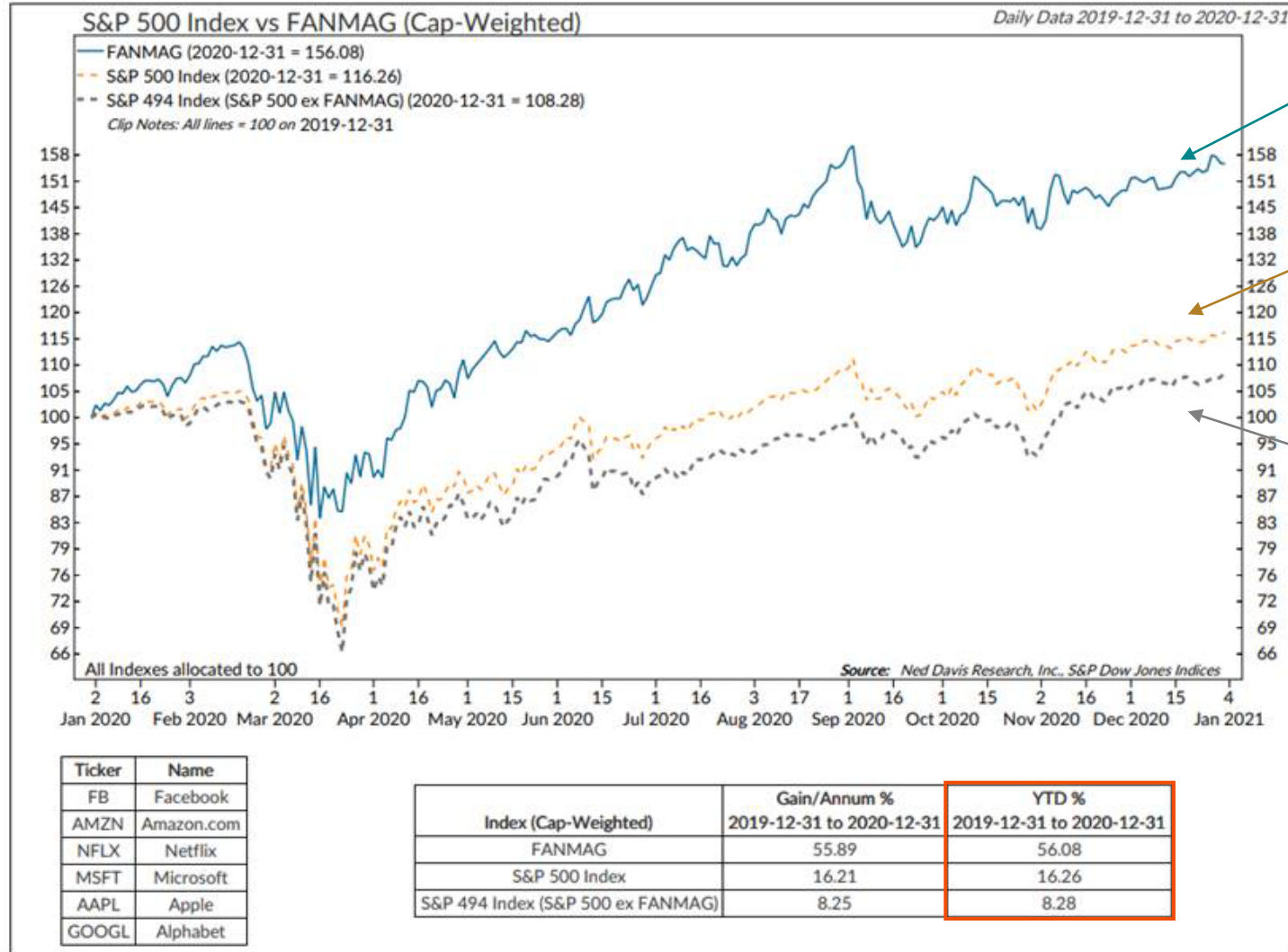
# Labor Market Recovering Rapidly — But Still Far From Recovered

## Permanent Unemployment vs. Other Downturns



Source: U.S. Bureau of Labor Statistics. Chart concept courtesy of Guggenheim Investments. Data as of 11/30/20

# S&P 500 “Under the Hood”: FANMAG stocks vs. the S&P “494”



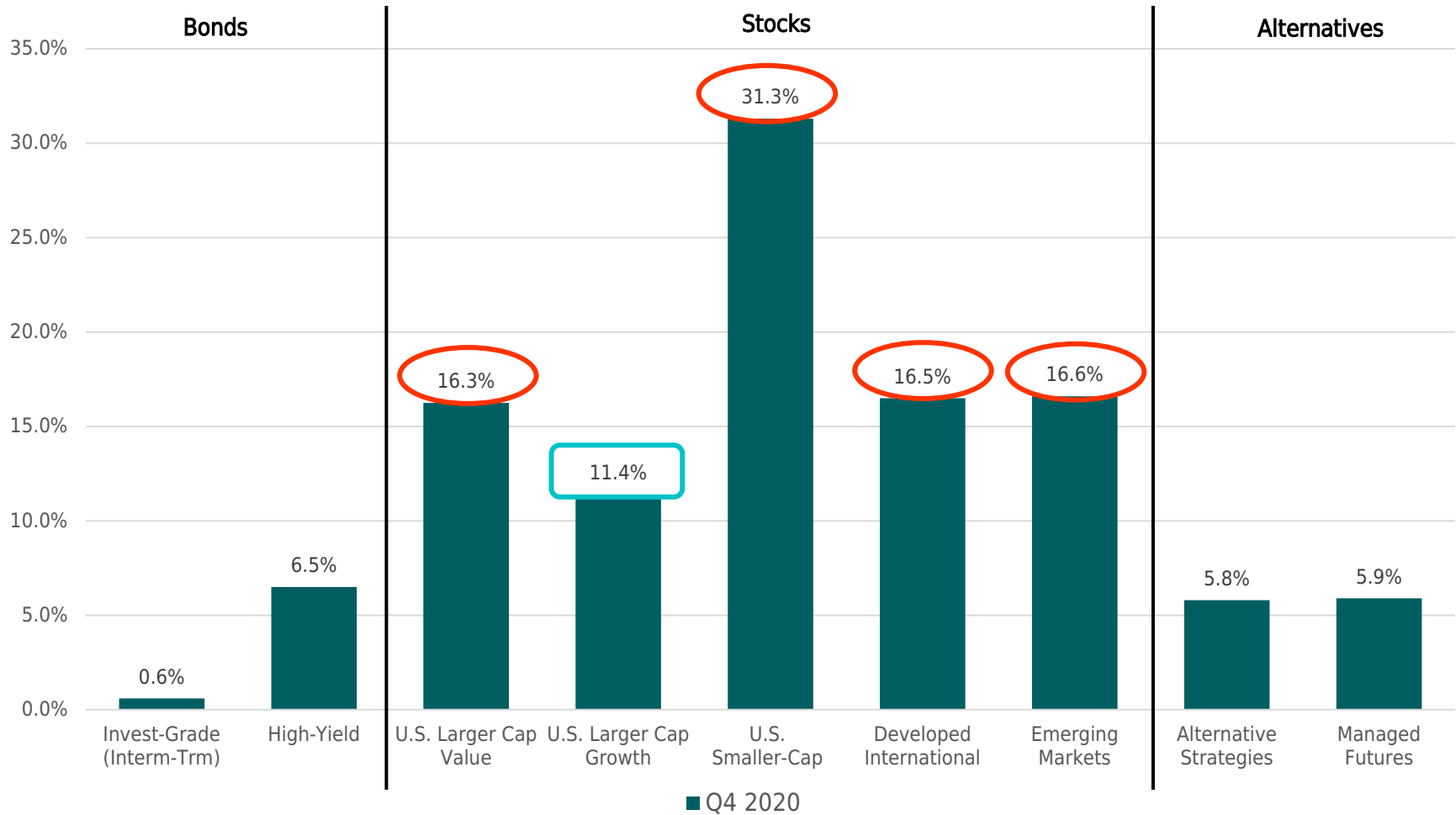
FANMAG Stocks

S&P 500 Index

S&P 494 Index (without FANMAG)

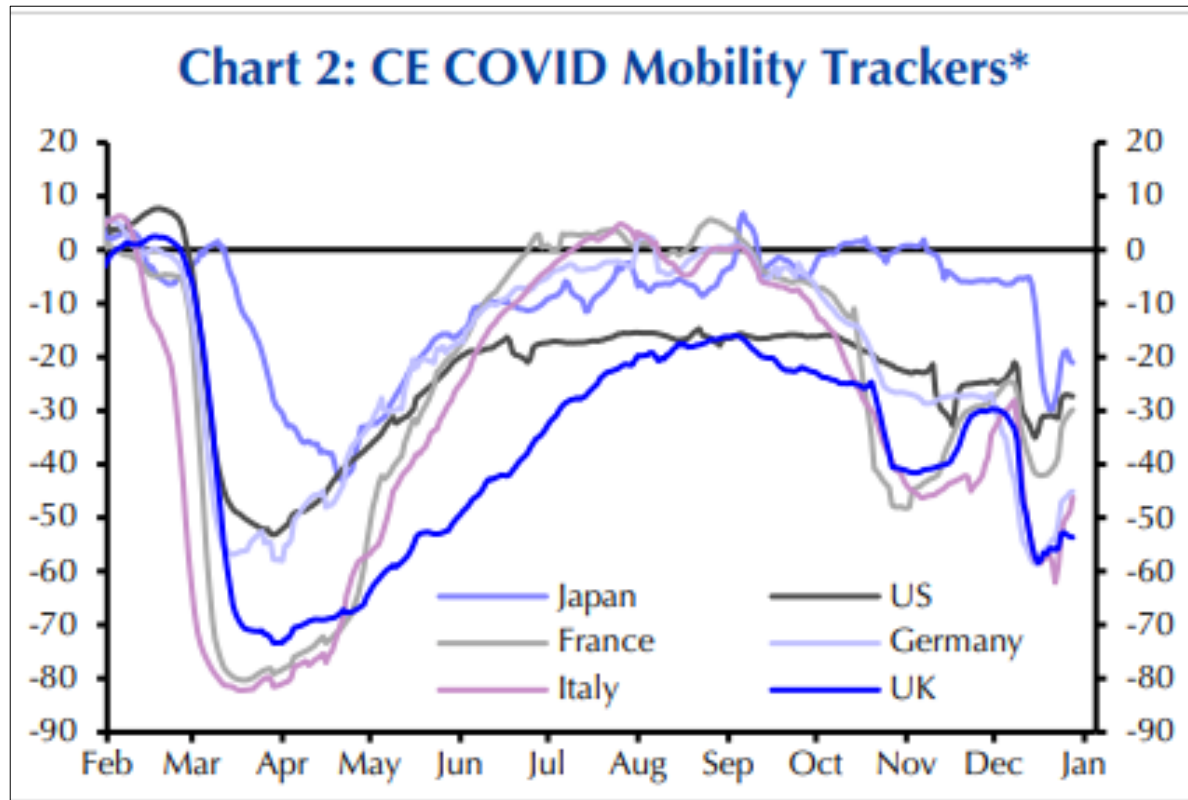
Ticker	Name
FB	Facebook
AMZN	Amazon.com
NFLX	Netflix
MSFT	Microsoft
AAPL	Apple
GOOGL	Alphabet

# Market Review: Asset Class Performance October-December 2020



Source: Morningstar Direct. Data as of 12/31/2020.

# COVID Mobility Trackers: Real Time Measures of Activity, Recovered in the Summer but Weakened into January 2021



\* Mobility trackers are real time requests of web browser services for data on retail, recreation, and workplace visits, use of public transportation, and drivers' routing requests. They provide real time data reflecting changes in economic activity.

# U.S. COVID-19 Statistics: Key Risk in Near-Term Economic Outlook

## NATIONWIDE COVID-19 METRICS. 7-DAY AVERAGE LINES

Apr 1 - Jan 30

### Daily Tests

Jan 30: **2,088,902**

7-Day Avg: 1,834,168

### Daily Cases

Jan 30: **146,657**

7-Day Avg: 148,395

### Currently Hospitalized

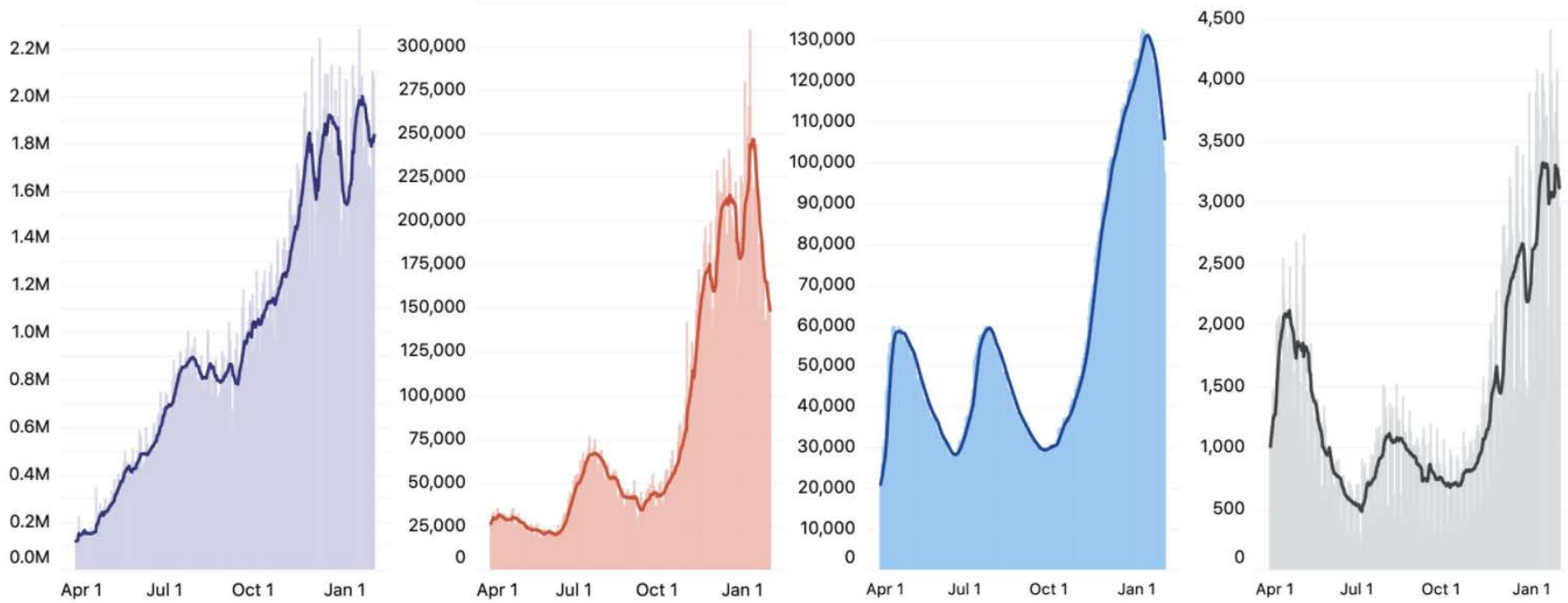
Jan 30: **97,561**

7-Day Avg: 105,691

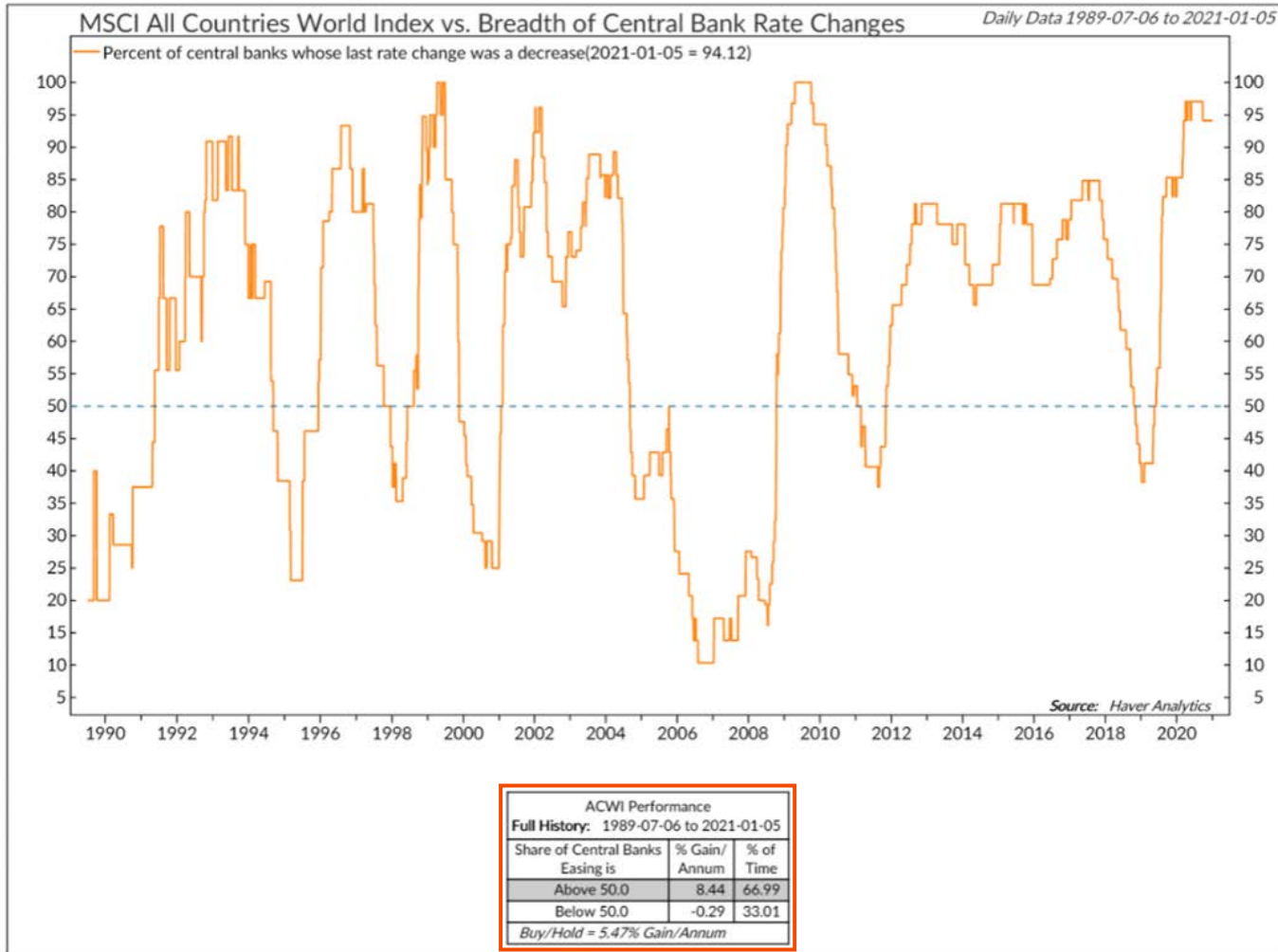
### Daily Deaths

Jan 30: **2,972**

7-Day Avg: 3,119



# Accommodative Monetary and Fiscal Policy Should Support the Economy and Financial Markets Over the Near-Term



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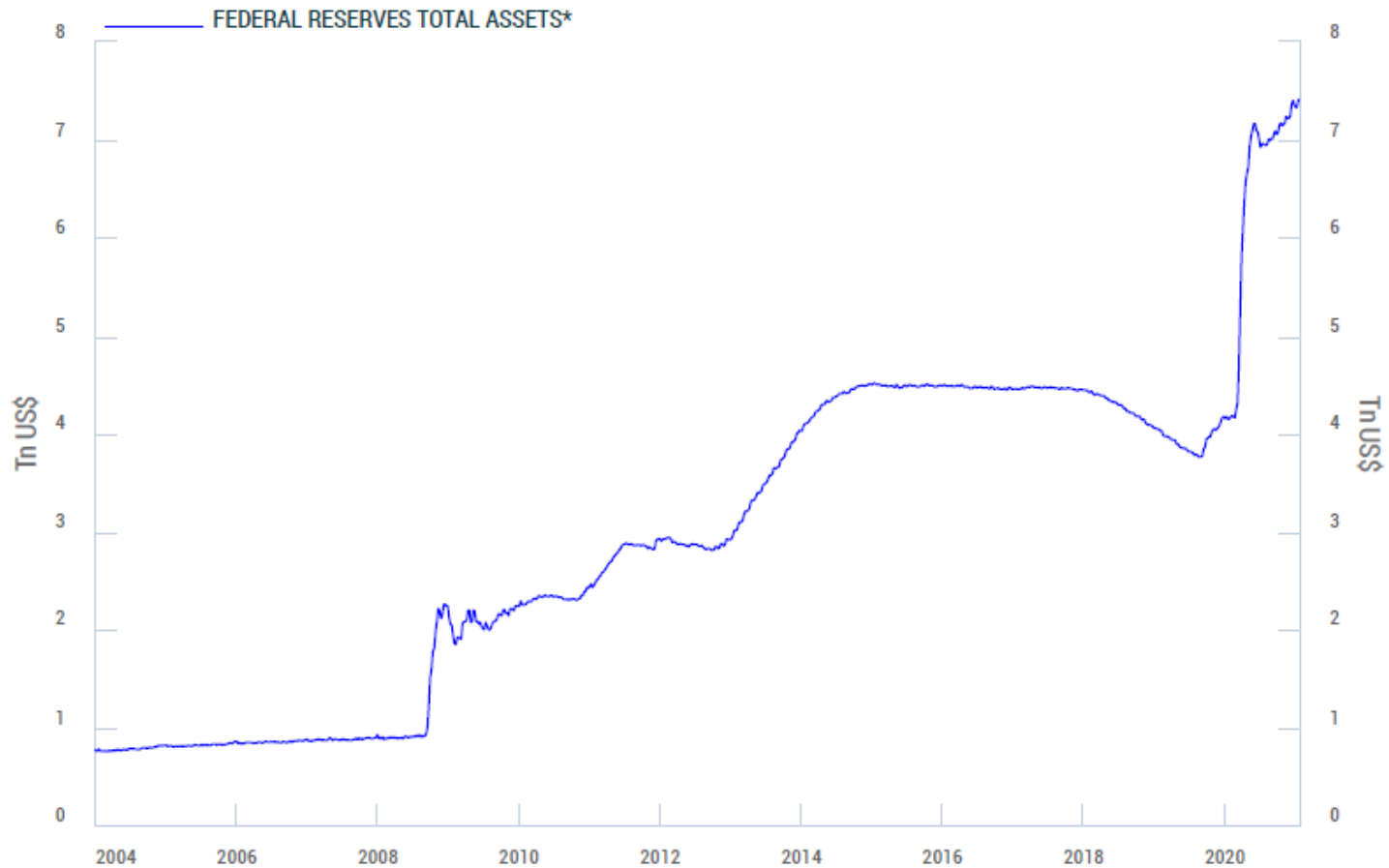


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Source: Ned Davis Research.

# The Fed Has Again Hugely Expanded Its Balance Sheet via Quantitative Easing (QE) ...

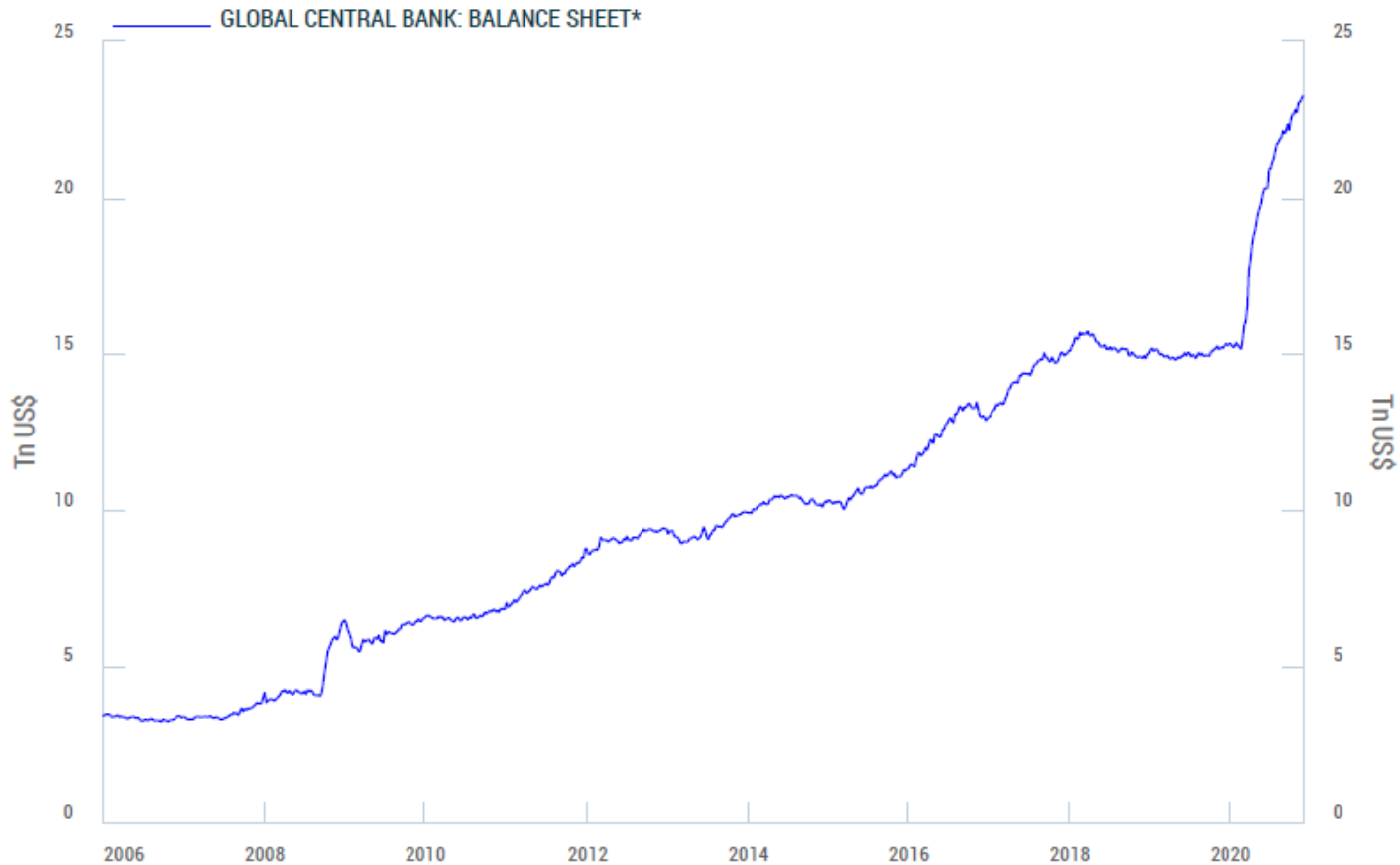
## The Fed's Balance Sheet in Perspective





# ... As Have Other Major Global Central Banks

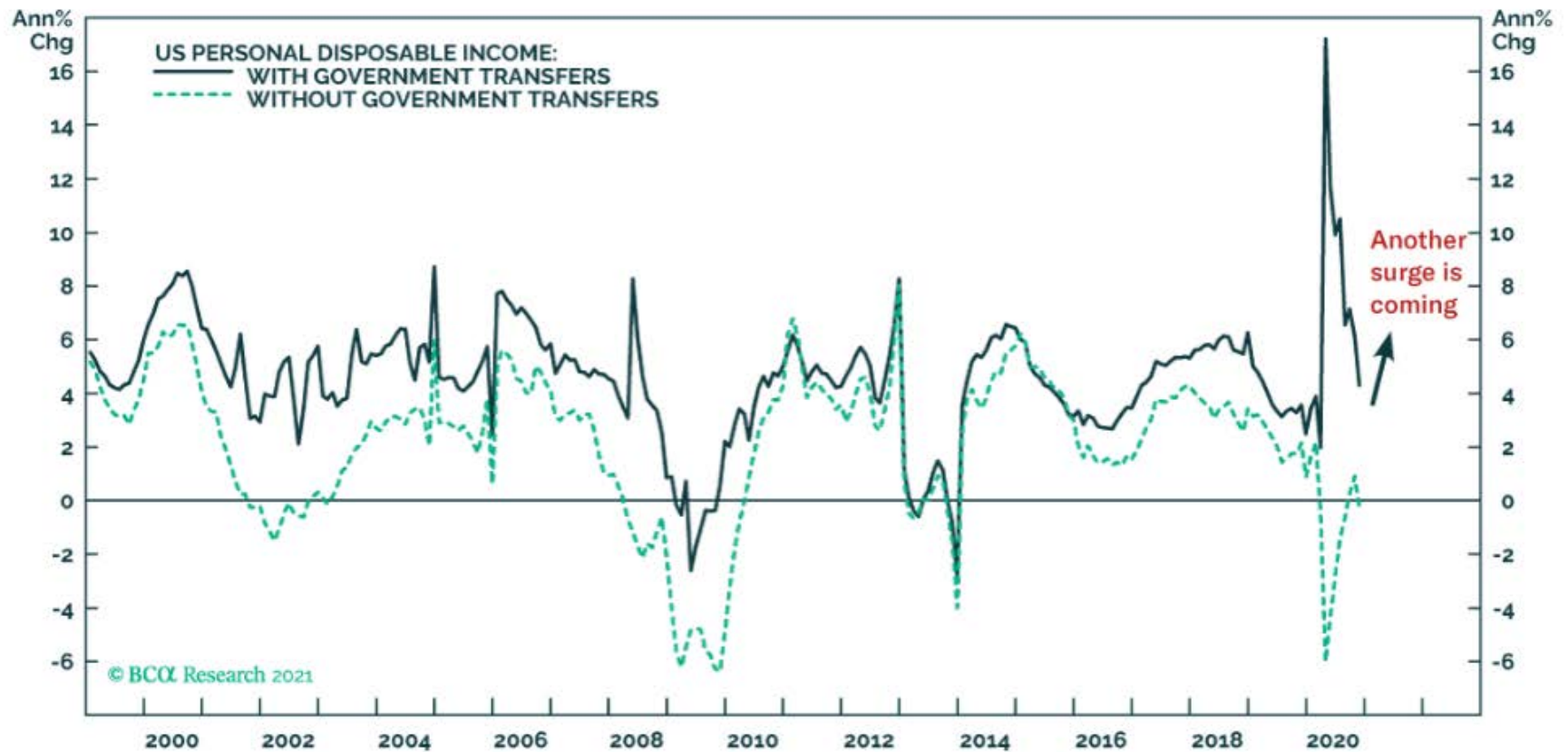
## Global Central Bank: Balance Sheet



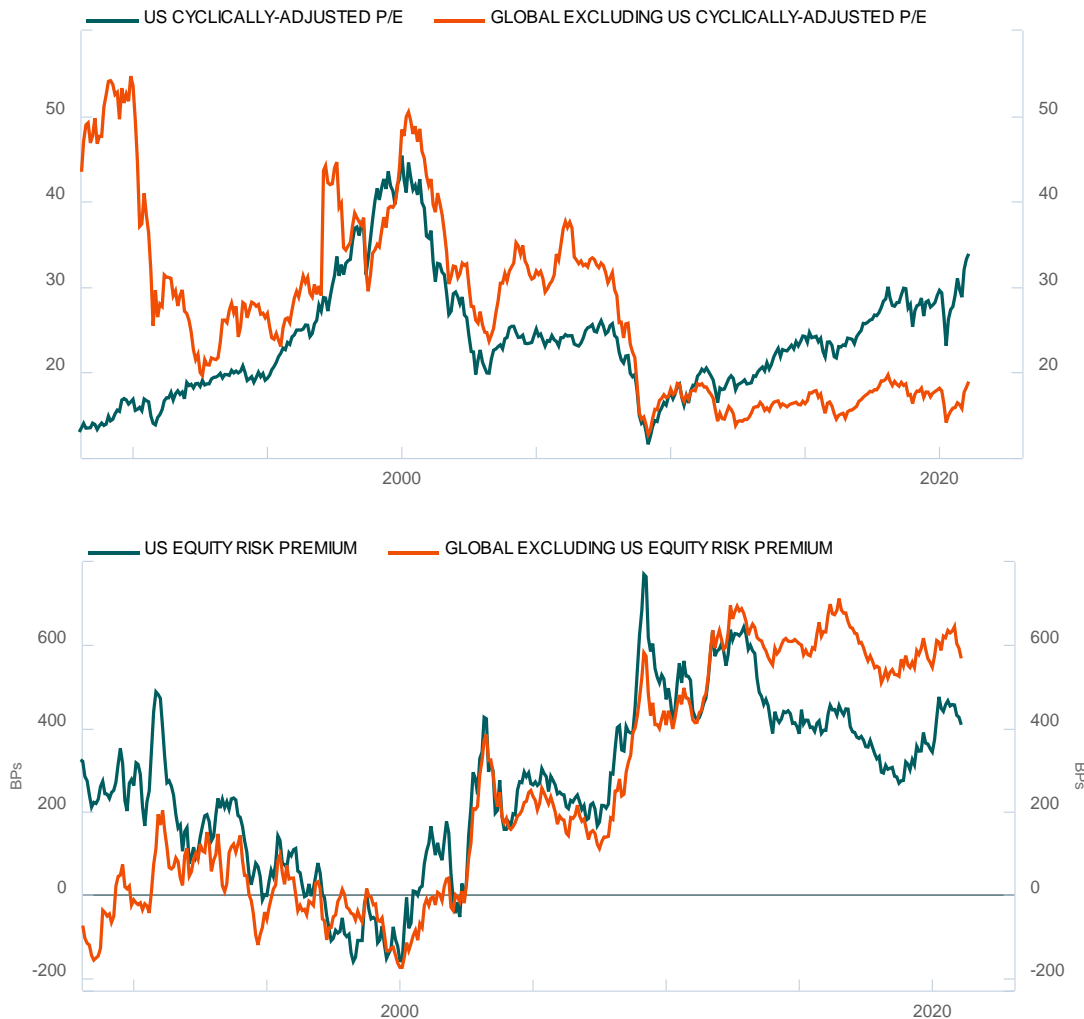
\* Sum of the BOE, ECB, FED and BoJ

Source: BCA Research

# Fiscal Policy/CARES Act Had a Huge Positive Impact on Personal Disposable Income, Offsetting the Shutdown



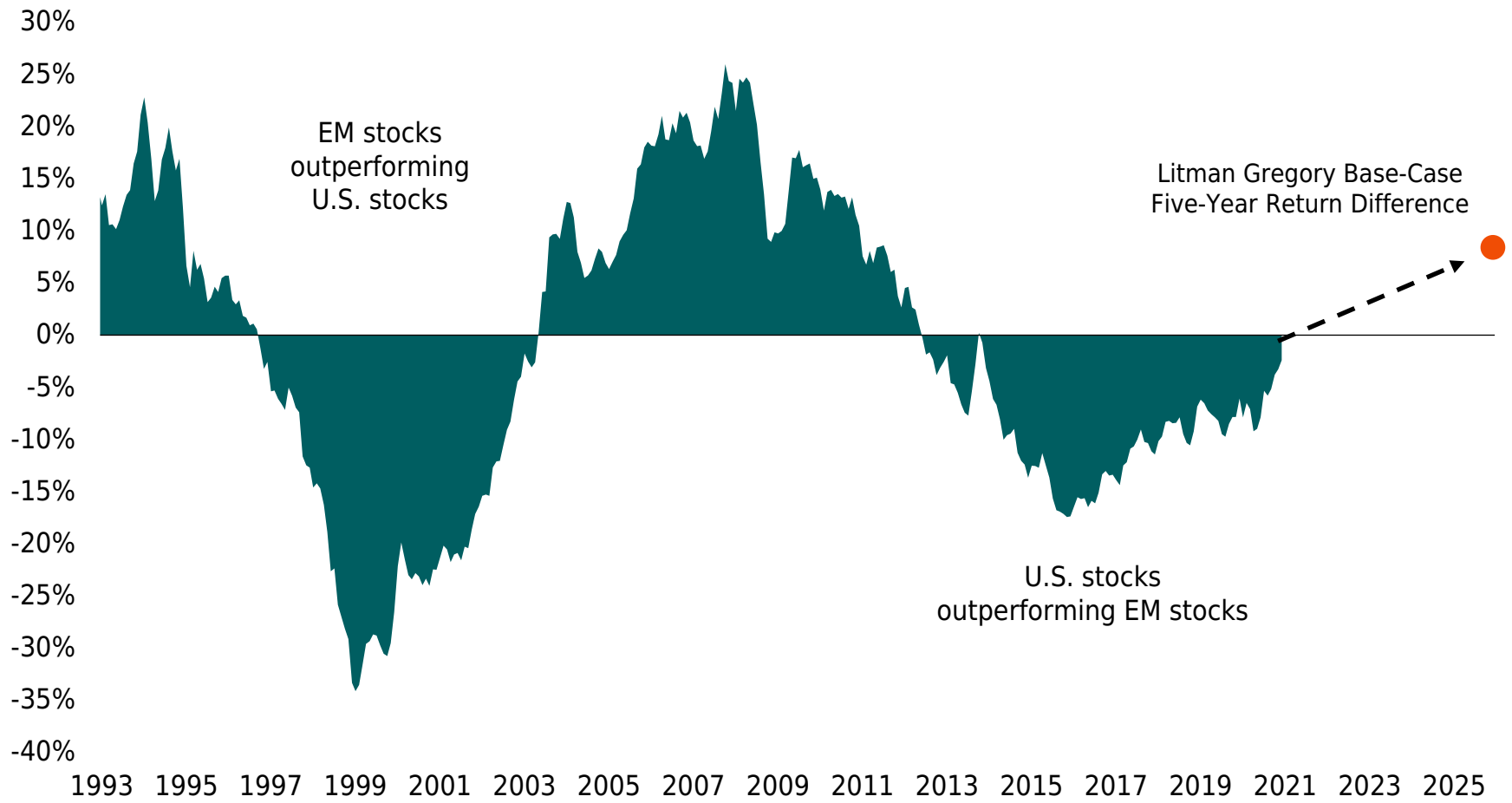
# U.S. Stocks Are Expensive But Still Attractive Relative to Bonds



- U.S. stock valuations, as measured by the Shiller CAPE (cyclically-adjusted price-to-earnings) ratio, are at a level not seen since the dot-com bubble.
- However, in this environment of extremely low bond yields, U.S. stocks still look relatively attractive compared to core bonds or Treasury bonds. This is evident by looking at the “equity risk premium,” which is historically high (a higher ERP implies stocks are cheaper versus bonds).

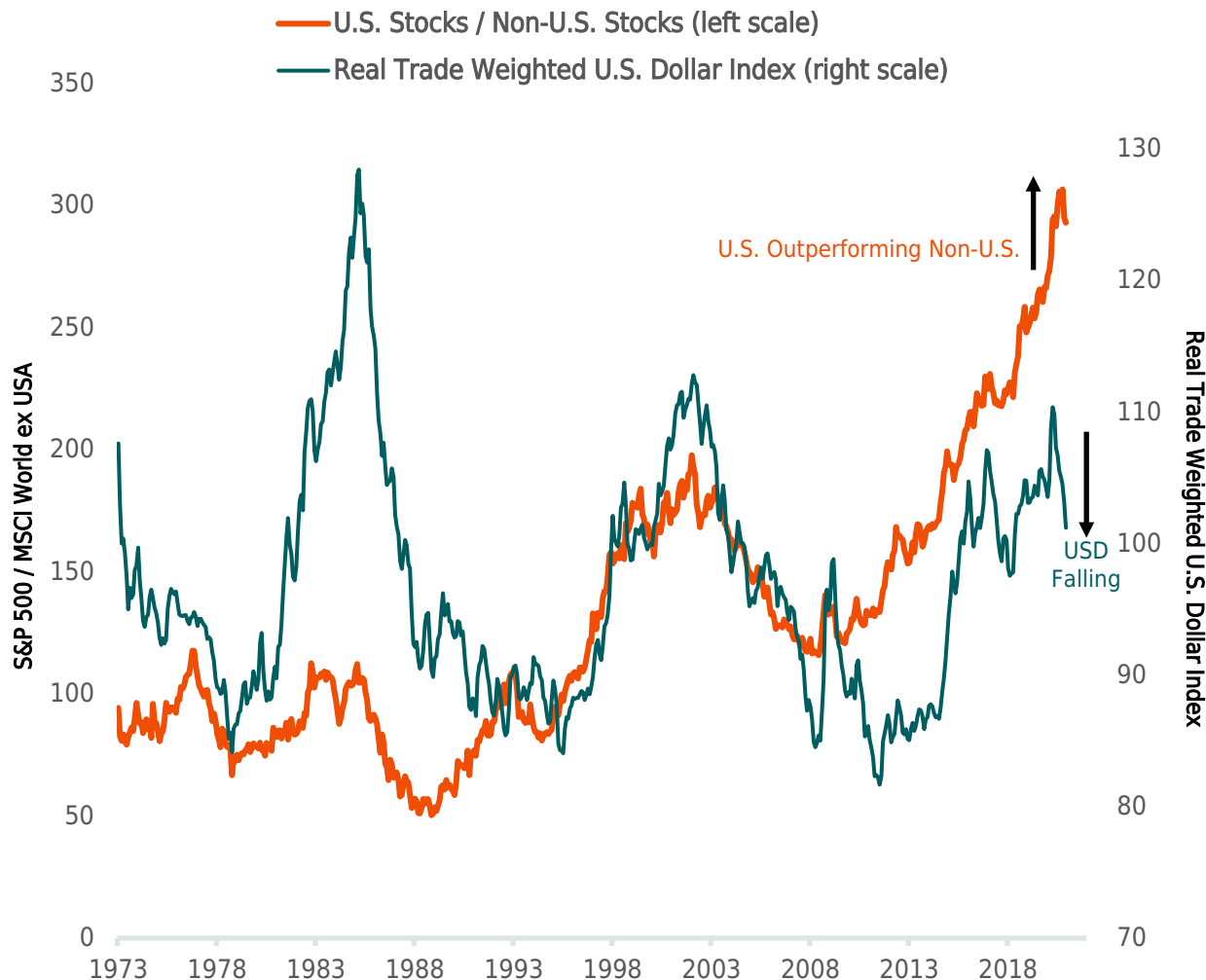
# Outlook for Emerging Markets vs. U.S. Stocks Is Very Attractive

Rolling 5-year Return Difference: EM Stocks Minus US Stocks



Source: Morningstar Direct. Data as of 12/31/2020.

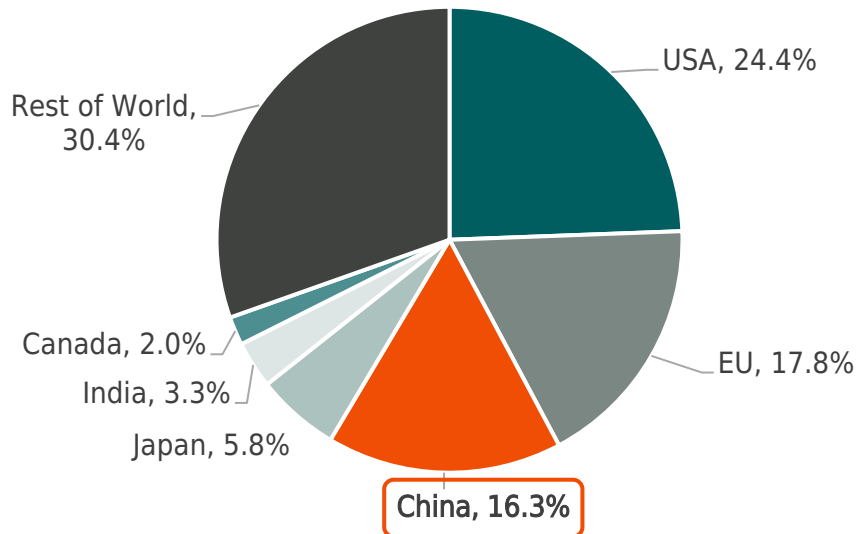
# A Weaker Dollar Should Also Benefit Foreign Stock Returns



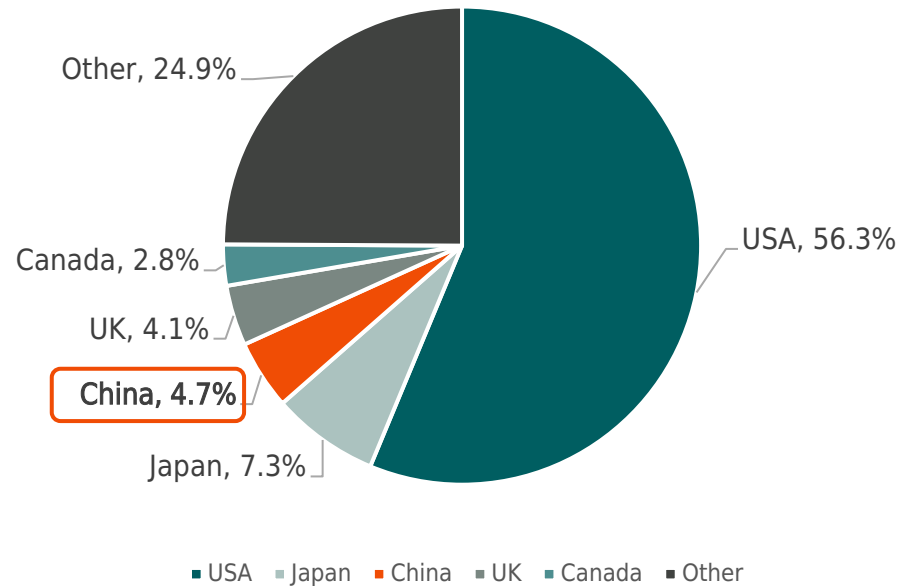
- The direction of the U.S. dollar is important for foreign markets and the global economy; it tends to appreciate and depreciate in the opposite direction of the global business cycle.
- A rebound in the global economy should be a negative for the dollar relative to other currencies

# China: Large and Growing Importance in World Economy and Emerging Markets

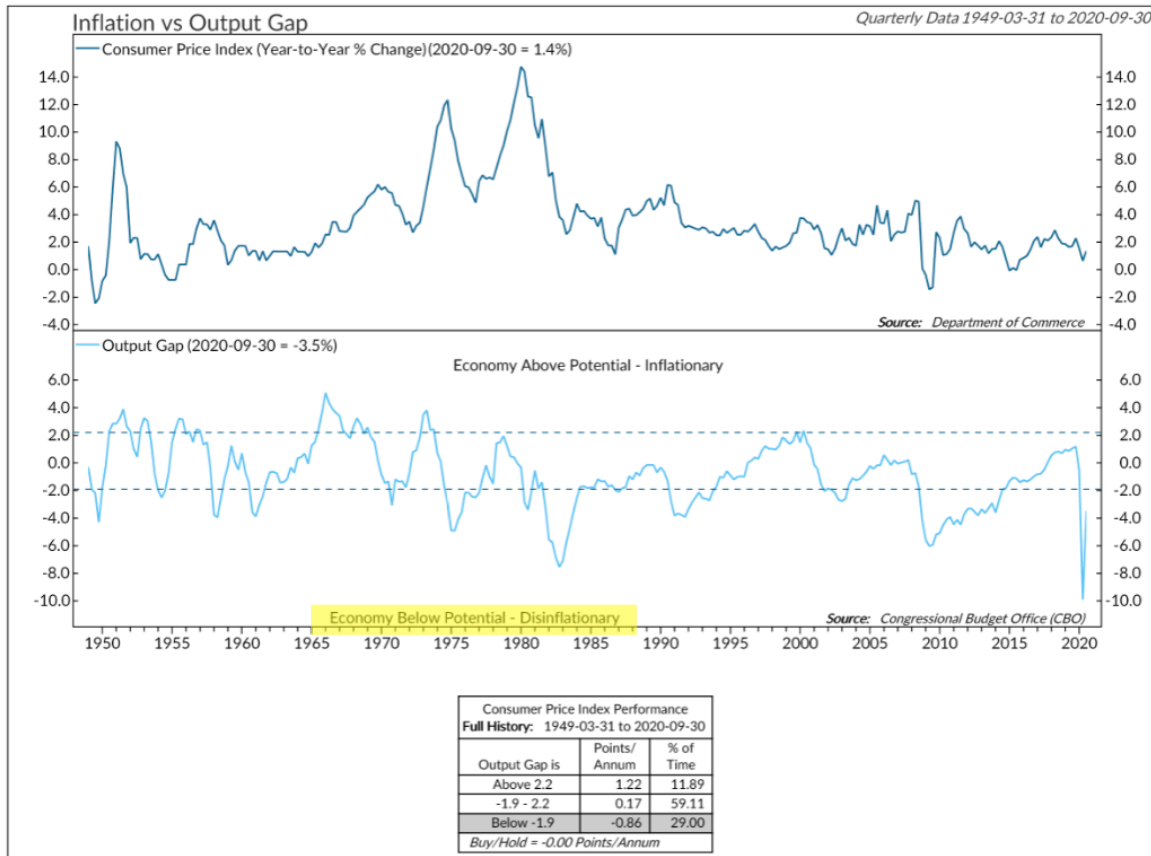
## Share of World GDP in \$USD



## Share of MSCI ACWI "All World" Equity Index



# Given the Slack in the Economy, Inflation Unlikely a Near Term Risk



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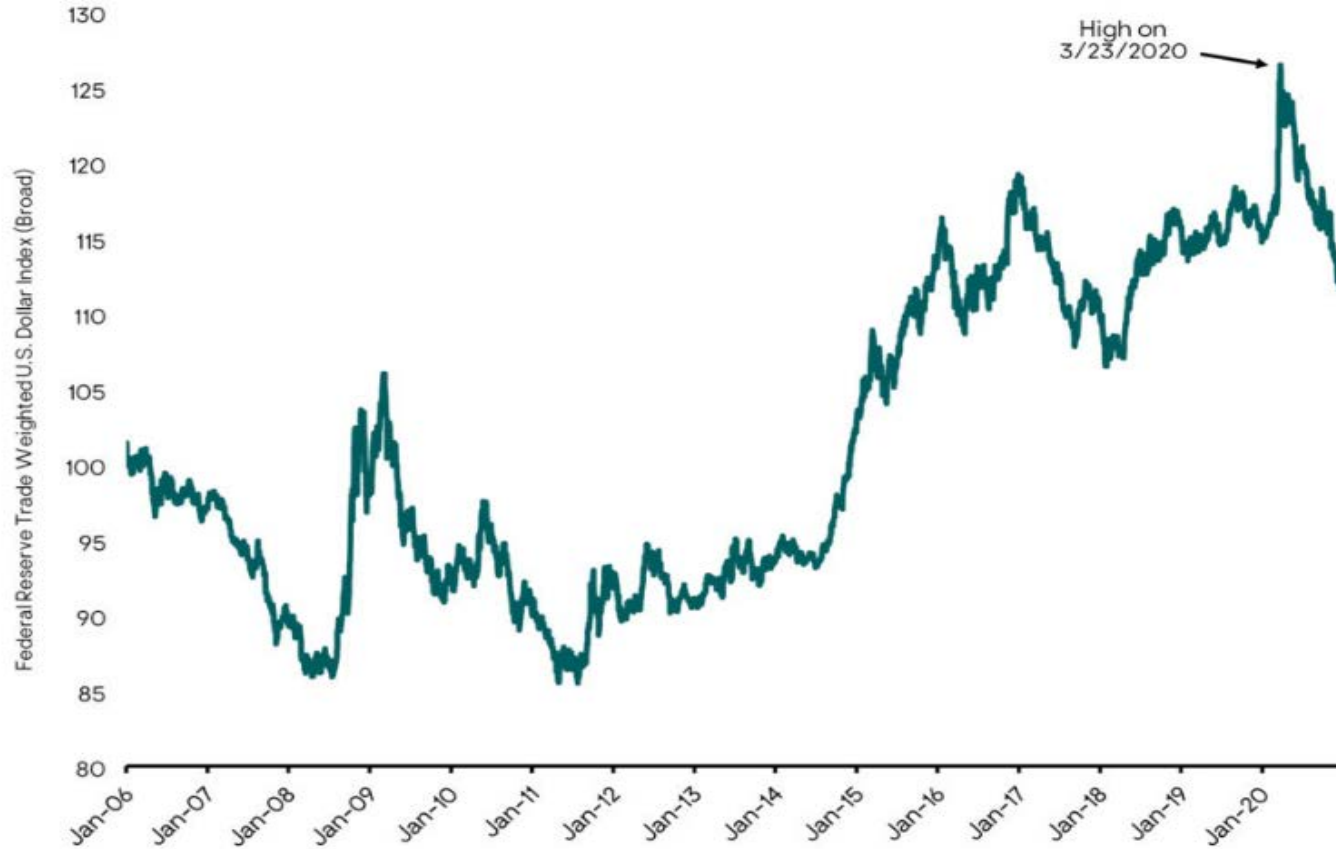
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- Inflation is unlikely to move substantially higher, absent an external shock, as long as there remains high unemployment and excess economic capacity.
- Currently the Fed is forecasting a 5.0% unemployment rate for 2021 and 4.2% for 2022. And core inflation of 1.8% in 2021 and 1.9% in 2022.

Source: Ned Davis Research.

# Trade-Weighted Dollar Index: US Dollar vs. Other Currencies, More Room to Fall

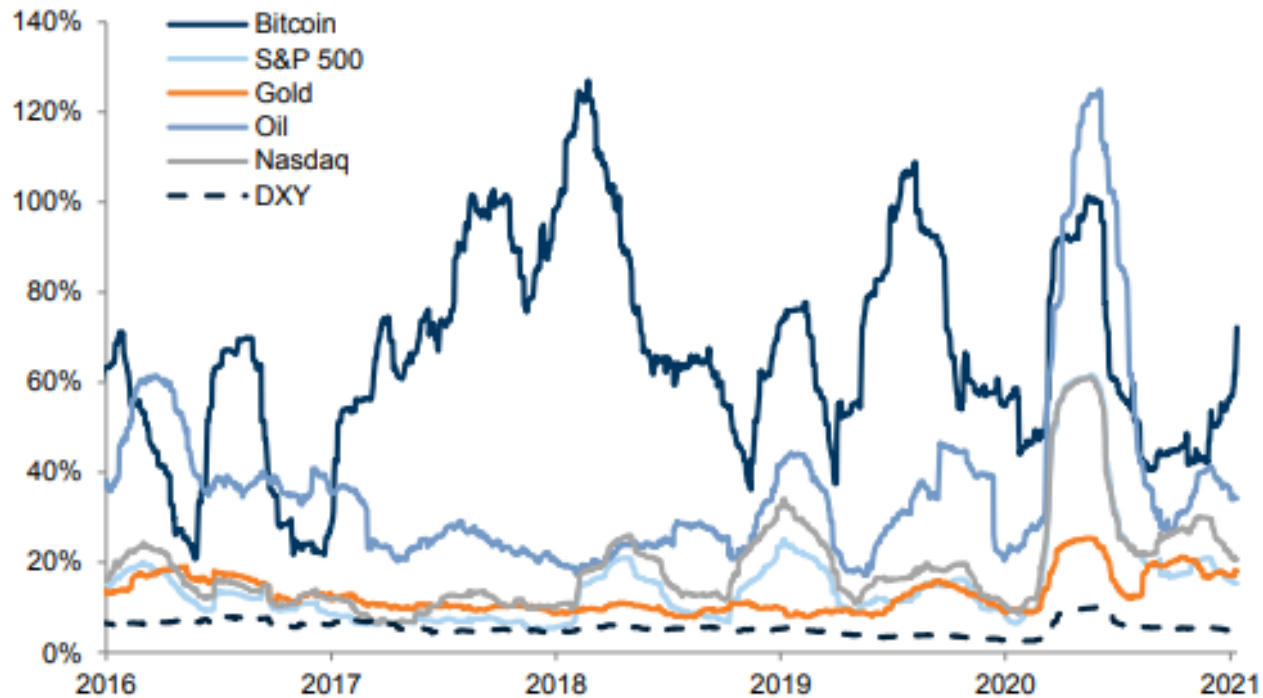
The U.S. Dollar Has Fallen More than 10% Since Late March





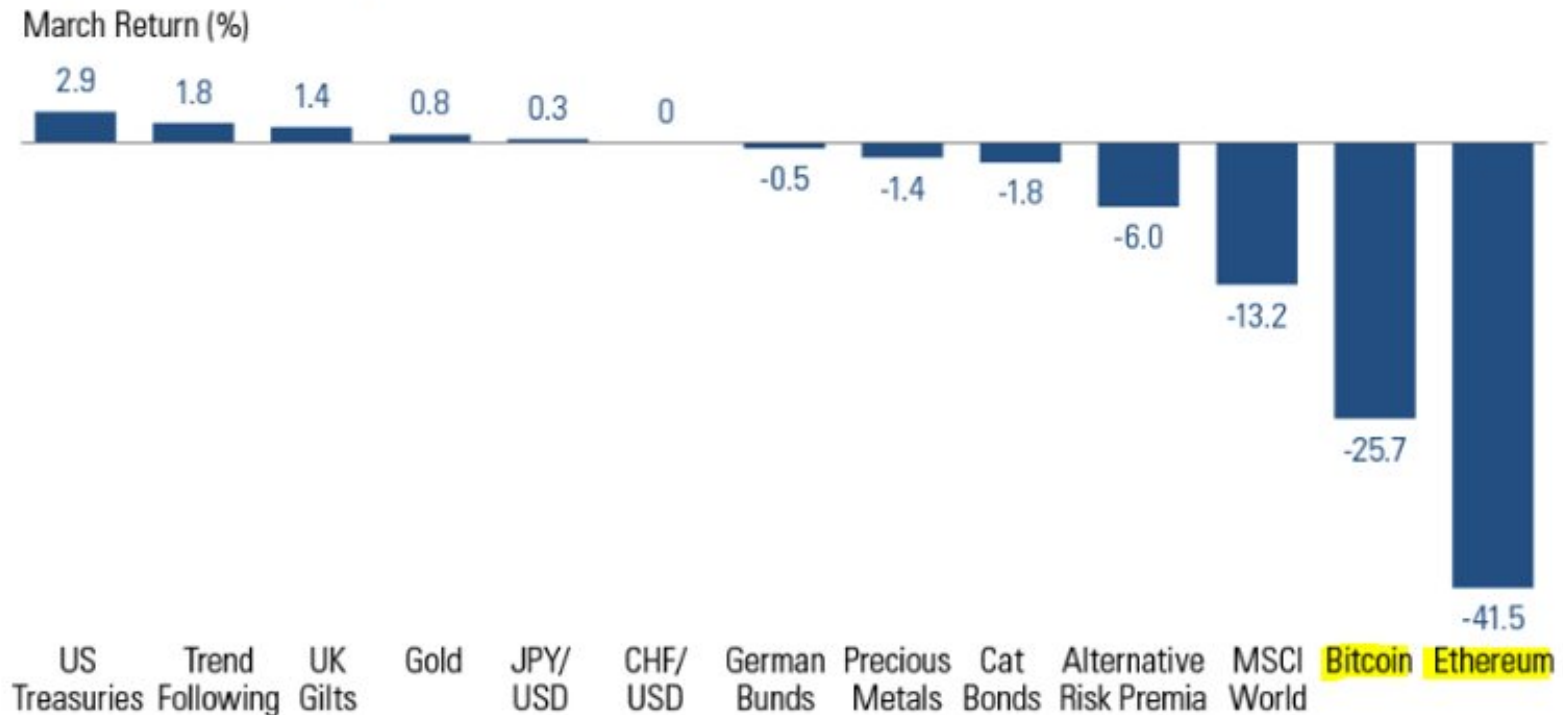
# Bitcoin's Price is Extremely Volatile!

**Exhibit 35: Bitcoin has been very volatile compared to other assets**  
3m rolling volatility (daily returns)



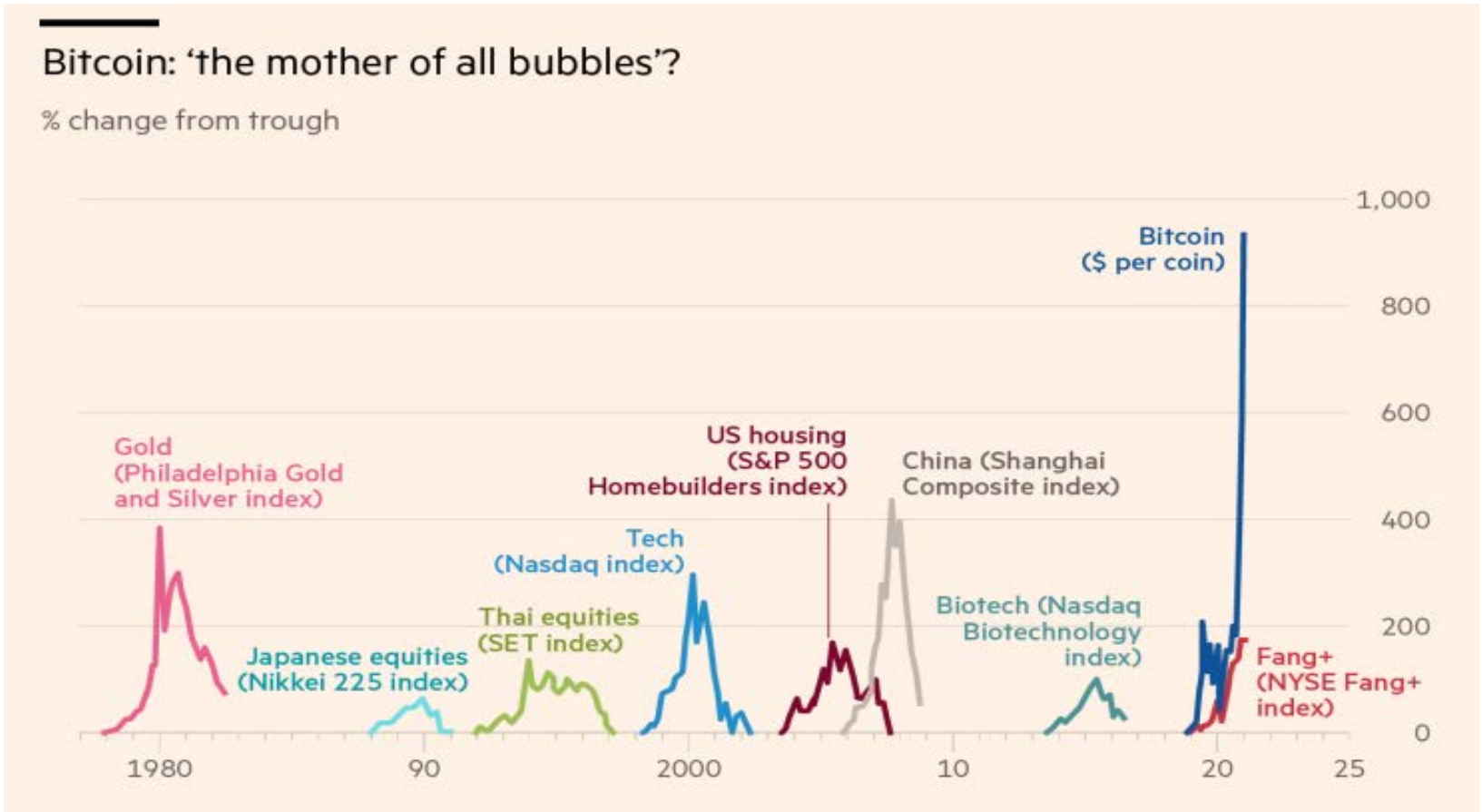
# Bitcoin Performed Poorly During Last Year's Equity Bear Market

EXHIBIT 1: PERFORMANCE OF TRADITIONAL AND NON-TRADITIONAL PERCEIVED PORTFOLIO HEDGES IN MARCH 2020



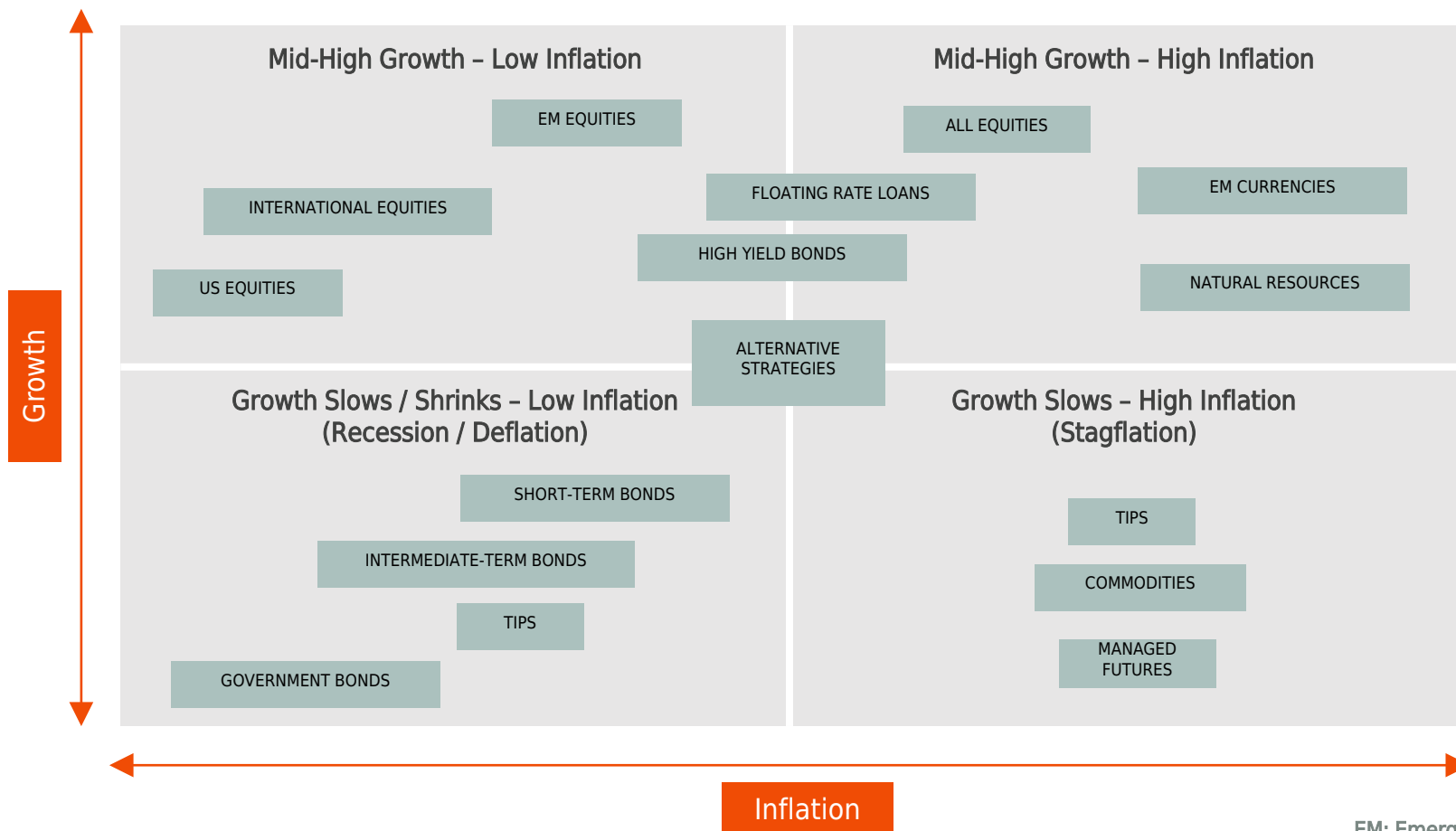
Source: Goldman Sachs Asset Management, Bloomberg. As of 3 April 2020. For illustrative purposes only. Past performance does not guarantee future results, which may vary.

# The Stratospheric Rise of Bitcoin vs. Other Speculative Situations



# Portfolio Opportunities Across Different Environments

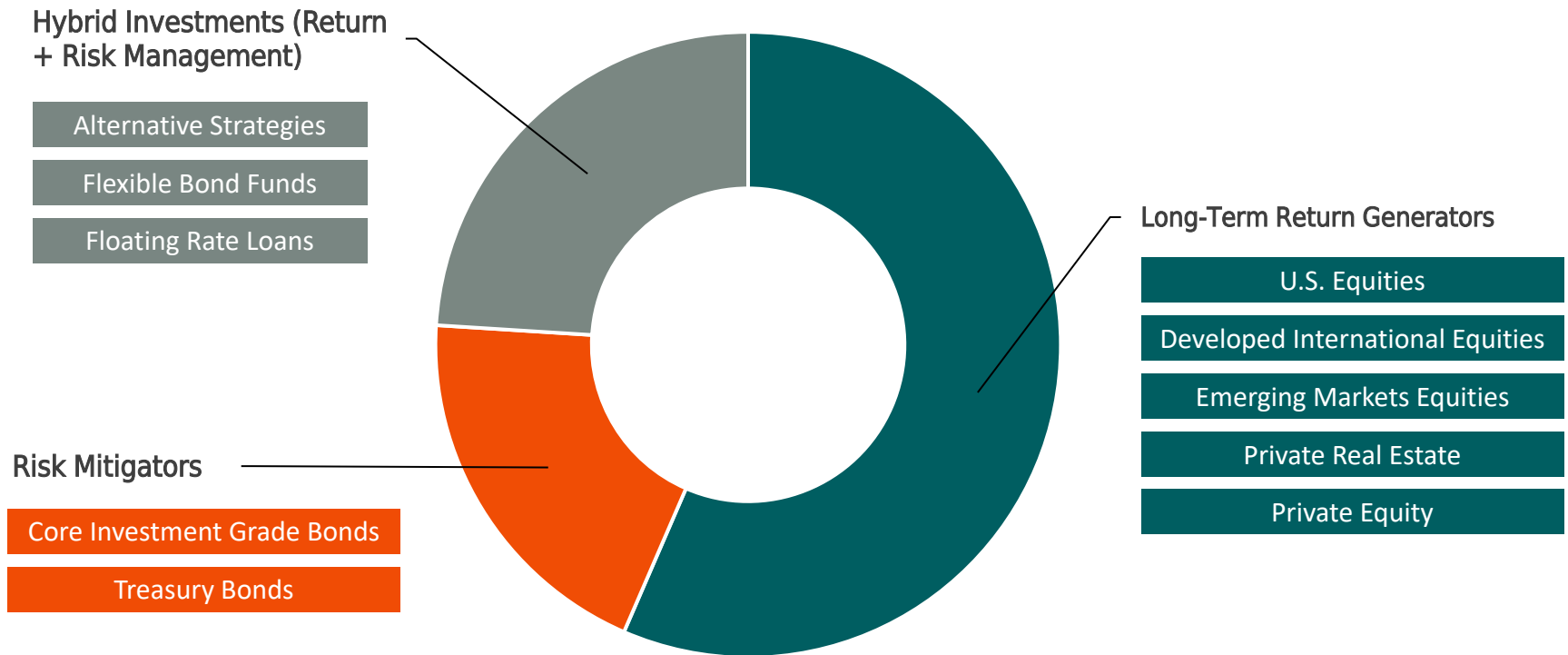
Our portfolios are designed to provide exposure to a mix of investments that offer different return and risk profiles across a variety of economic environments and financial market scenarios.



EM: Emerging Markets  
TIPS: Treasury Inflation-Protected Securities

# Our Portfolios Are Built to be Balanced, Resilient and Opportunistic

Global Balanced Portfolio Components

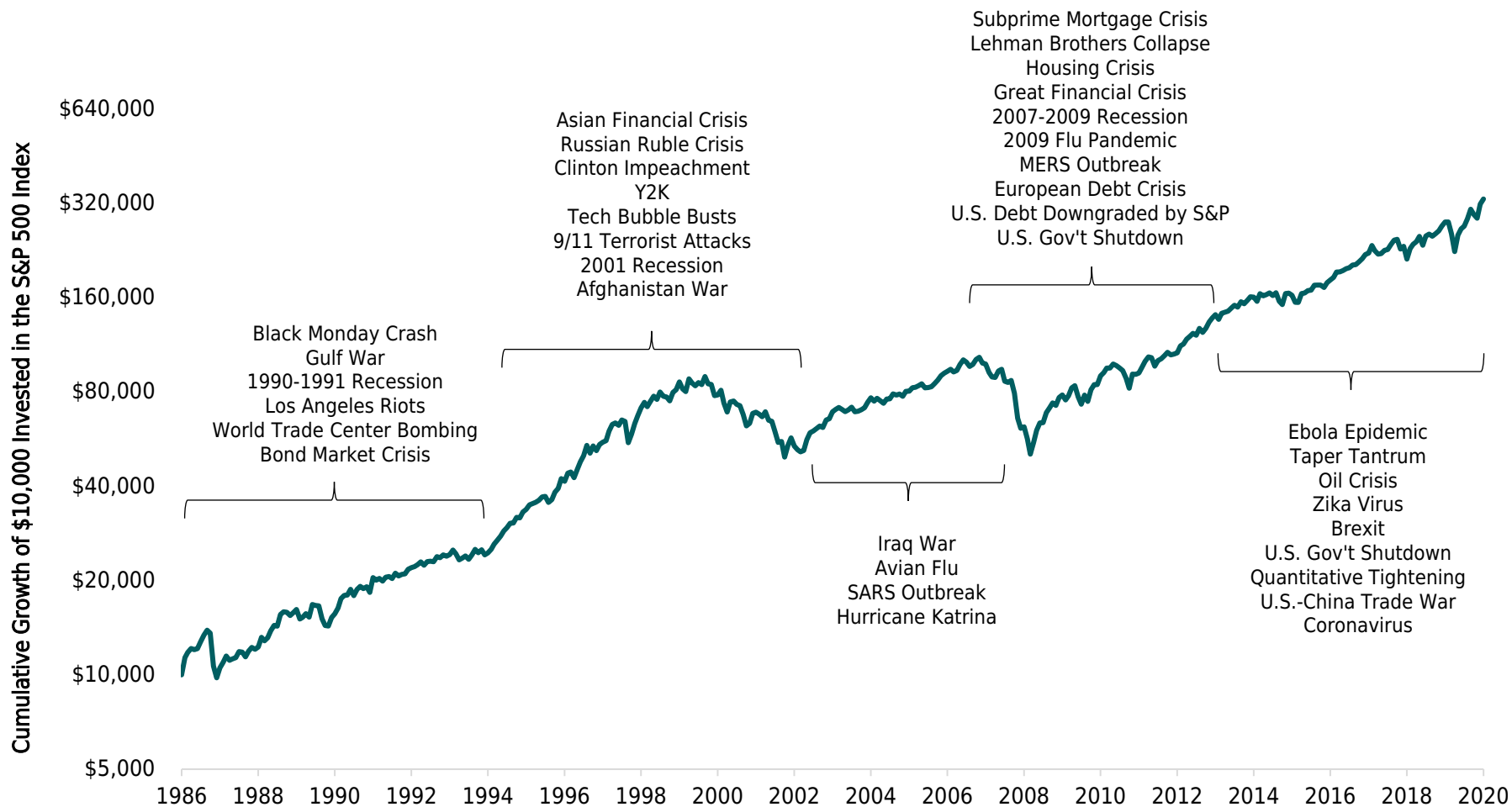


# The Market's "Mood" Cycles Between Fear and Greed, Successful Long-Term Investors "Stay the Course"

## Fear & Greed Over Time



# Markets Have Been Resilient Over Time, Despite There Always Being a Myriad of Things to Worry About



Source: Morningstar Direct. Data as of 12/31/2020.

# Closing Thoughts

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- As always, it is paramount to stay disciplined and recognize when emotion rears its head in investment decision making.
- Maintain a focus on long-term financial goals and objectives, with an eye to near-term risks.
- Avoid the temptation to time the market — it is a fool’s errand.
- There is always uncertainty, but as an investor it has paid to maintain a long-term, rationally optimistic view of human progress, adaptation and recovery.
  - A recent quote\* we liked: “Save like a pessimist and invest like an optimist.”
- We understand that each individual client has unique circumstances. Please contact your advisor directly to discuss any of today’s comments in the context of your portfolio.
- Most importantly, we sincerely hope you and yours are able to remain healthy and manage well through this extraordinary period.





**Thank you for joining us today!**

*For further questions, please contact your advisor directly, or the  
Litman Gregory Client Services team at:*

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# Disclosure

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