

January 2021

Here are selected year to date return numbers through the end of December.

**Stock Indexes**

	<b>(As of 12/31/20)*</b>
Dow Jones Industrials	+7.20%
S&P 500 Index	+16.30%
NASDAQ Composite	+43.60%

	<b>(As of 12/31/20)*</b>
Russell 1000 Growth Index	+38.49%
Russell 1000 Value Index	+2.80%

	<b>(As of 12/31/20)*</b>
Russell 2000 Index	+19.96%
Russell 2000 Growth Index	+34.63%
Russell 2000 Value Index	+4.63%

**Bond Index**

	<b>(As of 12/31/20)*</b>
Barclays Cap. Aggregate Bond Composite Index	+7.51%

(Source: The Wall Street Journal & Russell Investments websites)

\*Inclusion of these indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results.

## FINANCIAL AND INVESTMENT PLANNING

This first letter of 2021 offers investors the opportunity to assess and hopefully understand what occurred in the financial markets last year.

Consequently this month's communication will be full of numbers. Here we go.

Let's start with the U.S. economy. Here are Gross Domestic Product change comparisons by calendar quarter compared to the previous year.

<b>GDP %</b>	<b>4Q 19</b>	<b>1Q 20</b>	<b>2Q 20</b>	<b>3Q 20</b>
	+2.4%	-5.0%	-31.7%	+33.4%

Source: J.P. Morgan Asset Management.  
*Guide to the Markets*

At the end of 2020 here were the year over year changes in various consumer behaviors:

Purchase mortgage applications	+26%
Consumer debit/credit transactions	-9%
Hotel occupancy	-33%
Travel and navigation app usage	-54%
U.S. seated diners	-64%
TSA traveler traffic	-56%

Source: *Guide to the Markets*

And finally, the most recent composition of U.S. GDP.

### **3Q 20 nominal GDP**

Consumption	68.0%
Government spending	18.0%
Investment ex-housing	13.2%
Housing	4.3%
Net exports	-3.5%

Source: *Guide to the Markets*

Now let's take a look at what transpired in the U.S. stock market in 2020.

### YTD

	Value	Blend	Growth
Large	2.8%	18.4%	38.5%
Mid	5.0%	17.1%	35.6%
Small	4.6%	20.2%	34.6%

Source: *Guide to the Markets*

Please notice the huge dispersion between the performance of growth and value stocks.

It's worth noting that since August some of the market leaders have lost momentum. Facebook, Apple, Amazon, Netflix, Alphabet (Google) and Microsoft dropped on average of 5%, even though the S&P 500 gained 8%. Source: *Barron's*

There was a large disparity in 2020 returns among various industry sectors of the S&P 500.

### 2020 Returns by Sector

Energy	-33.7%
Financials	-1.7%
Consumer Discretionary	+33.3%
Technology	+43.9%

Source:

And finally regarding U.S. equities, here are some valuation characteristics of the S&P 500 at its peak in 2000, 2007 and at the end of 2020.

### S&P 500 Index at Inflection Points

Characteristic	3/24/2000	10/9/2007	12/31/2020
Index Level	1,527	1,565	3,756
P/E Ratio (fwd.)	27.2x	15.7x	22.3x
Dividend Yield	1.4%	1.9%	1.6%
10-yr Treasury	6.2%	4.7%	0.9%

Source: *Guide to the Markets*

And now to the U.S. bond market, which was quite good last year.

<b>U.S. Treasuries</b>	<b>Yield</b>	<b>2020 Return</b>
5-year	0.36%	7.26%
10-year	0.93%	10.61%
30-year	1.65%	18.72%

Source: *Guide to the Markets*

Please note the low level of yields. When interest rates fall bond prices rise. And the longer the maturity the greater the rise in value and total return.

However, this is a double-edged sword. Take a look at these hypothetical total returns when rates rise 1%. The impact of a 1% rise in interest rates assumes a parallel shift in the yield curve.

<b>U.S. Treasuries</b>	<b>Total Return</b>
5-year	-4.5%
10-year	-8.2%
30-year	-19.4%

Source: *Guide to the Markets*

This year we will celebrate the 40<sup>th</sup> anniversary of the peak in U.S. interest rates. We celebrate because this 40 year decline has been a terrific tailwind, not only for bond performance, but also for risk assets like stocks and income producing real estate.

This is the time of year when I read and listen to many predictions about stocks, bonds, real estate and commodities. I think these are interesting. I also believe they are of little value to investors.

In my view, we need to think about our goals and objectives and our asset allocation and security selection. In my experience, this is a much more productive enterprise.

Thank you for taking the time to ready the newsletter and for listening in to Money Talk.

Warm regards,



Carl W. Stuart  
Financial Advisor

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- **Past performance is not indicative of future results.**
- The Dow Jones Industrials is an index of 30 stocks that is considered representative of the overall market.
- The S&P 500 is an unmanaged index of 500 widely held stocks that's generally considered representative of the U.S. stock market.
- The NASDAQ composite is an unmanaged index of securities traded on the NASDAQ system.
- The Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.
- The Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.
- The Russell 2000 Index is an unmanaged index of small cap securities which generally involve greater risks.
- The Russell 2000 Growth Index measures the performance of the small-cap growth segment of the U.S. equities
- The Russell 2000 Value Index measures the performance of the small-cap value segment of the U.S. equities.
- Inclusion of these indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary.
- The Barclays Capital U.S. Aggregate Index is an unmanaged market value weighted performance benchmark for investment-grade fixed rate debt issues, including government, corporate, asset backed, mortgage backed securities with a maturity of at least 1 year.
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