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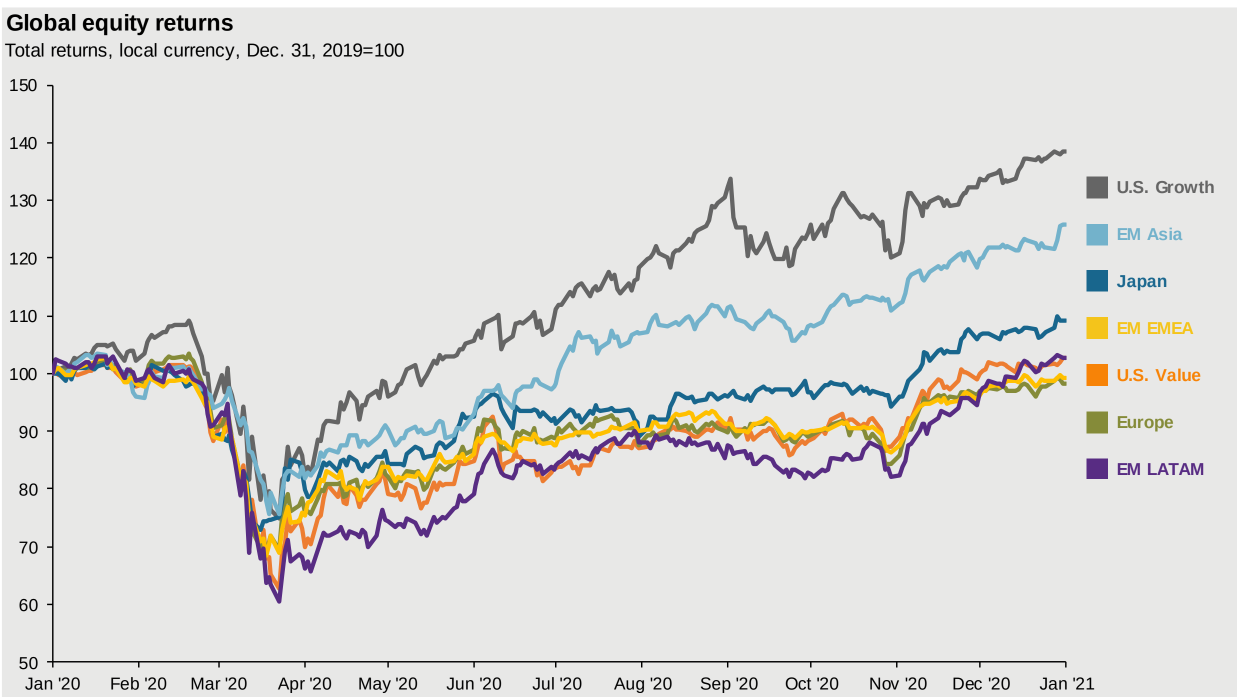
Market Perspectives | **Fourth Quarter 2020**

A Happy End to 2020 for the Markets

Markets crave certainty and they got more of it in the fourth quarter**.** Equities across the globe moved higher, ending a tumultuous year with strong returns.

For the quarter, U.S. equities returned 14.7% with value stocks outperforming growth stocks by 4.8%, reversing a pattern we had seen all year. We saw a similar pattern with international developed markets returning 16.1% for the quarter and the value index outperforming the growth index by 6.1%. Emerging markets exceeded U.S. and international developed market returns, posting a 19.7% return for the quarter. On an annual basis, U.S. equities were the star performer returning 20.9% versus 7.8% for developed markets and 18.3% for emerging markets[1]. The divergence in returns by style, value (orange) vs. growth (gray), and by region is illustrated below. Note that emerging markets had a wide range of outcomes depending on whether you invested in EM Asia (light blue), EM Latin America (purple) or EM Europe, Middle East, Africa (yellow).



Source: FactSet, FTSE Russell, MSCI, J.P. Morgan Asset Management.
Growth is represented by the Russell 1000 Growth Index and Value is represented by the Russell 1000 Value Index.
Guide to the Markets – U.S. Data are as of December 31, 2020.

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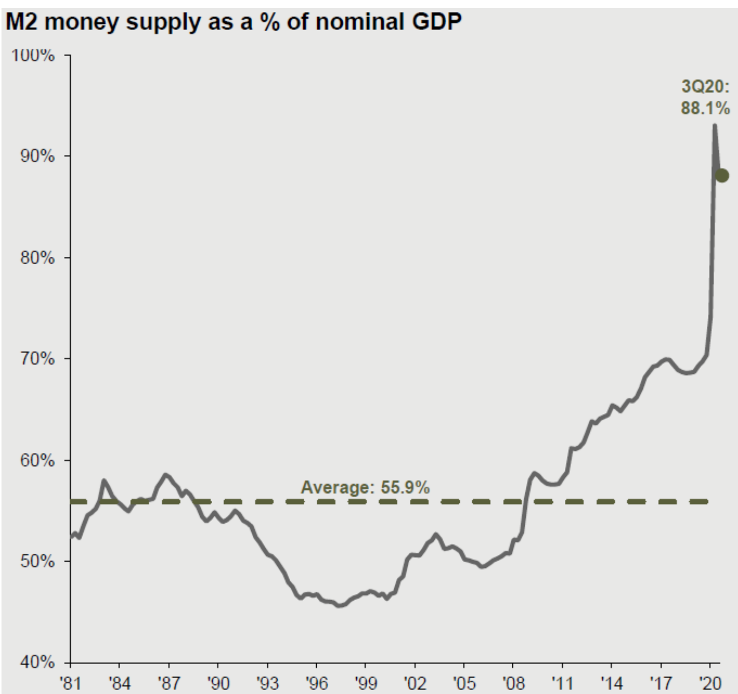
[1] Source: Morningstar. The U.S. equity market is represented by the Russell 3000 Total Return index. U.S. value stocks are represented by the Russell 3000 Value Total Return index and U.S. growth stocks by the Russell 3000 Growth Total Return index. The International developed equity market is represented by the MSCI EAFE Net Return index. International developed value and growth stocks are represented by the MSCI EAFE Value Net Return index and MSCI EAFE Growth Net Return index respectively.

Strong Tailwinds for Equities

1. Central banks continued their monetary support and reiterated their commitment to propping up the economy by maintaining low interest rates over the next several years. A Biden presidency gave reassurance that additional fiscal stimulus was also more likely. In fact, renewed fiscal support from governments across the globe buoyed the outlook for those most in need of support, which should also give a boost to consumer spending, the largest contributor to GDP.
2. The efficacy, approval and distribution of COVID vaccines allowed markets to look through the devastating short-term impacts of post-holiday surges in new cases and deaths. There is a light at the end of the dark tunnel.
3. The outcome of elections in the U.S. and resolved Brexit negotiations also reduced uncertainty about future regulatory environments and governmental policy priorities. These factors led to double digit equity returns across the globe in the fourth quarter.

The Partying Continues…

The amount of fiscal (payments by government to people and institutions) and monetary stimulus (Fed action to keep rates low and bond markets liquid) is massive and there is more to come! The chart below depicts the change in the U.S. dollar supply as a percentage of the U.S.'s nominal GDP with the latest data indicating that the supply is 58% higher than the 40-year average. As you can see below, savings deposits make up the vast majority of the money supply.



Money supply component	USD billions	Weight in money supply
M2-M1	**$13,038**	**77.5%**
Retail MMMFs	$1,106	6.6%
Savings deposits	$11,651	69.3%
Small time deposits	$282	1.7%
Institutional MMMFs	**$2,836**	**16.9%**
Cash in IRA & Keogh accounts	**$941**	**5.6%**
Total	**$16,815**	**100.0%**

Source: BEA, Federal Reserve, St. Louis Fed, FactSet, J.P. Morgan Asset Management.
All cash measures obtained from the Federal Reserve are latest available seasonally adjusted month averages. All numbers are in billions of U.S. dollars. Small-denomination time deposits are those issued in amounts of less than $100,000. All IRA and Keogh account balances at commercial banks and thrift institutions are subtracted from small time deposits. IRA and Keogh account balances at money market mutual funds are subtracted from retail money funds. Past performance is not indicative of comparable future results.
Guide to the Markets – U.S. Data are as of December 31,2020.

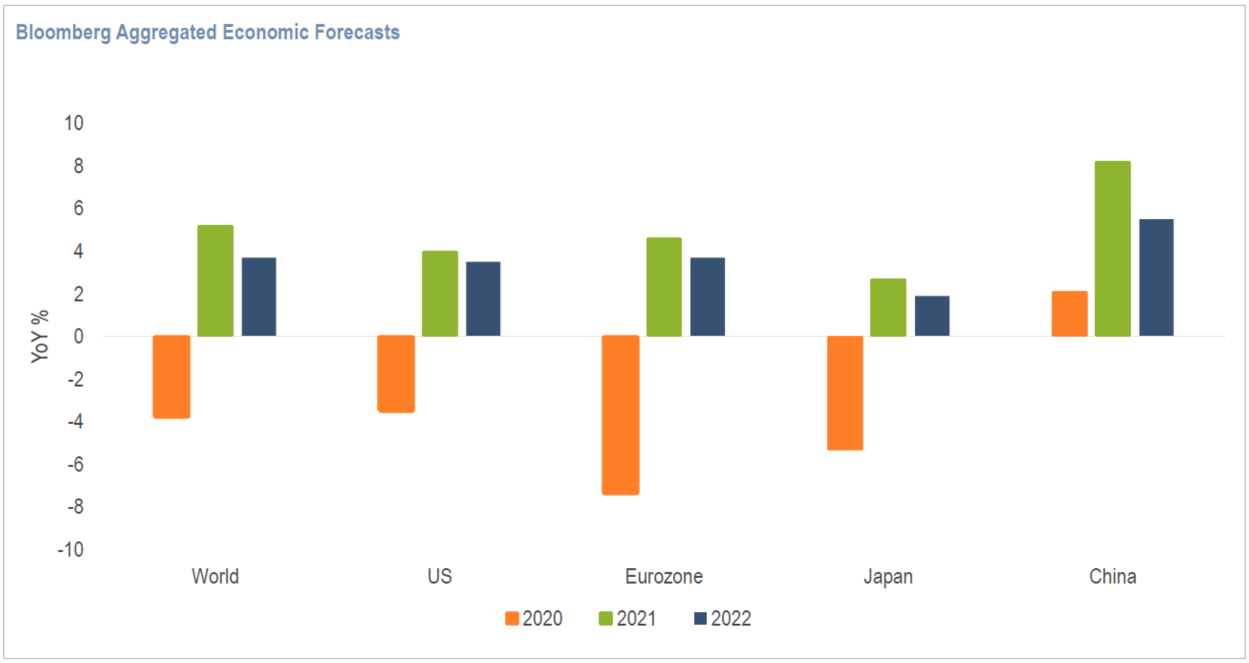
The Fed increased the supply of dollars almost 25% last year.[2] Together with the fiscal stimuli that Congress has enacted, the Fed's flood of money has allowed consumers and businesses to borrow at very low interest rates and stay afloat during the COVID pandemic. In fact, many households have paid down or

[2] Source: BlackRock, Rick Rieder, Subject: Taking Stock (More of It) of Where We Are…, 12/3/2020.

refinanced debt as evidenced by the $2.1 trillion in mortgage refinance originations in 2020[3] as well as the 22% decline in the size of household debt payments in relation to disposable income since Q1 2010 and the 7% decline since the beginning of the year.[4] Low interest rates add fuel to equity market engines.

…and Economies are Expected to Grow Faster than Normal

Though the pandemic has devastated service-related industries, particularly restaurants and travel in the U.S., there is now hope. Many economists expect elevated growth in 2021 once economic activity returns to normal[5]. With highly effective vaccines being distributed, we should see significant boosts to those industries and companies most impacted by COVID because pent up demand for dining out and travel as well as other services (beauty parlors, spas, etc.) will be unleashed. And, because of the fiscal stimuli, consumers have more money to spend. As you can see below, Bloomberg, like other economists, is forecasting a surge in economic growth for 2021 followed by slower growth in 2022.



Source: Bloomberg, Neuberger Berman, A Tentative Recovery: Asset Allocation Committee Outlook 1Q 2021. As of January 12, 2021. Nothing herein constitutes a prediction or projection of future events or future market behavior. Due to a variety of factors, actual events or market behavior may differ significantly from any views expressed.

Though the shock of the events that took place in the capitol are still reverberating across the country and create uncontemplated risks, the impacts of monetary/fiscal stimuli and the distribution of the COVID vaccines will continue to be tailwinds for equities in 2021 and into 2022. At some point, things will return to normal – or perhaps a new normal? We are contemplating how COVID might have accelerated some permanent changes – Stay Tuned!

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[3] Source: Mortgage Bankers Association, https://www.mba.org/Documents/Research/Forecast Commentary Dec 2020.pdf

[4] Source: Federal Reserve Economic Data (FRED), Federal Reserve Bank of St. Louis, TDSP data series; Waypoint Advisors. Data through 9/30/2020.

[5] JP Morgan - David Kelly, https://am.jpmorgan.com/content/dam/jpm-am-aem/americas/us/en/insights/market-insights/protected/mi-eamu-notes.pdf; Neuberger Berman - Erik Knutzen, https://www.nb.com/en/us/solving/solving-2021; Goldman Sachs, https://www.gsam.com/content/dam/gsam/pdfs/common/en/public/articles/market-pulse/us/2021/Market_Pulse_January.pdf