Plan in decades, think in years, live in days.

And wear comfortable shoes.

Bangor Wealth Management

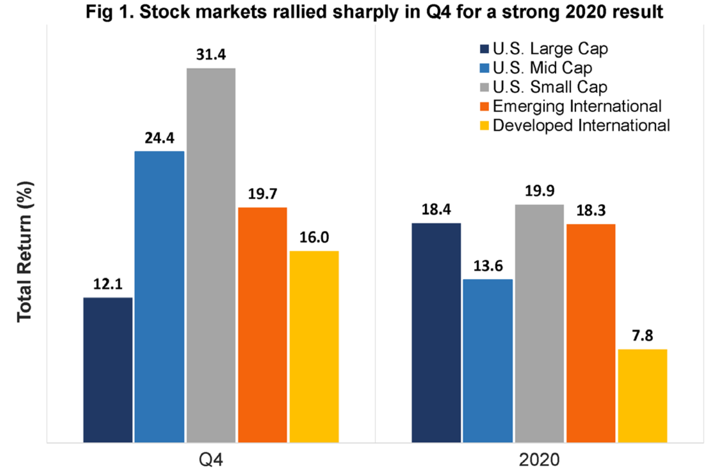
Key Takeaways

- 2020 was a year of extremes. Capital markets and economic data set many new records.
- After the waterfall decline of the first quarter, the S&P 500 shrugged off a severe bear market to end the year up 18.4%.
- Fixed income investors enjoyed equity-like returns thanks to the actions of the Federal Reserve.
- While many are ready to forget 2020, there were valuable lessons to be learned.

2020

It was an unexpected outcome to a year that almost no one anticipated. Never before have we seen the entire developed world, almost simultaneously, stay home for weeks on end as a result of a pandemic. The lockdowns put in place had the dramatic effect one would expect: measures of business activity fell precipitously while the US unemployment rate went from record lows to double digits in a matter of weeks. Fortunately, the recovery in both business activity and employment was swift as reopening began to occur. Although we have yet to fully recover from the economic damage done, it is clear that markets are anticipating the recovery will continue. The dual effect of central bank accommodation and fiscal stimulus, the most on record during peace-time, serves as a formidable backstop.

Fig 1. Stock markets rallied sharply in Q4 for a strong 2020 result



Data Sources: Bloomberg Financial LP, Bangor Savings Bank

Economy? What Economy?

Despite the economic turmoil, financial markets put up some incredible results. The first quarter saw a 33.9% decline in less than 5 weeks for the S&P 500, yet it ended the year up 18.4% on a total return basis. Other major equity asset classes posted similar results for the full year (Fig 1.) Volatility measures were also very high from a historical perspective: the S&P 500 experienced the most dramatic swings since 2008, and had 13 corrections of 5% or more. There were two days where the index rallied over 9% in a single day, and three days where it declined more than 9% in a session. And volatility didn't exclude other asset classes: small cap, international equity, corporate bonds and commodities all had their turn in the wringer. Oil prices were particularly vulnerable, driven by a glut of supply. For the first time ever oil prices actually went negative, albeit briefly.

Another remarkable aspect of 2020 was the performance gap between growth and value stocks. Growth stocks had been in favor well before the pandemic began. Lockdowns and "work-from-home" accelerated the shift from analog to digital, providing a boost to the already strong FANMAG stocks and other tech names as well. If you hadn't "Zoomed" before the pandemic, it's almost certain you have by now. Zoom Video Communication (ZM) rose 5 fold over the course of 2020, one of the clear beneficiaries of this behavioral shift. As a group, the S&P Pure Growth Index returned 29.7% compared to S&P Pure Value at -8.7%, the second biggest annual differential for the two style index history.

Remember, Remember, the Month of November

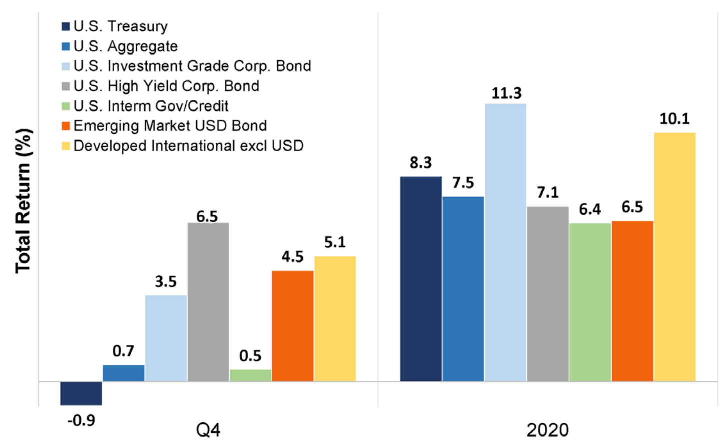
For a brief period in the fourth quarter, it seemed as though value stocks might have their turn at the front. After the election results pointed to a Biden win, coinciding with the announcement of a highly effective Pfizer BioNTech COVID vaccine, value had one of its best days ever relative to growth. That Monday, November 9, saw S&P Pure Value rally +7.26% and S&P Pure Growth actually declined -0.35%. However, the result of that day did not turn out to be a trend. For the entire month, the two styles performed similarly.

Equities across the board put up strong results in November. This was especially true for small cap stocks. The Russell 2000 index returned a whopping 18.4% for the month, an all-time record for a single month, pulling slightly ahead of the S&P 500 after previously trailing the large-cap index by as much as 15% during the year.

Bouncing Off the Bottom

Many of the same trends we saw in equities carried over to fixed income in 2020. Early in the year the highest quality bonds, US Treasuries, performed best and long duration also helped. Any type of credit exposure performed poorly, and the lower the credit rating the worse the result. In March, the Federal Reserve made plain their intent to support nearly every type of fixed income investment (except municipal bonds) risk appetites returned. By the end of the year, corporate bonds had outpaced US Treasuries, and a falling US dollar buoyed international bonds (Fig 2).

Fig 2. Corporate and international bond markets rallied strongly in the second half of the year

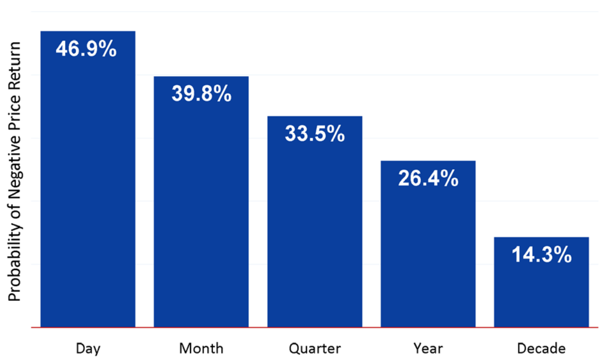


Data Sources: Bloomberg Financial LP, Bangor Savings Bank

Lessons We Learned

2020 was a wild ride, the numbers speak plainly to that fact. The year reinforced the importance of many of the rules we try to follow when working with our clients. Some of these are simple rules, such as: stay the course. Use diversification. Recognize that short term events are just that, and shouldn't be extrapolated into the future. Markets are very difficult to predict, especially in the short term, and 2020 drove that point home like no other year in recent memory (Fig 3.) So while painful back in March, 2020 provided solid proof that a disciplined investment program using proper asset allocation will get the job done.

Fig 3. Probability of negative stock market returns for different time horizons



Data Source: Bloomberg LP; Bangor Savings Bank;S&P 500 daily price return data series from 1/1950 to 12/2020

As we look into 2021 we are hopeful that the process of repair for our economy will continue. COVID-19 still represents a threat, but with the right protocols and a vaccine being rolled out, the worst may be behind us. Fiscal and central bank support have been major factors in this recovery, and we expect that trend to continue into 2021.

If you have questions regarding your portfolio please reach out to your Relationship Manager or Portfolio Manager, we are here for you!

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