Consultiva Wealth Management

Investor Intelligence Newsletter©

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From the Executive Desk

Dr. Edmundo J. Garza
Chief Executive Officer & President

In the fourth quarter, equity markets continued to rally for the third consecutive quarter and significantly outperformed fixed income. The US election result and positive news on Covid-19 vaccines fueled this rally, even as the pandemic took a turn for the worse during the end of the year. The small-cap Russell 2000 Index led the gains, followed by the technology-heavy Nasdaq Composite Index, which recorded its best annual return since 2009, continuing to reflect the acceleration of the Fourth Industrial Revolution caused by the COVID pandemic. Most industry sectors posted gains in December, including Financials (+4.45%), Energy (+3.97%), Industrials (+0.12%), Materials (+1.58%), laggards' year to date as the direct victims of the pandemic. Communication Services (+2.35%), Consumer Discretionary (+2.18%), Consumer Staples (+0.10%), Health Care (+2.30%),), and Technology (+5.14%) continued their ascent. The Real Estate (-1.04%) and Utilities (-1.69%) sectors lost ground. The rollout of the first highly effective vaccines against the coronavirus bolstered sentiment. Stocks rose early in December after the U.S. Food and Drug Administration (FDA) released data confirming that the Pfizer/BioNTech vaccine was 95% effective. FDA emergency use authorization soon followed for this vaccine and later for Moderna's similar messenger RNA vaccine. Investors were also encouraged by both the House of Representatives and the Senate passing a USD 900 billion relief package, alongside an omnibus spending bill, to fund the government through next September. Together with support for small businesses and extended unemployment benefits, the bill included USD 600 direct payments to individuals, half the amount provided in the first relief package last spring. As investors grappled with these headlines, markets also saw several new and secondary equity offerings, including two high-profile technology initial public offerings during the month. This year, companies raised over $167 billion in IPOs, blowing past the record of $107.9 billion set in 1999.

Economic Perspectives

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The U.S. economy grew at an annual rate of 33.1% according to the U.S. Bureau of Economic Analysis' first estimate of third-quarter GDP. GDP in the euro area rose by 12.6% during the third quarter compared with the second quarter, according to early European Union estimates. Vaccine optimism and an exit agreement between the European Union and the U.K. helped power the markets. Service industries are under pressure from restrictions to contain the spread of COVID-19, as they are now also dealing with a new strain of the virus. In the US, the vicious autumn wave of the virus began with a time lag to Europe and the restrictions were less stringent. Therefore, negative effects on US GDP growth are likely not to be seen until Q1 of 2021. Manufacturing continued to show more resilience to the pandemic than the service sector – a trend that can be observed globally. Recovering demand for goods and lower sensitivity to social distancing, helped to keep manufacturing purchasing managers' indices (PMIs) in expansionary territory. This is good news for equity markets, since goods and manufacturing still contribute significantly to index-level earnings. China remains on course to be the world's only major economy to reach pre-pandemic trend levels by year's end. Yet third-quarter GDP, at a gain of 4.9% compared with the third quarter of 2019, was less than expected, and headwinds are building again as much of the world confronts a COVID-19 resurgence. China's recovery has been supported by a strong rebound in manufacturing as exports have been bolstered from by strong demand in personal protective equipment and technological components for remote work.

Indicators (As of December 31, 2020)

United States:
CPI: +1.3% Chg. from yr. ago
Unemployment Rate: 6.7%
GDP: 33.4% Comp. Annual rate of Chg. on 2020: Q3
Ind.Prod.Index: 1.6% change from previous month
Source: St. Louis Fed. Res.

Euro Zone:
CPI: -0.3% Chg. from yr. ago
Unemployment Rate: 7.4%
GDP: 12.5%, Comp. Annual rate of Chg. on 2020: Q3
Ind.Prod.Index: 2.5% change from previous month
Source: Moody's Analytics

Japan:
CPI: -1.0% Chg. from yr. ago
Unemployment Rate: 2.9%
GDP: 5.3%, Comp. Annual rate of Chg. on 2020: Q3
Ind.Prod.Index: 0.0% change from previous month
Source: Moody's Analytics

Puerto Rico:
CPI: 0.1% Chg. from yr. ago
Unemployment Rate: 8.5%
Payroll Employment: -7.6% Chg. from yr. ago
EDB Econ. Act. Index: -7.1% Chg. from yr. ago
Source: **P.R.E.D.B.**

Market Recap

Evangeline Dávila, CIMA®
Chief Research & Investment Officer

Stocks: Equity markets hit new highs in December following the rollout of the first highly effective coronavirus vaccines. For the month, financials performed best within the S&P 500 Index, while the small utilities sector lagged with a modest return. Shares in Europe rose, lifted by the UK-European Union trade accord, an extension of ultra-loose monetary policy by the European Central Bank. Japanese stocks gained in December, capping strong annual returns. The widely watched Nikkei 225 Average advanced 3.8% for the month and set a 30-year high.

Bonds: In its last meeting of 2020, the Federal Open Market Committee (FOMC) detailed its plan to continue purchasing $120 billion in Treasury and mortgage-backed securities. Fed officials said that they will continue the program until they see substantial progress toward meeting its inflation and employment goals. Officials at the Fed have indicated that achieving such goals may not happen for years. An increase in longer-term Treasury yields weighed on bond performance over the month, but equity gains and hopes for faster growth in the year ahead helped credit-sensitive issues, particularly high yield corporate bonds.

Alternatives: Real Estate Investment Trusts (REITs) have sold off since March 2020, with investors concerned about the implications of social distancing and online shopping for office buildings and shopping malls. The Global REITs index was down -10.4% for 2020. The U.S. dollar should weaken into the global economic recovery given its counter-cyclical behavior. The dollar typically gains during global downturns and declines in the recovery phase. Despite many countries recording highest ever infection rates, Brent crude oil prices and OPEC basket reached above 50 U.S. dollars per barrel in late December.

What to Do?

December's early economic data arguably provided evidence that the recovery was in danger of faltering without further support. The U.S. 900 billion relief package was like a shot in the arm to the U.S. economy, but the first quarter of 2021 is likely to remain challenging for the overall global economy. Disappointing economic data is likely to coincide with continued pandemic-related restrictions. Hence, one of the main economic risks analysts are focusing on is whether fiscal policy and government support is continued at a sufficient scale across the globe. So far, capital markets have broadly been willing to look through the near-term weakness thanks to the vaccine news and policy support measures but any disappointment on the vaccine front could lead to increased market volatility. ***Hence, we continue to recommend prudent asset allocation and risk assessment, based on future capital needs for plan sponsors, institutions, and individual investors. We continue to believe that higher quality assets are favored. We believe rebalancing is fundamental to a well-executed long-term investment strategy, and that due diligence reviews and an adherence to a well-developed investment policy remain the most prudent course of action for long-term investors.***