CURBSTONE FINANCIAL
MANAGEMENT CORPORATION

From the Curb

Letter to Clients
Quarter Ending December 31, 2020

2020 was one of the most tumultuous years in recent history. A pandemic, a market meltdown, the development of not one, but several, COVID-19 vaccines and a disputed presidential election whose clashes carried into the initial days of 2021. Yet, the biggest surprise was the stock market's ability to shrug it all off and surge ahead.

The fourth quarter started with investors facing substantial uncertainty across multiple fronts. After several months of relatively stable COVID-19 cases, infections began to rise rapidly across much of the United States. The President's re-election campaign was interrupted by the President's own case of the virus while Congress and the White House were unable to come to a compromise on a new economic stimulus bill.

The first two weeks of November provided the clarity markets desired, and that paved the way for substantial gains in stocks over the next month. First, the presidential election was successfully executed, and while there were multiple accusations of election fraud and numerous legal challenges brought by the Trump campaign, Joe Biden was widely accepted as the winner and President-elect. Furthermore, it appeared that Republicans would continue to hold a small majority in the Senate, potentially ensuring a market-friendly, divided government for the next two years. November also brought a double dose of positive news as both Pfizer and Moderna announced highly effective vaccines that ultimately received Emergency Use Authorization form the FDA. Investors, sensing that the end of the pandemic was near, fueled a strong rally bringing the S&P500 to new all-time highs.

November's good news helped investors look past December's surging number of new COVID-19 cases and the possibility of slower economic growth due to potential lockdown measures. And, just as investors began questioning whether there would be a "Santa Clause" rally, Congress approved a $900 billion stimulus bill that would help support the economy as it continues to recover from the impact of the pandemic.

In sum, markets ended a historic year on a high note. Federal economic support, record-breaking vaccine development, and an incredibly resilient corporate America helped to more than offset the worst global pandemic in more than a century.

By the numbers, the S&P500 Index (cap-weighed) finished 2020 with an annual return of 18.4% supported by the outperformance of many of the largest technology names. On an equal-weighted basis, the S&P500 Index returned 12.8% a full 600 basis points behind the cap-weighted index. Regardless, both rates of return beat the long-term average annual rate of return for the S&P500 (cap-weighted) of 9.5%.

Mid cap performance as measured by the S&P Mid Cap 400 Index returned 13.1% and small cap stocks, Russell 2000 Index, which experienced a strong fourth quarter rally returned 19.9% for the year ending 2020. International stocks, whose performance was erratic throughout the year, finished up 8.3% for foreign developed (MSCI EAFE Trust) and 18.7% for emerging markets (MSCI Emerging Markets Trust).

Fixed income returns moved with prevailing sentiments and finished up the year on a strong note. The Barclays Intermediate Government/Corporate Index provided a return of 6.4% for the most recent year end.
2020 was a year where broad diversification helped smooth the ups and downs. Holding a broad array of asset classes helped to balance risk and reward assisted in dampening the volatility of your portfolio in a year filled with surprises.

As we begin investing in the new year, we believe 2021 opens with a positive bias. First, the Fed has committed to maintaining its accommodative stance. Congress has agreed on funding another stimulus bill, which could be enhanced once the new administration steps in. Politically, there is a sense of greater cooperation, as both parties recognize the need to address outstanding initiatives. We think healthcare, climate change, infrastructure and tax reform are all likely topics. Finally, corporate America has once again demonstrated itself to be both resourceful and resilient. While some industries (airlines, hotels, cruise lines, retail and restaurants) face a long road to total recovery, many companies have exited 2020 in strong financial shape.

As we think about risks in 2021, we believe that the unemployment rate, which remains historically high, will need to drop in order to support growth in the economy. Small businesses, a life-blood for the U.S. economy, continue to face extreme financial pressure due to the pandemic and it is unclear how many will survive. Investors need to remain wary of the negative consequences of the ballooning federal debt and budget deficits. And, finally, stock valuations are at multi-year highs and earnings growth is needed to offset the price side of the price/earnings equation.

As we consider all that occurred in 2020 and look forward to 2021, one of the biggest takeaways is that a well-planned, long-term focused financial plan coupled with a well-diversified portfolio invested in high, quality holdings can sustain investors during times of volatility, including the impact of a pandemic. We also want to acknowledge the hardship that so many have endured over the past twelve months, be it physical, emotional or financial, and we sincerely hope that those burdens are eased in 2021.

We thank you for your on-going confidence and trust. Enclosed please find your fourth-quarter reports. We welcome all questions along with the opportunity to review the information with you.