RWA

ROBERTS WEALTH ADVISORS

Quarterly Commentary

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2020 HINDSIGHT

Even with perfect clairvoyance, when the calendar flipped into 2020, it would have been difficult to believe what was in store for the year ahead. Events included:

- A dramatic interruption of daily life impacting, not only the United States, but the entire world due to the COVID-19 pandemic.
- A massive infusion of fiscal and monetary stimulus from lawmakers and policymakers in an attempt to bridge the economic chasm created with nationwide stay-at-home orders.
- A staggering tally of deaths, now numbering over 350,000 in the U.S., making it the deadliest year in our country's history.
- A summer of social unrest that included protests throughout the country.
- A wildfire season that saw nearly 10,000 wildfires burn over 4 million acres of land in California alone.
- A hotly contested Presidential Election that saw two-thirds of the voting-eligible population vote.
- A heroic triumph of the medical research community to introduce two SARS-CoV-2 vaccines in record breaking time.

The unsettling year of 2020 was certainly one to gain perspective, recalibrate our compasses, and look forward to turning the page to a new year.

For its part, the stock market was not void of drama. The S&P 500 had a staggering decline, falling over 30% in a 32-day stretch that began on February 20th, only to have a remarkable recovery from March lows to end the year up over 18%. Market prognosticators struggled all year to apply sparse data in a void of historical context. What is now clear is that the unprecedented infusion of stimulus, in both scale and speed, enabled market participants to focus on negotiating the timeline of a recovery confident that economic calamity would be averted.

2020 HINDSIGHT (continued)

The U.S. economy has proven to be remarkably resilient. Workers moved from quiet temperature-controlled offices, to sharing dining room tables with distance learning children and overstimulated pets. Labor productivity did not crater; in fact, it improved as remote working tools were deployed and utilized. Companies that enable remote working and learning became mission critical and enjoyed substantial growth. These companies included familiar names like Microsoft and Apple, but companies like Zoom and DocuSign also saw a dramatic validation of their business models by customers eager to add their tools.

Labor was most assuredly disrupted. The unemployment rate spiked to 14.7% in April when over 22 million jobs were lost in the early days of the pandemic. While over half of those jobs have since returned, November's jobs number of 340,000, far fewer the previous months, heightened concerns about the pace of recovery.

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This year was a clear reminder of our collective fragility versus the formidable power of nature to disrupt the lives we have built. It was also an opportunity to highlight the resolve of the American people. The term 'essential worker' extended beyond frontline healthcare workers to include those who work at supermarkets, clean buildings, and deliver food, all critical to continue infrastructure operations. The year illustrated that our capital markets value future cash flow, accelerating to new highs confident that our system will navigate today's challenges.

The pandemic is certainly not over. There remain significant risks in the deployment of the vaccines and the recovery of the more disrupted industries, but a finish line has appeared on the horizon. Armed with what we have learned in the last year, the optimism and excitement of the American consumer should make 2021 a year of significant recovery.

Top 10 U.S. Stock Holdings

- Amazon.com
- Microsoft
- Apple
- Alphabet
- Costco Wholesale
- Walt Disney
- Qualcomm
- First Republic Bank
- Medtronic
- Illumina

MARKET RETURNS

The tumultuous 2020 ended with U.S. stocks pushing to new highs, in the expectation of further stimulus from the policy cavalry and coronavirus vaccines that promised to accelerate the path to economic recovery. For the most part, returns exceeded expectations across asset classes. The S&P 500 fueled by the tech sector and Amazon, ended the year with a return of 18.4%. The Technology sector was up 43.9%. The Energy and Real Estate sectors were the biggest laggards, falling -33.7% and -2.2% respectively. After a slow start to the year, news of the vaccines catapulted small company stocks in the fourth quarter, with the Russell 2000 jumping 19.9% for the year and over 31% in the final quarter. International stocks also rode a late year surge to post a positive 2020, returning 8.4% for the full year.

With the Fed cutting rates during the depths of the market drop in March, bonds experienced an increase in prices. Short term bonds had a positive return in the low single digits, while the 5-year bonds increased by 7.26%. Rates remain extremely low. A 5-year bond now trades at a 0.36% yield and the 10-year bond is just shy of 1.0%.

Index Performance	Q4	YTD
Dow Jones Industrial	10.7%	9.7%
Standard & Poor's 500	12.1%	18.4%
MSCI EAFE (International)	16.1%	8.4%
Russell 2000 (Small Company)	31.4%	19.9%
MSCI ACWI (Global Stock)	14.7%	16.2%
Barclays Intermediate Term Bond	0.5%	6.4%
Barclay Municipal Bond	1.8%	5.2%
Barclays Short Term Bond	0.2%	3.3%

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INVESTMENT THEMES IN THE NEW YEAR

Growth vs. Value

Over the last 10 years, growth-oriented stocks have dramatically outperformed their value-oriented counterparts. This has led to a greater than normal divergence in their respective valuation metrics. Stated differently, value-oriented stocks look cheaper than growth stocks when comparing valuation measures like price to earnings and price to sales ratios. The deviation is understandable, growth-oriented names, often in the technology sector, have benefited from changing business models, the expansion of the cloud, and the desire of the modern-day worker to be both connected and mobile. We anticipate there will be a reversion to the mean. As investors change their focus to income generation and steer away from the lofty valuations of growth stocks, value names will begin to outperform. We believe signs of this shift will develop in the current year.

That shift will not likely come in the early stages of the economic recovery. Policymakers have indicated that lower rates and both fiscal and monetary stimulus will remain in place for the foreseeable future.

International vs. U.S.

Similar to the relationship between Growth and Value, the stocks of U.S. companies continued to outperform their international counterparts. The entire globe was impacted by the coronavirus, but the U.S. outperformance resulted in international stocks being the cheapest they have been in twenty years.

Many of the same themes will benefit international companies. The pace of the rollout of the vaccines will dictate the steepness of economic recovery. Accommodative central banks will fuel these recoveries. Countries that demonstrate strong coordinated leadership in addressing the challenges of the pandemic will benefit during this cycle.

Infrastructure Spending

Joseph R. Biden was elected the next President of the United States. He will inherit an economy that is roiling from a coronavirus pandemic that has accelerated its impact on human life. He will immediately be challenged with the rollout of vaccines that will allow for the economy to regain its footing. As a result of victories in both U.S. Senate runoff elections in Georgia, the Democrats are now able to steer legislation through the Senate and House of Representatives. We expect legislation to come early in the Biden Administration and be focused on extending employment benefits beyond their current March deadline. This is likely to follow with additional stimulus in the form of infrastructure investments and programs to address climate change. While there is likely to be rhetoric around tax increases to pay for these programs, we feel substantive tax changes will not occur until the economy has more fully recovered. The combination of low rates and government spending will allow for economic growth to justify current stock valuations.

TOPIC SPOTLIGHT

THE RISE OF THE SPAC

Special purpose acquisition companies (SPAC) are publicly traded shells that are created solely to merge with privately held businesses, giving the acquired private business a ready-made listing without having to stage an initial public offering (IPO). SPACs have no commercial operations and have become known as "blank check companies" whose sole purpose is to make acquisitions, bypassing the traditional IPO process.

SPACs are often formed by investors with an industry target or even a specific company target in mind. Money is raised by the SPAC in an IPO and placed in an interest-bearing trust account. The creation of a SPAC allows for a publicly traded entity while avoiding the extensive disclosures necessary if an operating company were to itself go through the IPO process.

SPACs have existed since the early 1990s, but were typically used as a last resort for smaller companies to go public. The use of SPACs accelerated in 2020, with significant application in the 2nd half of the year. Goldman Sachs noted that, by mid-December, 219 SPACs had raised $73 billion in proceeds. The 462% increase from 2019 outpaced traditional IPOs, which themselves raised $67 billion in 2020.

Once money is raised in a SPAC, the money must be deployed within two years or the SPACs must return the money to their investors. This puts the SPAC managers on the clock which can lead to ill-conceived deals due to the time crunch.

There have been some recent high profile SPAC deals. Virgin Galactic, DraftKings, and Nikola Motor Co. all became publicly traded companies through a SPAC acquisition. These companies were attracted to the SPAC structure due to the inherent risk in the traditional IPO process being compounded by the pandemic.

The acceleration of money raised in SPAC investments by reputable investment teams, coupled with their high-profile use in 2020, suggests SPACs could continue to be a source of liquidity in 2021, building on the momentum of the last few years.

855 El Camino Real, #311, Bldg 5 | invest@roberts-wa.com | www.roberts-wa.com | 650.240.2410