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Market Comment:

Trust no Future, howe'er pleasant!

'Tis the season of the annual market outlook, replete with convincing narratives and a multitude of forecasts. Mill Creek's 2021 Capital Markets Outlook — scheduled to be published on January 7th — will have fewer short-term prognostication than most, but as investors we recognize that it's important to have a thoughtful view on investment markets and the risks therein.

Economic and market forecasts are shaping up to be fairly optimistic in 2021. The Bloomberg Economists Survey consensus estimate for real GDP growth sits at 3.9% — a level we've rarely attained in the last 20 years. Inflation is expected to average 2%, and the 10-year Treasury yield is expected to move slightly up to 1% by the end of 2021. CNBC tracks 2021 S&P 500 price targets for fourteen Wall Street investment banks and every single strategist in that group expects positive returns next year. Half of the fourteen expect double digit positive returns. High economic growth, low inflation, stable bond yields, and high equity returns: what could go wrong?

If there's an investment lesson from 2020, it's that we should focus on surviving, and embracing, the extremes that come with participation in financial markets. 2020 was a year of extremes. Extreme equity market declines and gains, extreme bond market conditions, and — in response — extreme monetary and fiscal support. The ability to survive the initial extreme decline was a prerequisite for participation in the — equally extreme — recovery.

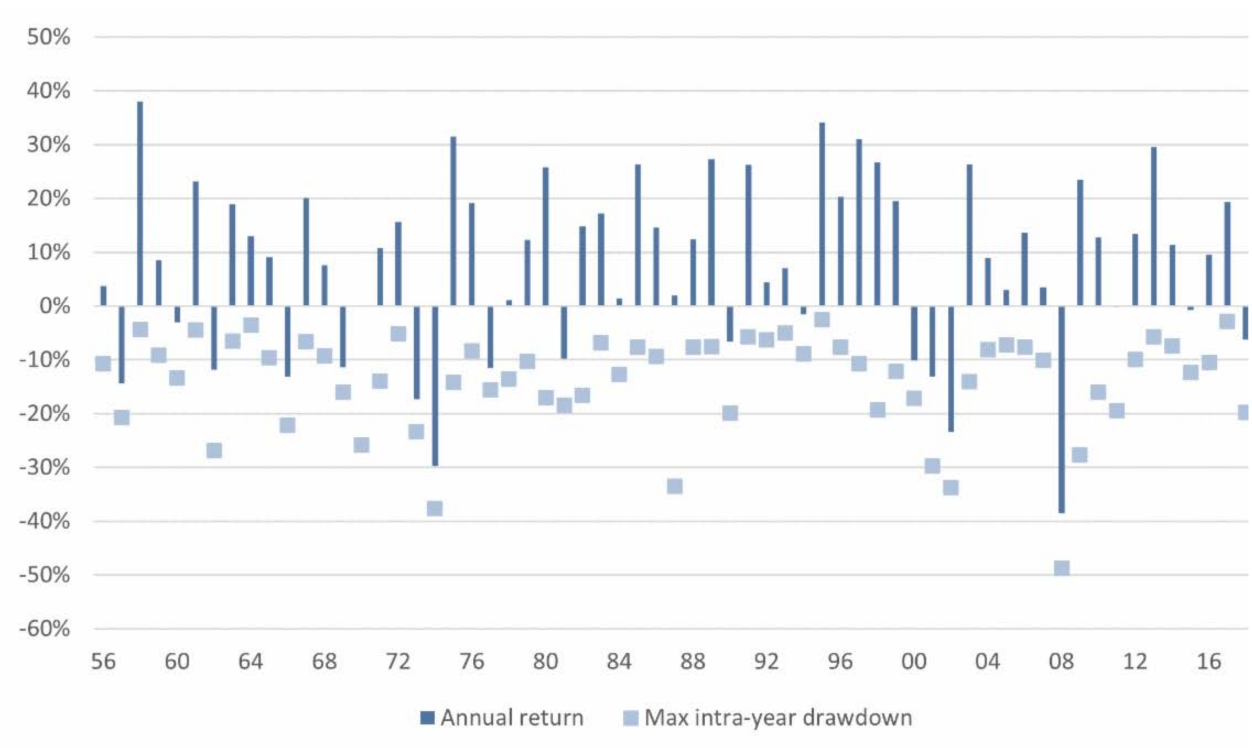
Accordingly, it's important to not let the prevailing optimistic sentiment lead to surprise if and when markets stumble next year. While our path in 2021 might not be as volatile as it was in 2020, it's a fair bet that it will be similarly winding. An *average* year in equity markets gives us a 10% intra year decline (Fig. 1) and a 30% spread between the index high and low during the year. It's never a straight line up.

The title of this commentary comes from Henry Wadsworth Longfellow's *A Psalm of Life*. He concludes:

Let us, then, be up and doing,
With a heart for any fate;
Still achieving, still pursuing,
Learn to labor and to wait.

Preparation for any outcome, wise action, and patience. Food for thought heading into 2021.

Fig. 1: S&P 500 annual returns and intra-year drawdowns (1956-2020)



Source: Bloomberg, Mill Creek

Updated Benchmark Performance:

Benchmark Performance by Asset Class	Week-to-Date	Month-to-Date	Year-to-Date
U.S. Large Cap Equities	-0.02%	3.12%	19.67%
U.S. Small Cap Equities	1.74%	10.21%	21.68%
International Developed Equities	-0.60%	3.21%	6.33%
Emerging Markets Equities	-1.03%	4.23%	14.87%
Global Equities	-0.35%	3.18%	14.63%
U.S. Bonds	0.14%	-0.08%	7.27%
Intermediate Municipal Bonds	0.03%	0.34%	4.18%
High Yield Bonds	0.08%	1.38%	6.58%
Oil	-1.76%	7.08%	-32.16%
Gold	-0.30%	5.75%	20.19%
Key Rates	12/24/2020	12/31/2019	12/24/2019
U.S. 2 Year Treasury Note	0.13	1.58	1.62
U.S. 10 Year Treasury Note	0.94	1.92	1.90

Week in Review:

Equities were mixed in the shortened trading week as President Trump unexpectedly objected to the $900 billion Covid-19 aid bill passed by Congress last week – the President advocated for $2,000 checks to Americans with gross incomes below $75,000 while the current bill allocates just $600. However, despite the objection, the President signed the bill as written on Sunday night. Weekly initial unemployment claims remained elevated and have now been above 800,000 for three weeks in a row. Meanwhile, Covid-19 cases and deaths continued to climb, and new strains were found in the United Kingdom and Africa.

The European Union and United Kingdom reached a long-awaited deal on Brexit, alleviating fears of large economic disruption had there been a "no-deal Brexit." The deal, more than four years in the making since the 2016 British referendum to leave the EU, will require goods moving between the EU and UK to go through customs checks for the first time in more than half a century. Businesses on both sides will need to quickly adapt to the new regulations, which are set to go into effect on January 1.

Economic Calendar:

- Pending Home Sales – Wednesday, December 30th
- Weekly Unemployment Claims – Thursday, December 31st

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Indices Used: U.S. Large Cap equities: Russell 1000 Index, U.S. Small Cap Equities: Russell 2000 Index, International Developed Equities: MSCI EAFE Index, Emerging Market Equities: MSCI Emerging Markets Index, U.S. Bonds: Barclays Aggregate Bond Index, U.S. 10 Year Treasury Note: Bloomberg 10 Yr. Treasury Note, Municipal Bonds: Barclays Intermediate Municipal Bond Total Return Index, High Yield Bonds: Barclays U.S. High Yield Total Return Index, Oil: Bloomberg WTI Crude Sub-Index Total Return Index, Gold: Bloomberg Gold Sub-Index Total Return Index