WINFIELD
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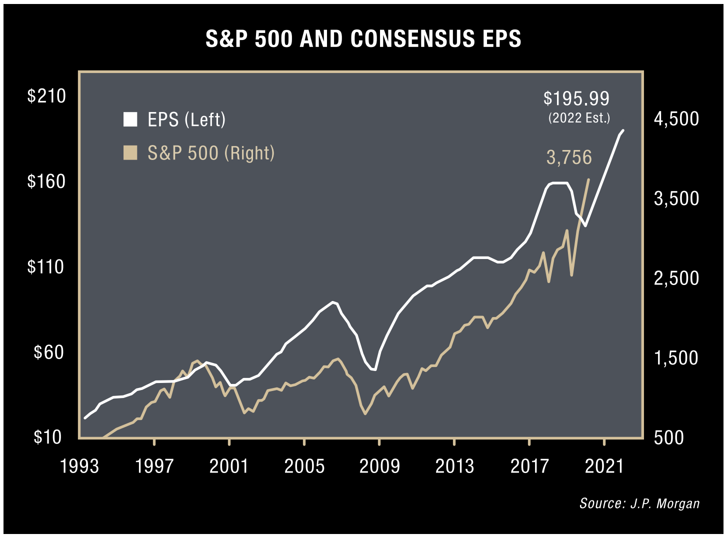
Customized Investment Portfolios and Private Wealth Advisory Services

MARKET COMMENTARY

US equity markets closed 2020 near record highs despite the pandemic and an uncertain political backdrop. For all of 2020, the Dow Jones Industrial Average (DJIA) climbed 9.7%, the S&P 500 rose 18.3%, and the technology-heavy NASDAQ Composite Index surged a remarkable 44.7%. In the second quarter of 2020, investors benefited from unprecedented levels of monetary and fiscal stimulus. Investor sentiment turned positive, and markets for the most part did not look back throughout the remainder of the year. From the March 23 lows, the S&P 500 Index rose 68% while the NASDAQ rallied almost 88% during the same period. As we mentioned in our July and October *Market Commentary*, large capitalization technology stocks such as Amazon, Apple, Facebook, Google, and Microsoft propelled the NASDAQ higher. While many technology stocks continued to climb throughout the fourth quarter of 2020, cyclical stocks outperformed in November and December as investors assumed the incoming Administration would usher in major policy changes that would result in higher inflation expectations and a steeper yield curve. Investors will remember 2020 as one of the market's most resilient years.

Surprisingly, even the historic turmoil in the nation's capital on January 6 did little to quell the market's enthusiasm. Stocks continued to rally on the prospect of another round of significant fiscal stimulus as well as the improving outlook on corporate profits. While profitability alone does not guarantee strong market performance, earnings tend to be one of the greatest drivers of stock valuations. The graph below illustrates consensus earnings for the S&P 500 from 1993 to 2022 as well as performance through the end of 2020.



Consensus S&P 500 2020 earnings estimates are $135.79, a 17% drop from 2019's $162.97 pre-pandemic results. Pent-up demand, margin recovery, and investment activity should drive robust earnings growth through at least the end of 2022. Consensus earnings estimates for the S&P 500 are $167.61 in 2021 and $195.99 in 2022. By comparison, S&P 500's constituents earned just $39.07 in 1993, $74.78 in 2000 at the height of the dot com bubble, $60.80 in 2009 during the Great Recession, $103.80 in 2012, and $161.93 in 2018. By historical standards, stock valuations are extended, with the S&P 500 trading near 22x 2021 analysts' forecasts. However, the Federal Reserve's commitment to low interest rates and the prospects for an accelerated global economic re-opening support elevated equity valuations.

2020 demonstrated yet again that markets price future cash flows, not human experience. In the middle of the deadliest epidemic since 1918, stock markets reached all-time new highs. Even as the equity markets bottomed in March 2020, scientists were beginning Phase I trials of a vaccine for the SARS-CoV-2 coronavirus. Within weeks, equity markets were rising, anticipating the introduction of a successful vaccine in a matter of months. Prior to the development of Pfizer's COVID-19 vaccine, the fastest any vaccine had previously been developed was for the mumps in the 1960s. From viral sampling to approval, the process took four years. In the spring of 2020, hoping for a vaccine even by the summer of 2021 seemed highly optimistic. Nonetheless, equity markets correctly anticipated the vaccine's rapid development, approval, and initial deployment.

Accordingly, what seems to matter most to financial markets in 2021 is not economic growth rates but global inoculation rates. As of the middle of January, over 42 million people had received the vaccine. However, in the US, many states across the country were running into serious problems with the logistics of vaccine distribution. Initially, the Centers for Disease Control (CDC) targeted 20 million doses to be administered by the first week of the new year. As of January 18, only 1 million doses had been administered to the American people. Moreover, after February, Operation Warp Speed calls for the vaccination of 30 million people per month. Based on performance to-date, the CDC's schedule appears to be overly optimistic. Bottlenecks across the country mean that some states are lagging far behind their initial goals. While the pace is likely to increase, the combination of delays and more transmissible strains of COVID-19 could set back reopening plans by several months. The incoming Biden Administration is planning to enhance these processes, but the first quarter of 2021 will be a critical period in determining the vaccination pathway and the speed of recovery for the US. Financial markets will almost certainly look for improvement in vaccine delivery to justify valuations.

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Since Winfield's founding in 1997, we have maintained a concentration in US equities. America's structurally efficient private corporate sector carries its economy and financial markets where other countries fail. Arguably, there has been no greater period of America's resiliency since World War II. As the virus spread rapidly, innovative technology companies prepared for a future unlike the past. Remote work environments, cloud-based computing, virtual communications, and digital drug design emerged as global solutions to complex issues. The pandemic accelerated tech disruption across many industries, changing the way businesses reached their customers, handled supply chains, managed employees, discovered new ways to fight disease, and built their brands. Schools, hospitals, big corporations, small companies, and state and local governments all benefited from corporate America's remarkable ability to innovate.

Despite recent developments and concerns surrounding America's preeminence, we continue to believe US equities offer attractive risk adjusted returns. After a prolonged period of elevated risks including a global trade war, the COVID-19 pandemic, and US election uncertainty, US equities have one of the best backdrops for sustained gains in the year ahead. The Federal Reserve Bank has stated that it will not raise interest rates until inflation has exceeded 2% for at least 2 years; US investors have over $5 trillion in money market funds earning close to zero; and the Biden Administration has proposed another $1.9 trillion stimulus for COVID-19 relief. While the timing of vaccine deployment remains a concern, we believe the same American ingenuity that led to vaccine development will eventually resolve logistical issues, propelling equity valuations to new highs in the new year.

CYBERSECURITY

The global lockdown of 2020 created a new landscape full of opportunity for computer hackers and fraudsters. Access to financial information is of particular interest to cybercriminals. According to Forbes, breaches nearly doubled in 2020 from 2019, and the pace of activity does not seem to be slowing. Two particular schemes are of concern:

- *Phishing* is one of the most common forms of online fraud and cybercrime. Cybercriminals try to lure you to take action with a fake email or text sent from what they have designed to appear as a trusted source or contact. The email encourages you to click a link or open an attachment in order to extract personal account information.

  General Rule: If you see typos in a suspicious email or a text from an unfamiliar sender, delete it. It could be a phishing attempt.

- *Fraudulent Pop Ups* are a tactic used in technology scams. Victims are contacted by what appears to be a technology support team to fix a fabricated issue or a virus on a computer. Pop-up messages like "Account Locked" or "Contact Tech Support" often catch a victim off guard. Fraudsters ask the victim for remote access to "fix" the problem then search for financial account information upon gaining access to the computer.

  General Rule: Never give remote access to an untrusted source.

Banks and other financial institutions have significant resources to help you learn more. Please contact us if you are interested in additional information.

MARKET PERFORMANCE

	4Q 2020	2020
Dow Jones	10.7%	9.7%
S&P 500	12.1%	18.3%
Nasdaq	15.6%	44.7%
Russell 2000	31.4%	19.9%
MSCI EAFE	16.0%	7.8%
Barclays Agg	0.7%	7.5%

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- Manage and advise 401(k) plans

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RETIREES
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