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4th Quarter 2020 Moreno Dye Cervantes Wealth Management Group of Wells Fargo Advisors Quarterly Newsletter

Given all of the challenges that we faced in 2020, the financial markets were surprisingly one area we could celebrate. Last year will undoubtedly go down as one of the most difficult years in modern history. Not only are we living through the most widespread global health pandemic in over 100 years, but 2020 also witnessed numerous other challenges for investors to navigate. We experienced a highly polarized political landscape, social unrest throughout the country, a Presidential impeachment, unprecedented wild fires and our first economic recession in over a decade. It felt like every few days there were market moving events that kept us on our toes, which resulted in us recommending more portfolio adjustments during any calendar year than anyone in the Moreno Dye Cervantes Wealth Management Group can recall. All we were missing was locusts, scratch that, 2020 also had the worst locust infestation in over a quarter century in East Africa with over a hundred billion crop destroying locust per National Geographic. To say that 2020 challenged investor's discipline and mental fortitude is an understatement.

Thankfully, the financial markets were able to look beyond these challenges and finish 2020 on a very positive note. We are very proud of how our clients endured and persevered through one of the most difficult years we have seen since the World Trade Towers attack in 2001 and the financial crisis in 2008. The table below will give you an idea of just how incredibly volatile and challenging 2020 was:

	2020 1st Quarter	2020 4th Quarter	2020 Year-to-Date
Dow Jones Industrial Average	-22.73%	10.73%	9.72%
Russell 1000 Growth Index	-14.10%	11.69%	38.49%
Russell 1000 Value Index	-26.73%	16.25%	2.80%
NASDAQ Composite Index	-13.95%	15.63%	44.92%
S&P Mid Cap 400 Index	-29.70%	24.37%	13.66%
S&P Small Cap 600 Index	-32.64%	31.31%	11.29%
MSCI EAFE – International Index	-22.83%	16.05%	7.82%
Bloomberg Barclays US AGG Bond	3.15%	0.67%	7.51%

*Wells Fargo Advisors Monthly Major Index Returns

The last two months of 2020 were great for the financial markets as optimism surrounding the arrival and initial distribution of the COVID-19 vaccines fueled strong stock returns. In addition, we were very pleased to see that the portfolio adjustments that we made during the first half of 2020 paid off really well for clients. If you recall, the first half of the year was dominated by large and mid-cap growth equities only. We used that as an opportunity to rebalance client portfolios and take profits on those growth equity performers in order to maintain diversification and risk alignment. This action has been rewarded as we are now seeing a rotation in equity market leadership from growth to value as well as a broadening of equity participation. In the table above you will notice that during the 4th Quarter of 2020, value outperformed growth stocks and mid and small cap outperformed large caps stocks.

As we move forward into 2021, there are definite challenges and uncertainties for the U.S. and global economic recoveries. In regards to the Covid-19 vaccine, the distribution process is off to a slow start. We feel the vaccine rollout needs to go a lot faster and smoother; otherwise, the financial markets may have gotten ahead of itself on the timing of the economic recovery. Also, our economy has not experienced a balanced recovery, especially for small businesses on Main Street America. Lastly, we are faced with some post-election uncertainties surrounding economic, tax and regulation policies. We will try to add some additional color to these challenges and uncertainties that will absolutely shape financial markets performance over the course of 2021.

The most important challenge that we see for 2021 is how to better align the recoveries experienced on Wall Street and Main Street. Unfortunately, this is not an easy challenge and time may be the ultimate answer. In trying to contain the coronavirus, state governments have severely impacted small businesses in America. In the near-term, we will likely see a large number of bankruptcies and layoffs, which will undermine the credit quality and financing availability for many Americans. At this time, the best solution to help small businesses will likely come in the form of aid from Federal, state and local governments to provide a lifeline in order to bridge the pandemic.

In regards to the changing political landscape, the challenge that we face is increased uncertainty around taxation, regulation, trade and economic growth policies. We have said many times over the years that the financial markets hate uncertainty. Therefore, as we get a better understanding of the new administration's policy initiatives, we will likely need to make some additional portfolio adjustments.

On the other hand, we believe a number of positive economic developments over the past few months will continue forward into the New Year as financial markets transition from the "stay-at-home" economy to the "reopening economy". The primary tailwinds for 2021 are an extremely accommodative Federal Reserve, further fiscal spending from the government, a moderation in tariffs and strong household wealth. This should provide the U.S. recovery with good footing, especially when pent up demand gets released as the pandemic eases and people are able to return to a more "normal" life. Our expectation is that economic conditions will improve throughout 2021, which will lead to greater business and consumer confidence as well as improved corporate earnings growth. This bodes well for the stock market and a further broadening of performance beyond just large caps and into mid and small cap equities.

Additionally, we are expecting that the U.S. Dollar will continue to depreciate against other major world currencies. This is due to the FED's low interest rate policy and additional government spending that continue to play a major role in the U.S. economic recovery. This would be a welcome development since a declining U.S. Dollar would positively impact our international and emerging market investments, which we have seen gain positive momentum over the past three months.

Ultimately, time will tell how 2021 will unfold, but we will continue reaching out to share our thoughts and address any of your questions or concerns. We hope that you had an enjoyable holidays even with the COVID-19 conditions. We want to express our sincere gratitude to you, our clients, for being so understanding and supportive over the past nine months as we have had to adapt to very different working conditions. We always strive to deliver the best service possible, and we hope that we have been able to continue delivering on that pledge. We cannot wait until we are able to meet face-to-face and break bread together again. In the meantime, we will continue to keep you posted on your portfolios as well as any upcoming educational Zoom webinars. We wish you and your family all the best in 2021!!

Sincerely,

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Stocks are subject to market risk which means their value may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. Investments in equity securities are generally more volatile than other types of securities.
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The Dow Jones Industrial Average is a price-weighted index of 30 “blue-chip” industrial U.S. stocks.
The S&P 500/Barra Growth Index is an unmanaged capitalization-weighted index stocks in the Standard & Poor’s 500 index having the highest price to book ratios. The Index consists of approximately half of the S&P 500 on a market capitalization basis.
The S&P 500/Barra Value Index is an unmanaged, market-capitalization-weighted index of the stocks in the Standard & Poor’s 500 Index having the lowest price to book ratios. The index consists of approximately half of the S&P 500 on a market capitalization basis.
The NASDAQ Composite Index measures the market value of all domestic and foreign common stocks, representing a wide array of more than 5,000 companies, listed on the NASDAQ Stock Market.
The S&P Midcap 400 Index is a capitalization-weighted index measuring the performance of the mid-range sector of the U.S. stock market, and represents approximately 7% of the total market value of U.S. equities. Companies in the Index fall between the S&P 500 Index and the S&P Small Cap 600 Index in size: between $1-4 billion.
The S&P Small Cap 600 Index consists of 600 domestic stocks chosen for market size, liquidity (bid-asked spread, ownership, share turnover and number of no trade days) and industry group representation. It is a market value-weighted index (stock price times the number of shares outstanding), with each stock’s weight in the index proportionate to its market value.
The MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada.
Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based measure of the investment grade, US dollar-denominated, fixed-rate taxable bond market.