



STRATEGIC CLIENT NEWSLETTER

FOURTH QUARTER 2020

FOURTH QUARTER
2020
As of 12/31/2020

Market Performance
www.bloomberg.com

Dow Jones Industrial Average

This Quarter	10.17%
Year-to-Date	7.25%

S&P 500

This Quarter	11.69%
Year-to-Date	16.26%

Nasdaq Composite

This Quarter	15.41%
Year-to-Date	43.64%

Indices are unmanaged and you cannot invest directly in an index

C O N T E N T S

Economic Review	pg. 1
2021 Outlook	pg. 2
Volatility & Business Cycle	pg. 3
2021 Tax Planning	pg. 3
Recommendations	pg. 4
CHB Group News	pg. 4

UPDATED Contact Information

E-Mail: Chris Brashier	chb@chbinvestmentgroup.com
Debra Jones	debra.jones@chbinvestmentgroup.com
Chris Lindenthal	chris.lindenthal@chbinvestmentgroup.com

Website: www.chbinvestmentgroup.com

Stock Markets Finish Positive for 2020 Despite Market Volatility and Pandemic

With minimal downside volatility in the fourth quarter, positive market growth continued in 2020, despite continued business restrictions from the ongoing coronavirus pandemic, stock indices pushed into record territory. The DJIA closed the year at 30,606.48 (+7.25%), and the S&P 500 Index closing at 3756.07 (+16.26) **market growth, and viewed the current markets at close to full market value with the economy nearing the end of its business cycle.**

With the stock markets being at what we feel is overvalued in the fourth quarter, the U.S. economy continued showing strength:

- Gross Domestic Product for the third quarter of 2020 increased at a rate of 33.4%, following negative rates in the first half of the year (-5.0% in the first quarter; -31.4% in the second quarter). (Source: www.bea.gov)
- The National unemployment rate fell slightly in September 2020, with a rate of 7.9%, with additional decreases in October 2020 (6.9%) and November 2020 (6.7%). (Source: www.bls.gov)
- Nonfarm productivity began 2020 with a first quarter rate of -.3%, but showed increases in the second quarter of +10.6% and third quarter +4.6%. (Source: www.bls.gov)

- The Consumer Price Index (CPI), which measures changes in the price level (inflation) of consumer goods and services, has remained relatively low with rates of 0.2% in September 2020, 0.0% in October 2020 and .2% in November 2020. (Source: www.bls.gov)
- Personal Income continued with negative rates of -0.6% (October 2020) and -1.1 % (November 2020). (Source: www.bea.gov)
- Corporate profits from current production increased in the third quarter of 2020 by \$27.4 billion, following an adjusted decrease of -10.3 billion in the second quarter. (Source: www.bea.gov)

2021 Outlook

In our forecast for this past year, we correctly forecasted the stock performance in the Dow Jones Industrial Average, but under-forecasted the strength of the stocks in the broader S&P 500 Index by a large percentage; as well as slightly under-forecasting the performance in the bond markets. With the performance in equities driven by corporate earnings and pandemic economic recovery, we began to see stocks reaching what we feel are full to over-valued market valuations at year end. We continue having concerns over inflationary pressure and rising interest rates, but don't expect these pressures to be impactful until the next business cycle. The bond markets slightly out-performed our expectations in 2020, mostly due to the unexpected market recoveries we saw in the second half of 2020.

According to Wells Fargo Investment Institute*, the following are continued risks that could impact the 2021 market outlook:

- Pandemic containment efforts that are stringent enough to reverse economic recovery
- New surges in the coronavirus or disappointing vaccine news could restrain recovery and create additional uncertainties.
- Divided government could create additional gridlock that could lead to an inability to pass economic and market-friendly legislation.

Looking ahead to 2021, we expect the stock markets to have volatility as pandemic restrictions and economic recovery continue. The new Presidential administration may also create some uncertainty and short-term market volatility as new policies and regulations are put in place. We continue to anticipate a recession and market pullback in the next 12-18 months. **Assessment:** We expect a slight market pullback in 2021 as we feel stocks are currently overvalued.

We feel that low energy prices will continue into 2021, and we believe there will continue to be minimal increases in crude prices as overall economic growth is slow to moderate, and alternative energy sources continue to be explored and expanded upon. **Assessment:** We believe oil prices will be volatile in 2021 at \$40-\$60/barrel for WTI, with potential for lower price levels.

We expect GDP to grow by 2.5%-3.5% by year end 2021 (*similar to Wells Fargo Investment Institute's forecast of 3.8%**), causing moderate inflationary pressure, and expect the Federal Reserve to maintain rates at 0.0%-0.25% in 2021 as growth uncertainty remains.

STOCKS

We believe stocks are over-valued right now, and we expect to see some pullback in the broad markets as we reach maturity of the business cycle. We still expect the broad markets to gain between 5-8% in 2021. In particular, we continue to favor financials and mid-large cap value domestic, industrial and manufacturing stocks. We are neutral on international and global stock portfolios, and continue favoring domestic infrastructure stocks. We will continue to focus on low risk (low beta) stock portfolios for added downside protection.

CASH/MONEY FUNDS

The Federal Reserve cut rates in 2020 to near 0.0%. **We expect this low rate to remain in 2021**, as inflationary and growth concerns continue to drive Federal Reserve policy. We believe money market rates will remain very low for all of 2021.

BONDS

We favor corporate bonds going into 2021, and favor increasing fixed income due to the recent, and expected, concerns of a recession and market pullback. With the Federal Reserve maintaining rates at near 0.0%, which will impact fixed income prices favorably, we expect to see returns in the overall bond market of 6-8%.

**Source: Wells Fargo Investment Institute's 2020 Outlook*

OVERVIEW - Market Volatility and the Business Cycle

RECESSION: Two consecutive quarters of negative GDP growth.

MARKET CORRECTION: A decline of 10%-19%

BEAR MARKET: A decline of 20% or greater

Stock market performance is a leading economic indicator, and typically can predict when we can expect the next phase of a business cycle to begin. Preceding a recession, the stock market normally will top out and begin to decline, and the reverse also holds true for the end of a recession – the stock market normally will bottom out and begin moving into positive performance territory before the business cycle turns back to the expansion phase. Looking at the data, of the 47 recessions since 1802, 90% of them were preceded by declines in the stock market of 10% or more (*Source: Stocks for the Long Run; Jeremy Siegel*). And while there is no exact way to determine the exact timing of a recession from the top of the stock market, it's typically been less than a year.

Because there isn't a way to time exactly when a recession or expansion phase will begin, nor is there a way to predict the top and bottom of the stock markets, we recommend clients maintain a long-term investing strategy.

2021 Retirement Planning

As a review, the SECURE Act, passed by Congress and signed into law at the end of 2019 will make some significant changes to retirement planning strategies, including:

1. IRA Required Minimum Distributions won't start until age 72, starting in 2020. If clients have already started taking their RMDs, and/or have reached the age of 70 ½ in 2019, they are not impacted by this change.
2. In most cases, Non-Spousal, Inherited IRAs will need to be fully distributed within ten years.
3. There are no longer any age limits to making IRA contributions.

<u>Retirement Plan Updates for 2021</u>		
	Contribution Limit	Additional Catch Up (if over age 50)
401(k), 403(b) and 457 Plans	\$19,500	\$6,500
Traditional IRA, Roth IRA	\$6,000	\$1,000
Simple IRA	\$13,500	\$3,000
SEP IRA	\$58,000	

Key Milestone Ages for Social Security Benefits:

60: Eligible for reduced Social Security payments; Remarriage after age 60 does not bar Social Security widower or surviving divorced spouse payments.

62: Eligible for reduced Social Security retirement or spousal payments.

65: Eligible for Medicare; Eligible for SSI aged payments.

65-67: Full retirement age, as determined by birth year, so eligible for unreduced Social Security benefits; maximum spousal and widower benefits; may draw spousal benefits without applying for own Social Security benefits; no earned income limitations.

70: Maximum Social Security benefits; voluntarily suspended payments automatically resume.

Tax Season 2021

As with previous years, please feel free to contact our office to help expedite any tax inquiries you or your tax professional may have, and to assist with any additional information that may be required.

Wells Fargo Advisors Financial Network expects to begin mailing 1099 Forms on or around February 16, 2021, with the majority sent out by the end of February. In some instances, clients may receive amended tax documents if additional income or distribution information was provided after the original mailing date.

CHB Investment Group Recommendations

Recommendations made by CHB Investment Group, LLC may not be suitable for all clients, and we suggest calling our office to review any recommendations that may meet clients' specific financial needs and risk tolerance.

- We have a bias towards value styles, as stocks have reached what we believe to be over valuation and also recommend a slight overweight in mid-large cap stocks.
- We have a neutral bias in international and global stocks.
- We continue to favor corporate debt, as well as having a slight underweight in Treasury bonds and CDs.

CHB Investment Group News

Please call our office with any account related questions or inquiries. We look forward to continuing to serve you. Happy New Year!

For clients who would like to receive non-confidential information regarding general market conditions and CHB Investment Group updates, please send your preferred e-mail address to chris.lindenthal@chbinvestmentgroup.com

Reminder: Emergency Order Placement Number – If there is ever a need to place an order during market hours, and we cannot be reached due to phone problems or weather issues, please call (877) 246-6976, option #2.

Past performance is no guarantee of future results.

Wells Fargo Investment Institute, Inc. is a registered investment adviser and wholly-owned subsidiary of Wells Fargo Bank, N.A., a bank affiliate of Wells Fargo & Company.

Indices are unmanaged and you cannot invest directly in an index.

The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index with each stock's weight in the index proportionate to its market value.

The Dow Jones Industrial Average is a price-weighted index of 30 "blue-chip" industrial U.S. stocks.

NASDAQ Composite Index: 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.

Generally, CDs may not be withdrawn prior to maturity. CDs are FDIC insured up to \$250,000 per depositor per insured depository institution for each account ownership category. CDs may be issued by out of state institutions.

Stocks offer long-term growth potential, but may fluctuate more and provide less current income than other investments. An investment in the stock market should be made with an understanding of the risks associated with common stocks, including market fluctuations. The prices of small company stocks are generally more volatile than large company stocks. They often involve higher risks because smaller companies may lack the management expertise, financial resources, product clarification and competitive strengths to endure adverse economic conditions. There are special risks associated with an investment in real estate, including credit risk, interest rate fluctuations and the impact of varied economic conditions.

Investing in fixed income securities involves certain risks such as market risk if sold prior to maturity and credit risk especially if investing in high yield bonds, which have lower ratings and are subject to greater volatility. Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can result in the decline of the value of your investment. All fixed income investments may be worth less than original cost upon redemption or maturity.

Investing in foreign securities presents certain risks not associated with domestic investments, such as currency fluctuation, political and economic instability, and different accounting standards. This may result in greater share price volatility. Diversification does not guarantee profit or protect against loss in declining markets.

This newsletter is designed to provide accurate, authoritative information. Wells Fargo Advisors Financial Network is not engaged in rendering legal, accounting or tax advice. If legal, accounting, or tax assistance is required, the services of a competent professional should be sought. The hiring of a professional is an important decision and should not be based on advertising. Ask for written information stating qualifications, experience and Firm association before making a decision.

This report is provided courtesy of your Financial Advisor, Christopher H. Brashier, who can be contacted at 215-862-6900. Wells Fargo Advisors Financial Network did not assist in the preparation of this report, and its accuracy and completeness are not guaranteed. The opinions expressed in this report are those of the author(s) and are not necessarily those of Wells Fargo Advisors Financial Network or its affiliates. The material has been prepared or is solely distributed for information purposes and is not a solicitation or an offer to buy any security or instrument or to participate in any trading strategy. Additional information is available upon request.

CHB Investment Group

A Limited Liability Corporation

Christopher H. Brashier

Managing Director

chb@chbinvestmentgroup.com

Debra T. Jones

Registered Associate

debra.jones@chbinvestmentgroup.com

Christopher Lindenthal

Portfolio Administrator

chris.lindenthal@chbinvestmentgroup.com

31 North Main Street

New Hope, PA 18938

Phone: 215-862-6900

Fax: 215-862-5700

Toll Free: 855-862-6900

www.chbinvestmentgroup.com

Investment products and services are offered through Wells Fargo Advisors Financial Network, LLC (WFAFN). CHB Investment Group is a separate entity from WFAFN.