For investors, the new year is a time to reflect on the lessons of the past twelve months. There is much to consider after the COVID-19 pandemic led to an economic collapse, bear market crash, historic government stimulus, plummeting interest rates and more - not to mention the impact on everyday life. Other events and headlines that added to investor concerns include a heated presidential election, cybersecurity breaches and government action against large tech companies, just to name a few. These events are a reminder that, despite one's best efforts, it is impossible to predict and plan for every scenario.

This is why the biggest investor lesson of 2020 is perhaps the importance of resilience, both psychological and financial. Those with the fortitude to endure months of uncertainty by staying invested were ultimately rewarded. Doing so was undoubtedly made easier with a sound financial plan, proper guidance, an understanding of financial market history and a cushion of savings. After all, while plans are easy to make in good times when markets are rising, they truly become a necessity when times are tough.

Only months after bear market declines across all major global indices, the S&P 500 ended 2020 at all-time highs with a return of 18.4% for the year (with dividends). This includes a historic 70% rebound from March lows. The Dow climbed 9.7%.

Fixed income investments also served their intended function as diversifiers in portfolios. The Bloomberg Barclays U.S. Aggregate bond index was in the red only briefly and ended the year up 7.5%. The index of U.S. Treasuries was positive throughout this period, despite some ups and downs, and although the Corporate High Yield index plummeted alongside stocks when credit spreads spiked, it also finished the year up 7%. All told, investors who remained diversified across stocks and bonds had a smoother ride and benefited from a mix of asset classes.

As we begin 2021, the public health situation is mixed. In the short run, the pandemic rages on as new cases in the U.S. and around the globe accelerate, pushing governments to enforce restrictions and lockdown measures. In the long run, however, the deployment of vaccines and the ability to manage economic conditions are reasons for optimism.

Current consensus forecasts suggest that as life returns to some semblance of "normal" in the coming year, economic growth and corporate profits can return to pre-COVID levels by the end of 2021 or in early 2022. This depends on many factors including the successful roll-out of vaccines, their long-term efficacy, the ability to fully reopen businesses safely, the willingness of consumers and businesses to spend, etc. Despite these challenges, there is clearly a light at the end of the tunnel.

This is helped by the resilience the economy has already shown even without a vaccine. Overall U.S. economic activity fell by nearly a third during the second quarter of the year before rising at the fastest pace in history as cities and states reopened. Stimulus measures by the Fed and Congress likely helped to prevent an even worse disaster, including one where the financial system seizes up as it did in 2008. Unlike the Great Depression nearly a century ago, government policy did not actively make financial conditions worse. Companies that were able to shift to remote work did so swiftly and many even prospered as digital trends accelerated. Manufacturing and some service sector businesses were able to recall workers as they instituted safety measures.

Of course, these aggregate statistics mask the divergent outcomes among sectors, types of jobs, income levels and more. For this reason, the second half of the COVID-19 recovery, which will take place throughout 2021, is already proving to be more difficult. At this point, over ten million jobs are still lost and five million Americans are receiving unemployment benefits each week. The latest round of government stimulus may help those individuals and businesses that are still feeling the pinch, but its delay has already been costly.

In spite of this, the stock market ended 2020 at new record-setting highs. Many of the trends from the past year could continue for some time as uncertainty continues. This has largely benefited growth and technology-driven sectors at the expense of value and sectors directly harmed by economic restrictions.

However, there is already evidence that performance across sectors, styles and stocks is broadening. Valuation differences between growth and value are at historic levels. Technology-driven stocks have already risen sharply since the recovery began. At some point, investors may prefer investments that will benefit from a full economic recovery. There are no guarantees that this will happen soon, nor does this need to be at the expense of what has already done well.

Unfortunately, it's likely that the early part of 2021 will resemble the past year as the pandemic rages on and the recovery continues. What has worked for investors not only during the crisis but also over the full history of financial markets is to stay resilient and disciplined. Following are seven important lessons and insights for the coming year to help investors maintain perspective.

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1. The economy could be on track to fully recover by year-end

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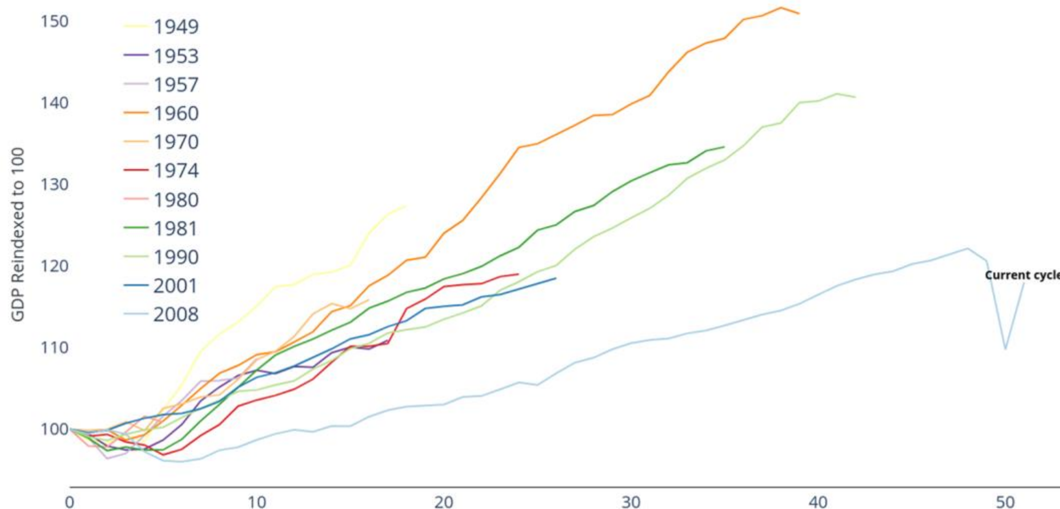
U.S. Economy

U.S. Business Cycles

Since World War II, Relative to Prior Cycle Peak, Duration in Quarters



Source: U.S. BEA, NBER

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The U.S. economy officially fell into recession last February. However, consensus estimates among economists and investors suggest that the economy could fully heal from its historic decline by the end of 2021. This depends on a number of factors that are still uncertain, but the fact that multiple vaccines are being deployed and the resilience the economy suggest that there is reason for optimism.

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2. How Balanced Portfolio Compared to Other Asset Classes

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Asset Allocation

Asset Class Performance

Total Returns

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
EM 32.6%	EM 39.8%	Fixed Income 7.9%	EM 79.0%	Small Cap 26.3%	Fixed Income 7.7%	EM 18.6%	Small Cap 41.3%	S&P 500 13.7%	S&P 500 1.4%	Small Cap 26.6%	EM 37.8%	Fixed Income 0.1%	S&P 500 31.5%	EM 18.7%	Small Cap 8.7%
EAFE 26.9%	Commodities 16.2%	Balanced -22.3%	EAFE 32.5%	EM 19.2%	S&P 500 2.1%	EAFE 17.9%	S&P 500 32.4%	Balanced 6.5%	Fixed Income 0.5%	S&P 500 12.0%	EAFE 25.6%	S&P 500 -4.4%	Small Cap 22.8%	S&P 500 18.4%	EM 4.8%
S&P 500 15.8%	EAFE 11.6%	Small Cap -31.1%	S&P 500 26.5%	Commodities 16.8%	Small Cap 1.0%	Small Cap 16.3%	EAFE 23.3%	Fixed Income 6.0%	EAFE -0.4%	Commodities 11.8%	S&P 500 21.8%	Balanced -4.8%	EAFE 22.7%	Balanced 12.1%	Commodities 3.3%
Small Cap 15.1%	Balanced 8.5%	Commodities -35.6%	Small Cap 25.6%	S&P 500 15.1%	Balanced 0.8%	S&P 500 16.0%	Balanced 16.1%	Small Cap 5.8%	Balanced -1.4%	EM 11.6%	Balanced 15.2%	Small Cap -8.5%	Balanced 20.3%	Small Cap 11.3%	EAFE 2.1%
Balanced 12.9%	Fixed Income 6.6%	S&P 500 -37.0%	Balanced 21.0%	Balanced 12.2%	EAFE -11.7%	Balanced 11.2%	Fixed Income -2.0%	EM -1.8%	Small Cap -2.0%	Balanced 8.3%	Small Cap 13.2%	Commodities -11.2%	EM 18.9%	EAFE 8.3%	S&P 500 1.3%
Fixed Income 3.9%	S&P 500 5.5%	EAFE -43.1%	Commodities 18.9%	EAFE 8.2%	Commodities -13.3%	Fixed Income 3.8%	EM -2.3%	EAFE -4.5%	EM -14.6%	Fixed Income 2.4%	Fixed Income 3.6%	EAFE -13.4%	Fixed Income 8.5%	Fixed Income 7.5%	Balanced 1.2%
Commodities 2.1%	Small Cap -0.3%	EM -53.2%	Fixed Income 3.0%	Fixed Income 6.4%	EM -18.2%	Commodities -1.1%	Commodities -9.5%	Commodities -17.0%	Commodities -24.7%	EAFE 1.5%	Commodities 1.7%	EM -14.2%	Commodities 7.7%	Commodities -3.1%	Fixed Income -1.0%

Latest data point is Jan 13, 2021

The Balanced Portfolio is a hypothetical 60/40 portfolio consisting of 40% U.S. Large Cap, 5% Small Cap, 10% International Developed Equities, 5% Emerging Market Equities, 35% U.S. Bonds, and 5% Commodities.

Source: Clearnomics, Refinitiv

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Many investments across asset classes and geographies performed well despite the pandemic. U.S. stocks and emerging markets (in local currency and USD terms) outperformed which helped to drive many "balanced" portfolios to significant gains for the year. Throughout this period, fixed income investments, especially Treasuries and high-quality corporate bonds, helped to keep portfolios steady.

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3. Investors should be cautious with high-flying sectors and styles

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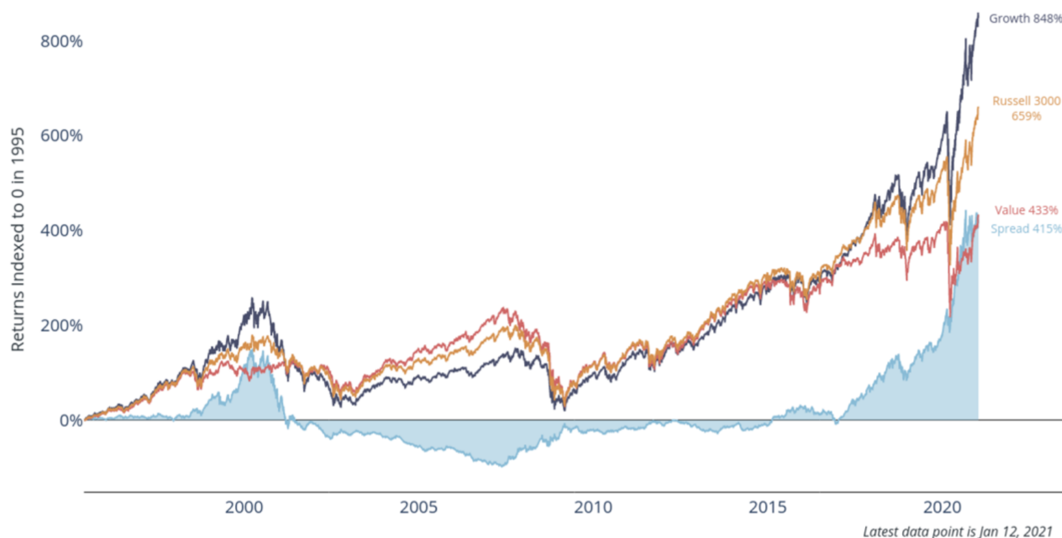
U.S. Stock Market

U.S. Growth vs Value Performance

Russell 3000 Growth and Value price returns and performance spread
Returns and spread are indexed to 0 in 1995



Source: Clearnomics,
Refinitiv,
FTSE Russell

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Not all parts of the stock market performed equally well during and after the crisis. Specifically, growth stocks significantly outperformed value ones, and many technology-driven stocks outperformed other sectors. Trying to time when this might reverse is difficult if not impossible given the on-going circumstances. However, history shows that while periods of outperformance can last years, valuation differences often give way to reversals.

4. Corporate earnings could also recover by the end of 2021

With the economy on track to recover, corporate earnings could do so as well. Consensus Wall Street estimates are for S&P 500 earnings to surpass $160 per share - i.e. its pre-COVID level. Like the economy, this depends on a number of factors that are still uncertain. However, there is already evidence that many companies can not only stabilize their revenue growth rate, but can boost profitability as well. Earnings growth will likely support stock market prices just as it does across all cycles.

5. The weak dollar could impact portfolios over the next year

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Currencies

Major Currencies

Relative change over the past 24 months

Source: Refinitiv

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Although the U.S. dollar acted as a safe-haven asset early in the crisis, it has been falling in value since the recovery began. Record levels of government stimulus, Fed intervention, historically low interest rates and the possibility of a rebound in inflation all conspire to keep the dollar weak. This can create a tailwind for portfolios in two ways. First, a weak dollar can boost international investment returns in USD terms. Second, a weaker dollar can bolster overseas revenue for U.S. multinational corporations. Together, a weaker dollar is often positive for investors in the long run.

6. Having a cash cushion helped investors during the crash

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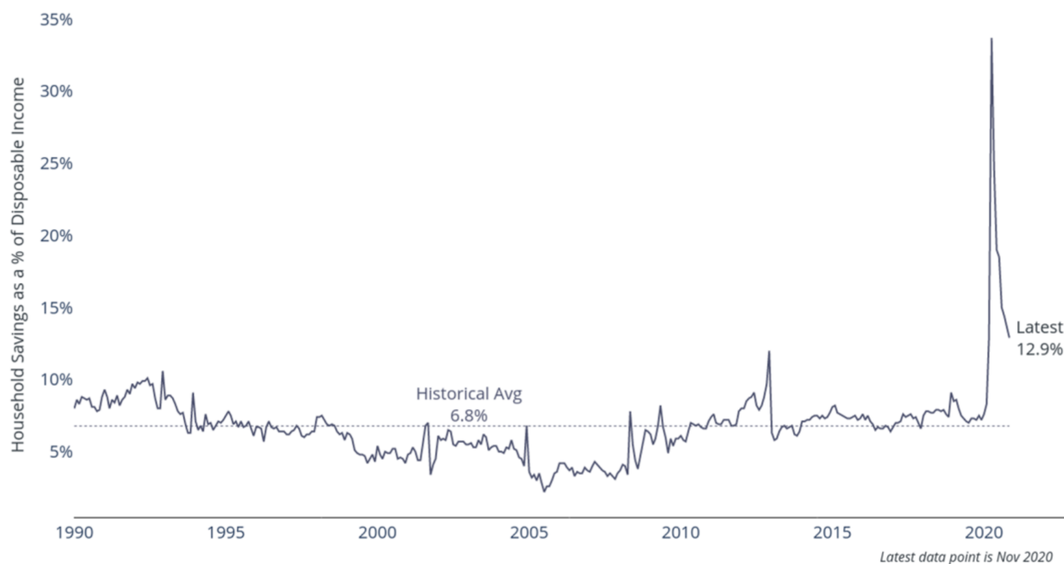
Consumers

Personal Savings Rate

Savings as a percentage of disposable income



Source: U.S. Bureau of Economic Analysis

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One of the most striking economic data points during the crisis was the spike in household savings rates. This was partly due to the inability to spend in stores during the lockdown and partly due to consumers being cautious about the future. Although savings rates have fallen and retail sales have recovered somewhat, consumers are still saving more today than at any point over the past 30 years. As a financial habit, this is a positive sign. It's also a reminder that having a sufficient cash cushion is within the control of many and can help investors to weather any storm.

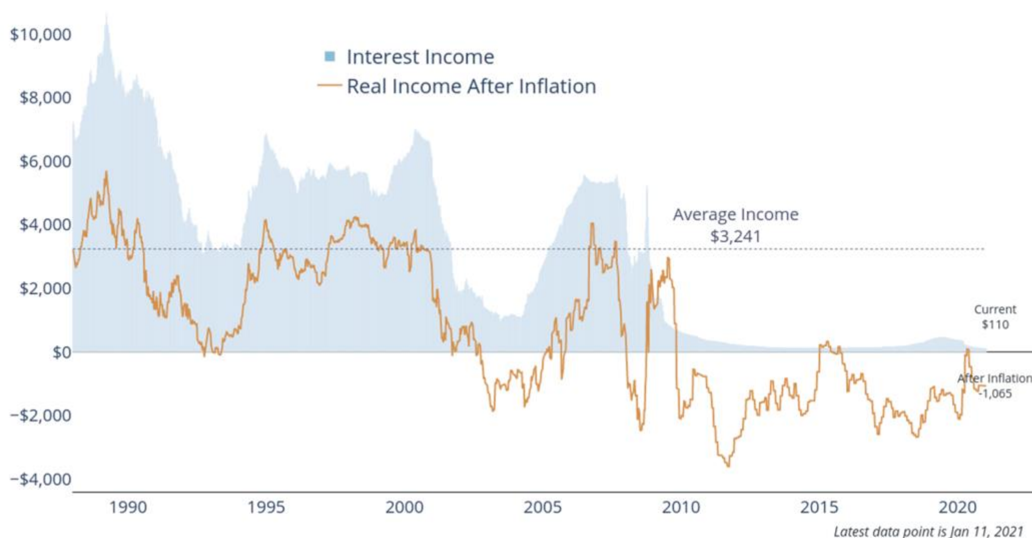
7. Interest rates will likely remain low for the foreseeable future

Market and Economic Chartbook | January 13, 2021

Interest Rates

Interest Income on Cash

$100k invested in 6-month CDs against inflation. Actual rates may vary



Source: FDIC

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Despite the economic recovery, interest rates are expected to be near historic lows for years to come. The 10-year U.S. Treasury yield finished the year at only 0.9% and the 30-year mortgage is still below 3%. The Fed's own forecasts suggest it expects to keep the federal funds rate at zero percent through at least 2023. Low rates are great for borrowers and can spur business investment. However, they make it difficult for investors in or near retirement to generate sufficient income. This has been a central investment challenge since 2008 and will likely continue for years to come.

The bottom line? The COVID-19 pandemic is still the primary challenge facing a broad economic recovery as vaccines are deployed. Investors ought to remain diversified, disciplined and resilient in 2021 as markets and the economy heal.