December 31, 2020

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Quarterly

## 2020 Year-End Investment Market Report

It would be hard to imagine a stranger year in the U.S. investment markets than the one just passed, or a year that did a better job of defying logic.

After the dramatic market collapse that began on February 20, and saw a 34% drop in 33 days, U.S. investments recovered and sailed through a steep recession, record unemployment and multiple waves of a pandemic. The second-quarter saw a 32.9% annualized decline in the U.S. GDP, but by the time those statistics had been gathered, the U.S. market indices were reaching new records. By the end of the year, the S&P 500 index had gained more than 18% in a year of steep job losses and widespread pain, achieving record highs as the markets closed on December 31.

The year 2020 illustrates the folly of trying to predict the future. At the beginning of the year, who could have forecast that a massive global pandemic would engulf every aspect of our lives, or that it would take hold more persistently in the U.S.—the wealthiest country in the world--than anywhere else? And who could have forecast that despite this, markets would reach new highs?

A breakdown shows that just about every investment asset was up strongly for the second year in a row. The widely-quoted S&P 500 index of large company stocks gained 12.15% during the year's final quarter and overall finished up 18.40% in calendar 2020—closing out the year at a record high.

| | Quarter | YTD | 1 Year | 3 Years |
|---|---|---|---|---|
| S&P 500 Index TR | 12.15 | 18.40 | 18.40 | 14.18 |
| Russell 2000 TR | 31.37 | 19.96 | 19.96 | 10.25 |
| Wilshire U.S. REIT TR | 10.62 | -7.90 | -7.90 | 3.30 |

Source: Morningstar Direct; See disclosures for imporant benchmark information

| | Quarter | YTD | 1 Year | 3 Years |
|---|---|---|---|---|
| MSCI EAFE NR | 16.05 | 7.82 | 7.82 | 4.28 |
| MSCI EM NR | 19.70 | 18.31 | 18.31 | 6.17 |

Source: Morningstar Direct; See disclosures for imporant benchmark information

Looking over the other investment categories, real estate, as measured by the Wilshire U.S. REIT index, posted a 10.62% gain during the year's final quarter, but it finished the year with a 7.90% loss. The S&P GSCI index, which measures commodities returns, gained 14.49% in the 4th quarter, but ended the year down 23.72%.

Foreign markets were also generous to investors this year. The broad-based EAFE index of companies in developed foreign economies gained 16.05% in the final quarter, basically rescuing the year, delivering a gain of 7.82% in dollar terms for the year just ended. Emerging market stocks of less developed countries, as represented by the EAFE EM index, were up 18.31% in dollar terms in the year.

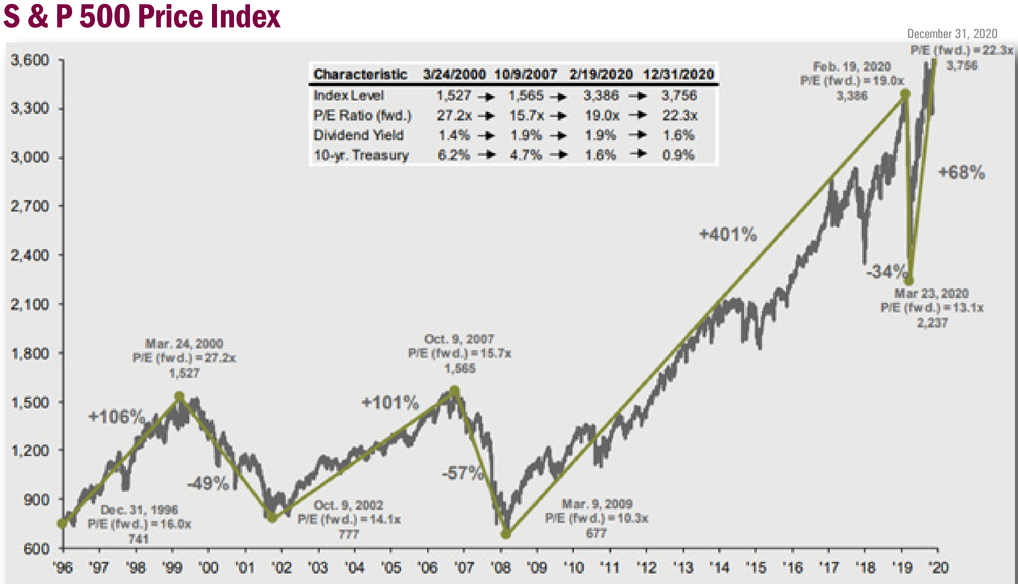
In the bond markets, yields on 10-year Treasury bonds have dropped to remarkable lows: just 0.95% currently; 30-year government bonds are yielding just 1.64% a year; five-year municipal bonds are providing, on average, a meager 0.22% a year, while 30-year munis are yielding 1.47% on average.

| | Quarter | YTD | 1 Year | 3 Years |
|---|---|---|---|---|
| Barclays US Aggregate Bond (TR) | 0.67 | 7.51 | 7.51 | 5.34 |

Source: Morningstar Direct; See disclosures for imporant benchmark information

With all the consistently grim economic news (the economy hit recession territory in the first quarter of the year and the second quarter was the worst GDP performance on record), it's hard to remember that, if you ignore the brief glitch, we are continuing a long bull market that started back in March of 2009. This is a remarkable run. Bear markets tend to occur about every 3.5 years, and the previous record was 9.5 years from November 1990 to March of 2000. To say that our current investing good fortune is an anomaly risks significant understatement.

## S & P 500 Price Index



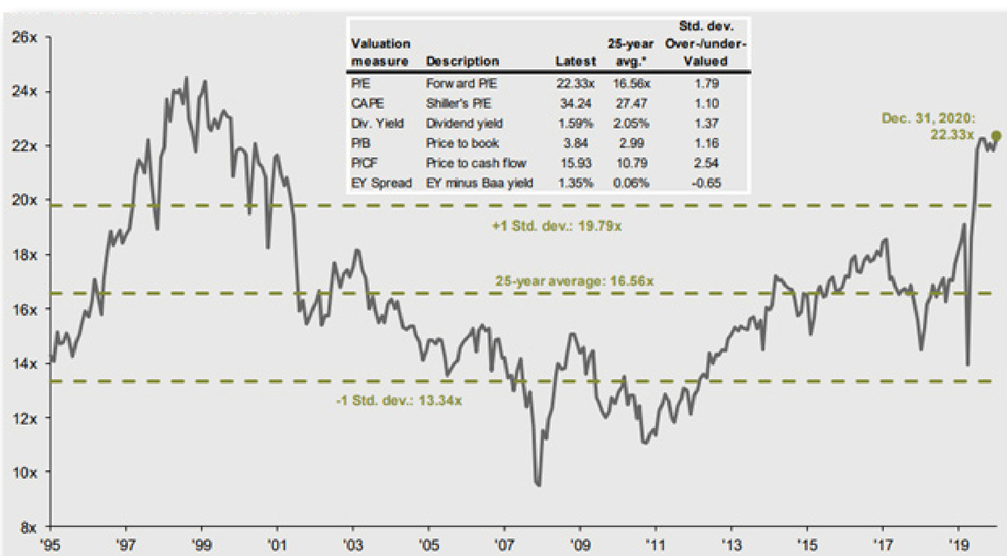

Source: JP Morgan, Guide to the Markets 1Q2021

At the same time, few would argue that stocks are cheap right now. By one measure, the Price/Earnings ratio of the S&P 500 index is 34.24, which is about 75% above the modern-era market average of 19.6. With interest rates and bond yields at rock bottom, many professional investors have decided that stocks are the only way to make money in their investment portfolios. But the current valuations suggest that we be cautious about expecting high returns for much longer.

The thing that stands out the most to us is the divergence between performance of growth stocks versus value stocks. In calendar year 2020 the Russell 1000 Growth Index outperformed the Russell 1000 Value Index by about 36%. This is a historic level of divergence. For those of us who have been in the advisory business for a while, this divergence is reminiscent of the late 90s. For those same indices in 1999, the outperformance of Growth over Value was 44%. That decade did not end well for growth stocks (or their investors) but there was money to be made in value stocks.

We continue to believe that stocks will be the driver of investment growth over the next decade. However, we also believe that investment discipline dictates caution around some of the momentum driven growth stocks that propelled markets higher in 2020.

## S & P 500 Index: Forward P/E Ratio




Source: JP Morgan, Guide to the Markets 1Q2021

## Financial Planning News:

Congress passed the much-discussed latest stimulus bill on December 21, 2020, attaching it to a much larger piece of legislation called the Consolidated Appropriations Act of 2021. This larger bill funds the Federal government through September 2021, addresses a number of expiring tax provisions, updates the FAFSA and partially waives the use-it-or-lose-it rules for Flexible Spending Accounts (FSA).

All told, the legislation was 5,593 pages—giant and complex even by Washington standards. Clearly, we can't cover all the details here, but we can list a few of the key financial planning provisions included in the legislation:

- **Stimulus checks.** This round of checks largely matches the rules and guidelines for the first round with the notable change to the base credit to $600 per eligible individual. AGI thresholds for the phase out of the stimulus checks is unchanged from the CARES Act, starting at $150,000 for a joint filer.

- **Second loan under the Paycheck Protection Program.** The latest legislation revises the PPP rules and provides some clarification. For businesses that have not yet received a loan under the PPP, the ability to apply under round 1 has been reopened. For businesses that have already received a loan, there may be additional resources available to them under PPP2 but with more stringent qualifications.

- **Extended unemployment benefits.** "Regular" unemployment compensation is extended another eleven weeks, covering eligible unemployed individuals into March 2021. Pandemic unemployment assistance is extended eleven weeks. For those not normally eligible to receive unemployment benefits (self-employed individuals, for example), this program provides payments through April 5, 2021. Under both the regular and pandemic unemployment compensation plans, there will be an additional $300 paid for eleven weeks.

- **Permanent reduction in the AGI threshold for medical expense deductions to 7.5% of AGI.**

- **Any money left in Dependent Care Flexible Spending Accounts and Health Flexible Spending Accounts (FSAs)** at the end of the year are generally forfeited. However, under the new rules, employers can provide some relief for these funds, allowing employees to either roll over up to $550 of their remaining FSA balance to the following year or to use prior year funds during the first 2 ½ months of the following year.

- **A Simplified FAFSA.** The Free Application For Federal Student Aid (FAFSA form), will be getting a makeover. Effective July 1, 2023, the number of questions is reduced dramatically and the Expected Family Contribution (EFC) will be eliminated—kinda—the phrase Expected Family Contribution will be eliminated and replaced with the Student Aid Index (SAI).

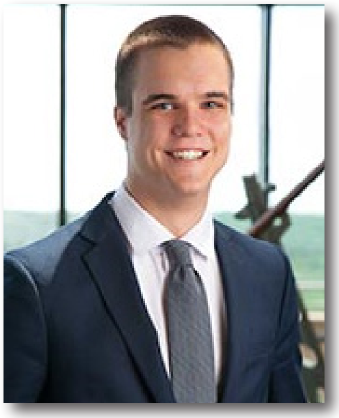
Sadly, one key provision that was not included in the Appropriations Act was the waiver of Required Minimum Distributions (RMDs) which were temporarily waived for 2020. In 2021, required payments will resume from retirement accounts.

When Covid 19 hit and offices shut, many people started working from home. This temporary solution has turned long-term, and for 2020 the question has been raised a number of times – "Can I claim the home office deduction?"

The answer is probably, no.

Employees who receive a paycheck or a W-2 exclusively from an employer are not eligible for the deduction, even if they are currently working from home. The home office deduction is available to qualifying small business owners, self-employed taxpayers, independent contractors and those working in the gig economy. The Tax Cuts and Jobs Act suspended the business use of home deduction from 2018 through 2025 for employees.

## Our Seasoned Team: Randall K. Schaible, Jr., Achieves Two Major Milestones



Randy started with Montis as an intern in 2016. We've seen him graduate from Bentley University, earn a full-time position at the firm and steadily increase his skills. This year marked not one, but two major achievements for him. First, Randy became a Chartered Financial Analyst (CFA®) in February. The coursework and exams focus on investment analysis and is recognized as the premier designation in the field. Not satisfied with that, Randy then earned his Certified Financial Planner (CFP®) designation in December, joining Christiane, Chris, Jon and Mary with the top designation for financial planners.

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*S&P 500, Russell 2000, Wilshire U.S. REIT, and Barclays U.S. Aggregate Bond indexes are reported using Total Return. Total Return assumes the reinvestment of dividends/interest. MSCI EAFE and MSCI EM benchmark performance is reported using Net Total Return. Net total return indexes reinvest dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.*

*Historical performance results for investment indexes, benchmarks, and/or categories have been provided for general informational/comparison purposes only, and generally do not reflect the deduction of transaction and/or custodial charges, the deduction of an investment management fee, nor the impact of taxes, the incurrence of which would have the effect of decreasing historical performance results. It should not be assumed that your Montis account holdings correspond directly to any comparative indices or categories. Please Also Note: (1) performance results do not reflect the impact of taxes; (2) comparative benchmarks/indices may be more or less volatile than your Montis accounts; and, (3) a description of each comparative benchmark/index is available upon request.*