Economic Update

A Review of Fourth Quarter 2020

The year 2020 will not be fondly remembered by many people. There were certainly no shortage of things to worry about during the last 12 months. Between the pandemic and resulting economic shut down, escalating tensions with Iran, unconstrained wildfires raging thought Australia and the Western U.S., the impeachment hearings, BLM protests, the election and even murder hornets; it was quite an eventful year. Ultimately, the long-term impact from the collective physical suffering and psychological trauma that we experienced will likely not be known for some time.

On a positive note, the old adage that “the market climbs a wall of worry” has probably never been truer than it was during this past year. After an initial sharp decline in March, markets spent the rest of the year recovering from those losses and tacking on additional gains to boot. By year end, the S&P 500 had closed at a record high and the tech-laden NASDAQ finished the year up an astounding 44%!

The reasons for this market performance were multifaceted, but they can probably be boiled down to three major factors. First, we saw an unprecedented flood of stimulus as the Fed lowered rates to just over 0% and Congress poured trillions into the economy to support both businesses and households. Second, there actually were a number of big winners during the pandemic, including biotech companies like Moderna and e-commerce companies like Amazon. Finally, a sooner-than-expected vaccine breakthrough contributed to additional market gains at year end.

U.S. Economy

Despite gains for a few select sectors of our economy, the overall economic damage has been significant. Leisure and hospitality industries, such as hotels and restaurants, were hit particularly hard by the pandemic. Airlines and cruise lines are also still hurting, as well as the oil and gas industry that helps drive them. Altogether, per Standard and Poor’s, the reported earnings of S&P 500 companies are expected to have declined by 38% from 2019 levels.

Similarly, the OECD’s most recent Economic Outlook report expects U.S. GDP to have fallen 3.8% during the past 12 months. However, this actually compares favorably to most of the rest of the world. For comparison, Mexico is projected to have declined 10.2%, Canada 5.8%, and the Eurozone 7.9% during the same time period. Asia, on the other hand, has fared a little better. China and South Korea are expected to have gained 1.8% and lost only 1.0% in GDP respectively for the year.

After taking a tumble in March and April of last year, the University of Michigan Consumer Sentiment has stayed relatively flat since that time. Readings have been in the 72 to 82 range every month since April. The most recent November reading came in at 76.9. Not surprisingly, given all that has transpired this year, the figure is well below the 100.0 level normalized in December 1964.

A recent virus resurgence seems to be slowing down job recovery. December saw a net 140,000 jobs lost after witnessing previous job gains of 638,000 and 245,000 in October and November respectively.

Altogether, the U.S. lost 22.2 million jobs total during February, March and April last year, and then spent the rest of the year getting 12.2 million of those jobs back. The unemployment rate now sits at 6.7%.

International Economy

Brexit officially occurred last year, which started a one-year transition period in which the U.K. followed all of the E.U's rules and regulations while they negotiated a new agreement. That transition period ended on Dec. 31. Fortunately, despite contentious negotiations, the two sides were able to come to last-second terms for a new agreement on Dec. 24. So, after more than four years since the original vote, the U.K. has now finally disassociated themselves from the rest of the European Union.

Hopefully, this final agreement will help bring the British economy back in 2021. The combination of the pandemic, plus general Brexit uncertainly, led the U.K. to underperform the E.U. as a whole during 2020. The British government currently expects that their economy shrunk by 11.3% for the year, which would mark the largest one-year fall in output for more than 300 years.

Despite the loss of the U.K. as a member and a fairly lackluster fourth quarter, things are looking better for the E.U. heading into 2021. Economists are expecting a sharp upturn in GDP growth during the first quarter as vaccine distribution ramps up. Trade liberalization also continues with a recently announced investment agreement with China that ends forced technology transfers and no longer requires European companies to have a local partner in the country.

Emerging market countries experienced many of the same problems that developed market ones did during 2020 with regard to the pandemic. Like the developed markets, they survived 2020 primarily by taking on more debt. Unlike the developed markets, however, they mostly borrow U.S dollars. This makes their debts riskier than countries who have the luxury of being able to borrow in their own currency.

Many emerging economies are now growing rapidly once again, so they should be able to manage these debt payments if all goes well. However, we could see some volatility in the near future should any additional economic bumps appear. This could take the form of slow vaccine distribution, an unexpectedly strong U.S. dollar, a lack of resumption in global trade and tourism or even political instability within the countries themselves. The United Nations Food and Agricultural Organization's global food price index finished the year close to a six-year high. Historically, sharp swings in food prices like this have often led to mass protests and general political instability in the developing world.

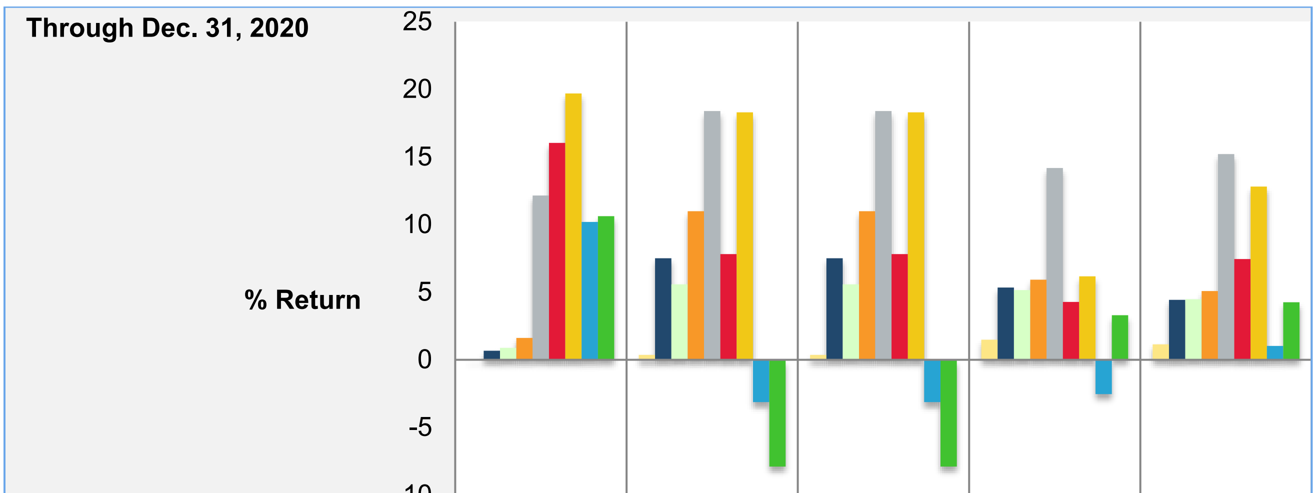
Markets

Last year saw extreme differences in performance between the various market sectors. Large companies have fared much better than small ones during the pandemic. Growth has also trounced value as technology companies were the big winners during the year. For instance, stocks in the online retail industry finished the year up 69%, while hotel, resorts, and cruise line industry stocks were down 26% during the same time period.

For the market overall, U.S. large-cap equities, as represented by the S&P 500 Index, gained 12.15% for the quarter and 18.40% for the year as a whole. For comparison, developed international equity markets, as represented by the MSCI EAFE Index, finished the quarter up 16.05% and the year up 7.82%.

Emerging markets performed better than developed international this past year. The MSCI Emerging Markets Index finished the quarter with gains of 19.70% and the year with gains of 18.31%. Alternatives, such as commodities and real estate, have not done well so far this year. The Dow Jones UBS Commodity Index and the Wilshire REIT Index lost 3.12% and 7.90% respectively for the year as a whole.

Bond indexes had a solid year due to declining interest rates. The Barclays U.S. Aggregate Bond Index gained 0.67% for the quarter and was up 7.51% for the year overall. The Barclays U.S. Inflation-Linked Bond gained 1.62% for the quarter and finished the year up 10.99%. The Barclays Global Aggregate Bond Index gained 0.89% and 5.58% respectively over the two periods.



	Quarter-to-Date	Year-to-Date	1-Year	3-Year	5-Year
T-Bills	0.02	0.37	0.37	1.48	1.14
Barclays US Agg Bond Index	0.67	7.51	7.51	5.34	4.44
Barclays Global Agg Bond Index	0.89	5.58	5.58	5.15	4.49
Barclays US Infl Linked Bond Index	1.62	10.99	10.99	5.92	5.08
S&P 500 Index	12.15	18.40	18.40	14.18	15.22
MSCI EAFE Index	16.05	7.82	7.82	4.28	7.45
MSCI Emerging Markets Index	19.70	18.31	18.31	6.17	12.81
DJ UBS Commodity Index	10.19	-3.12	-3.12	-2.53	1.03
Wilshire REIT Index	10.62	-7.90	-7.90	3.30	4.25

Data source: Copyright 2021 Morningstar, Inc. All Rights reserved. The information contained herein is proprietary to Morningstar, may not be copied or distributed, and is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance does not guarantee future results. An investment cannot be made directly in an index. (Refer to the end for index definitions.)

Outlook

As of this writing, COVID-19 cases are continuing to spike and the vaccine rollout has been slower than originally hoped. Still, there continues to be optimism that the end is in sight. By this summer, the majority of Americans will have hopefully either been vaccinated or at least will have partial immunity with residual antibodies from previous exposure to the disease. With any luck, the total will be enough to achieve some sort of herd immunity and we will finally be able to put this pandemic behind us.

With a recent sweep in Georgia, it appears that Democrats will have control of the Presidency, the House and the Senate for at least the next two years. Market reaction has been positive thus far. In the near term, expect to see the recent $900 billion stimulus package expanded to give additional direct aid to individuals as well as state and local governments. This will be a positive for markets. In the longer term, however, we may see at least a partial repeal of the most recent tax cuts, which would be a negative as far as the stock market is concerned.

Barclays US Aggregate Bond Index: The Aggregate Bond Index is a broad-based benchmark that measures the investment grade, dollar-denominated, fixed-rate taxable-bond market, including Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS. The Aggregate rolls up into other Barclays Capital flagship indices such as the multi-currency Global Aggregate Index and the Universal Index, which includes high-yield and emerging markets debt. The Aggregate Index was created in 1986, with index history backfilled to Jan. 1, 1976.

Barclays Global Aggregate Bond Index: The Global Aggregate Index provides a broad-based measure of the global investment grade fixed-rate debt markets. The Global Aggregate Index contains three major components: the Aggregate (USD 300mn), the Pan-European Aggregate (EUR 300mn) and the Asian-Pacific Aggregate Index (JPY 35bn). In addition to securities from these three benchmarks (94.0% of the overall Global Aggregate market value as of Dec. 31, 2010), the Global Aggregate Index includes Global Treasury, Eurodollar (USD 300mn), Euro-Yen (JPY 25bn), Canadian (USD 300mn equivalent) and Investment Grade 144A (USD 300mn) index-eligible securities not already in the three regional aggregate indices. The Global Aggregate Index family includes a wide range of standard and customized sub-indices by liquidity constraint, sector, quality and maturity. A component of the Multiverse Index, the Global Aggregate Index was created in 1999, with index history backfilled to Jan. 1, 1990.

Barclays Global Inflation-Linked Index: The Global Inflation-Linked Index (Series-L) includes securities that offer the potential for protection against inflation as their cash flows are linked to an underlying inflation index. All securities included in the index have to be issued by an investment-grade-rated sovereign in its local currency. The list of eligible currencies is the same set of currencies eligible for inclusion in the Global Aggregate Index. The Global Inflation-Linked Index (Series-L) represents a stand-alone multi-currency index exposed to the real yield curve for each relevant currency. As such, the index does not contribute to the Global Aggregate Index. The Global Inflation-Linked Index (Series-L) was created on Oct. 31, 1997.

S&P 500® Index: A market capitalization-weighted index of 500 widely held stocks often used as a proxy for the stock market. It measures the movement of the largest issues. Standard & Poor's chooses the member companies for the 500 based on market size, liquidity and industry group representation. Included are the stocks of industrial, financial, utility and transportation companies. Since mid-1989, this composition has been more flexible and the number of issues in each sector has varied. The returns presented for the S&P 500 are total returns, including the reinvestment of dividends each month.

MSCI EAFE Index: The MSCI EAFE® Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed-market equity performance, excluding the U.S. and Canada. As of April 2002, the MSCI EAFE Index consisted of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom.

MSCI Emerging Markets Index: The MSCI EMF (Emerging Markets Free) Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. As of April 2002, the MSCI EMF Index consisted of the following 26 emerging-market country indices: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Jordan, Korea, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, Turkey and Venezuela.

DJ UBS Commodity Index: Dow Jones-UBS Commodity Index℠ and Dow Jones-UBS Commodity Index Total Return℠ the DJ-UBSCI℠ family includes both the DJ-UBSCI℠, which is calculated on an excess-return basis, and the DJ-UBSCITR℠, a total return index based on the DJ-UBSCI℠. The former reflects the return of underlying commodity futures price movements only, while the latter reflects the return on fully collateralized positions in the underlying commodity futures.

Wilshire US REIT Index: Introduced in 1991, the Wilshire REIT index is intended as a broad measure of the performance of publicly traded real estate equity securities. The index is market-capitalization weighted of publicly traded real estate securities, such as Real Estate Investment Trusts (REIT), Real Estate Operating Companies (REOC) and partnerships. The index is composed of companies whose charters are the equity ownership and operation of commercial real estate.

This memorandum is intended for distribution only to advisors and employers. Do not distribute to plan participants.

The Standard is the marketing name for StanCorp Financial Group, Inc., and its subsidiaries. StanCorp Equities, Inc., member FINRA, wholesales a group annuity contract issued by Standard Insurance Company and a mutual fund trust platform for retirement plans. Standard Retirement Services, Inc., provides financial recordkeeping and plan administrative services. Investment advisory services are provided by StanCorp Investment Advisers, Inc., a registered investment advisor. StanCorp Equities, Inc., Standard Insurance Company, Standard Retirement Services, Inc., and StanCorp Investment Advisers, Inc., are subsidiaries of StanCorp Financial Group, Inc., and all are Oregon corporations.

Employers and plan participants should carefully consider the investment objectives, risks, charges and expenses of the investment options offered under the retirement plan before investing. The prospectuses for the individual mutual funds contain this and other important information. Prospectuses may be obtained by calling 877.805.1127. Please read the prospectus carefully before investing. Investments are subject to market risk and fluctuate in value. Past performance is no guarantee of future results.

The material is not intended to constitute legal, tax, securities or investment advice, an opinion regarding the appropriateness of any investment or solicitation of any type. This document was not created with any particular plan in mind. The Standard does not offer tax or legal advice. Employers and plan participants should contact their own legal, financial or tax advisors for advice based on their own unique circumstances.