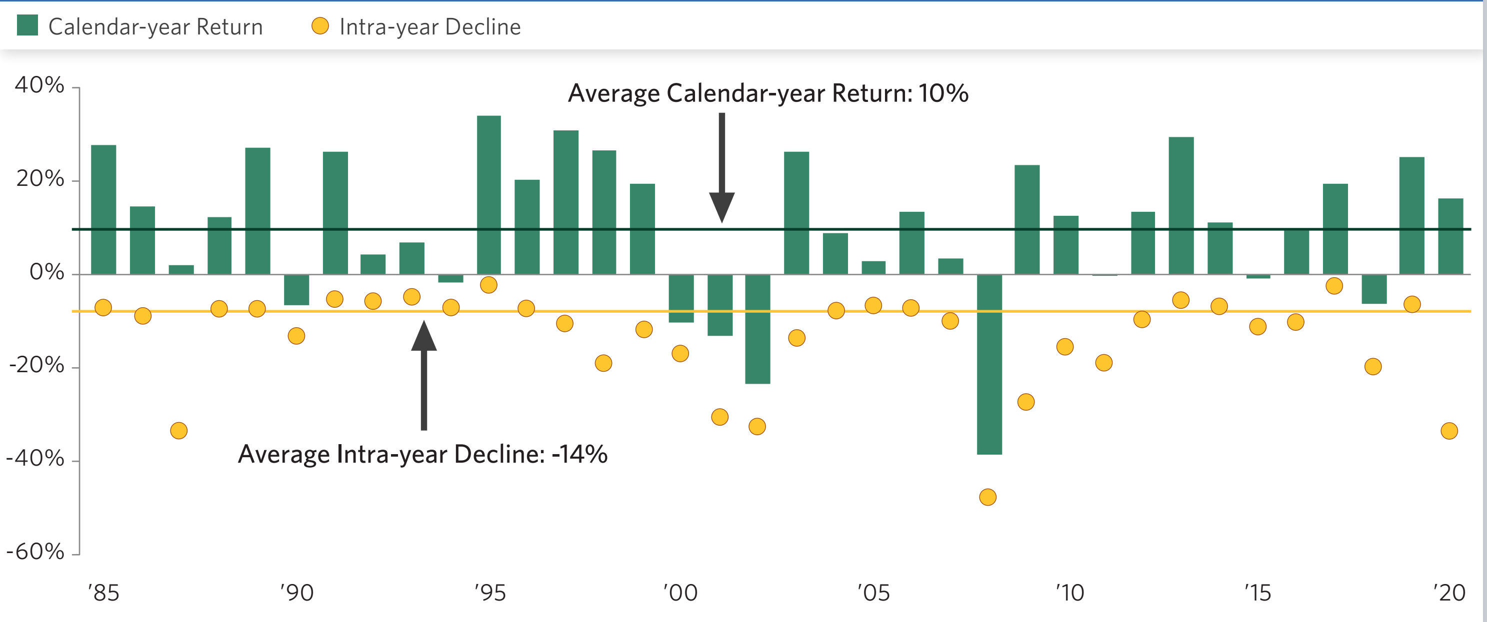
Intra-year Stock Market Declines vs. Calendar-year Returns



Source: Bloomberg, 12/31/2020. Stocks represented by the S&P 500 Index. Indexes are unmanaged and are not available for direct investment. Past performance is no guarantee of future results.

QUARTERLY MARKET OUTLOOK: **FIRST QUARTER 2021**

Investing Lessons From 2020

The COVID-19 outbreak was an event no investor could have foreseen or planned for. Despite this, 2020 proved to be a year of resiliency for the financial markets. As shown in the graph, the S&P 500 achieved an above-historical-average return, but the path there was volatile. As with other periods of market turmoil, 2020 provides some valuable investing lessons.

Keeping a long-term perspective – Investors who aligned their decisions with their goals rather than the headlines kept a level head. Sticking to an investment plan meant experiencing a 34% drop and a 67% recovery in large-cap U.S. stocks. Since 1985, stocks have dropped an average of about 14% during the calendar year. But in 27 of those 36 years, they rebounded with yearly returns averaging almost 10%.

The power of a disciplined approach – Systematic investing and rebalancing helped investors navigate volatility in 2020 without "timing" the market. A 60/40 equity/bond portfolio in February would have drifted to a 50/50 weight mix by March. Investors who trimmed overweight investments and reallocated to underrepresented areas over the course of the year not only boosted their equity exposure at depressed prices, but also helped position portfolios for a change in market leadership.

Being opportunistic in times of volatility – The VIX, or "fear index," reached a new record high in March. While distressing for investors, extreme volatility historically is brief and has been followed by strong forward returns. Down markets create long-term opportunities to buy high-quality companies at a discount.

The importance of bonds – Despite bond yields hovering near record lows even before the bear market began, high-quality bonds still demonstrated their value as a portfolio stabilizer, smoothing out returns and helping investors stay the course.

▶ *Action for Investors*

Leveraging the lessons learned from 2020, we recommend investors keep a long-term perspective, build well-diversified portfolios, rebalance frequently and take advantage of market swings by systematically investing.

Diversification does not guarantee a profit or protect against loss in declining markets.

Investors should understand the risks involved of owning investments, including interest rate risk, credit risk and market risk. The value of investments fluctuates and investors can lose some or all of their principal.

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