

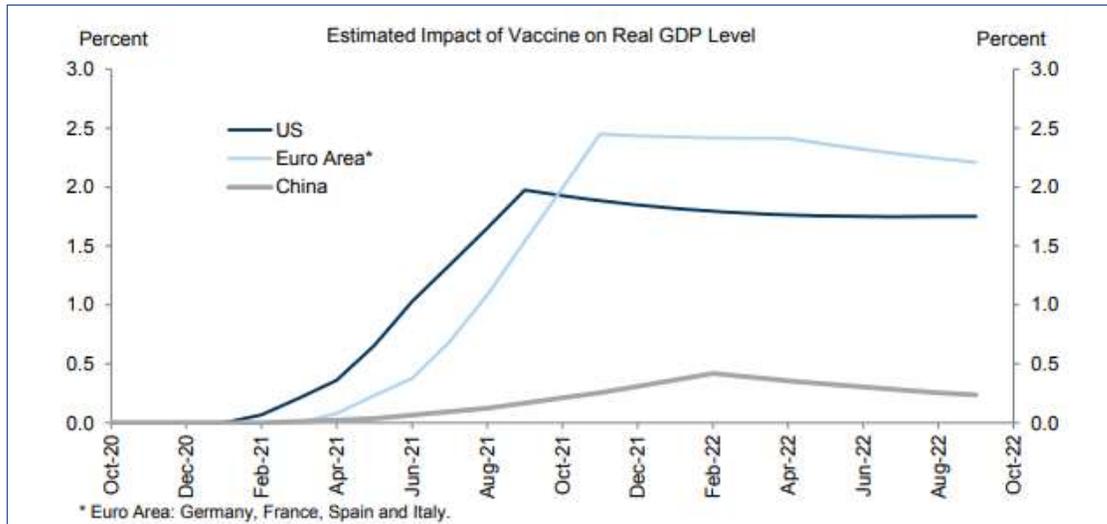
## Resilient Through the Storm



Source: Neuberger Berman

- 2020 has been a wild ride for investors. The initial stock market drawdown was dramatic, falling at a pace matched only by the initial crash during the Great Depression. However, despite a peak-to-trough decline of -34%, the S&P 500 reached new highs just 120 days later.
- The macroeconomic shock from external, event-driven bear markets such as the COVID-19 pandemic (or an oil price shock) can be disruptive and painful, but it often tends to be shorter-lived relative to other, more insidious bear markets.
- The Global Financial Crisis was a very different episode. Structural imbalances in the economy (e.g., household debt) required considerable changes to industry regulation and consumer behavior that took years to stabilize.

## An Uneven Recovery Ahead



Source: Goldman Sachs

- Even as the horizon begins to shed more light on a post-pandemic world, the recovery from this global natural disaster will vary from region to region.
- The U.S. and Europe should enjoy a strong rebound over the latter half of the year as industries such as travel, leisure, and restaurants bounce back from devastating decreases in demand.
- Emerging economies will experience more varied results, based on both geography and how well each country managed the pandemic early on. While the recovery in China is already well underway, more resource-constrained countries will continue to suffer until vaccine access is truly global.

# Market Recap

## Investing in Acorns & Oaks



Source: Capital Group

## Making a Splash on Wall Street



Source: BBC

- Large-cap stocks dominate the investable universe, thanks to leading market positions and dependable cash flow streams. However, small-caps (firms with a market capitalization of \$2 billion or less) can provide complementary exposure to investment portfolios.
- Small-cap stocks tend to outperform during the early stages of economic expansion, primarily due to higher levels of financial leverage and heavier concentration in cyclical sectors such as financials, industrials, and energy. However, the earnings of small-cap companies are also more volatile than those of large-caps, hence, when economic growth prospects wane, small-cap earnings tend to be more negatively impacted.

- Water, arguably the most valuable resource on earth, has begun trading on the world's largest futures exchange. Investors and farmers can now bet on the future price of water, using contracts tied to California's +\$1 billion water market.
- Water contracts were introduced due to increasingly unpredictable climate conditions in the American West, which has been battling severe droughts and raging wildfires amidst above-average population growth. Futures contracts will allow farmers and municipalities to hedge uncertainty on the future price of water and improve year-to-year budgeting for the resource.

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