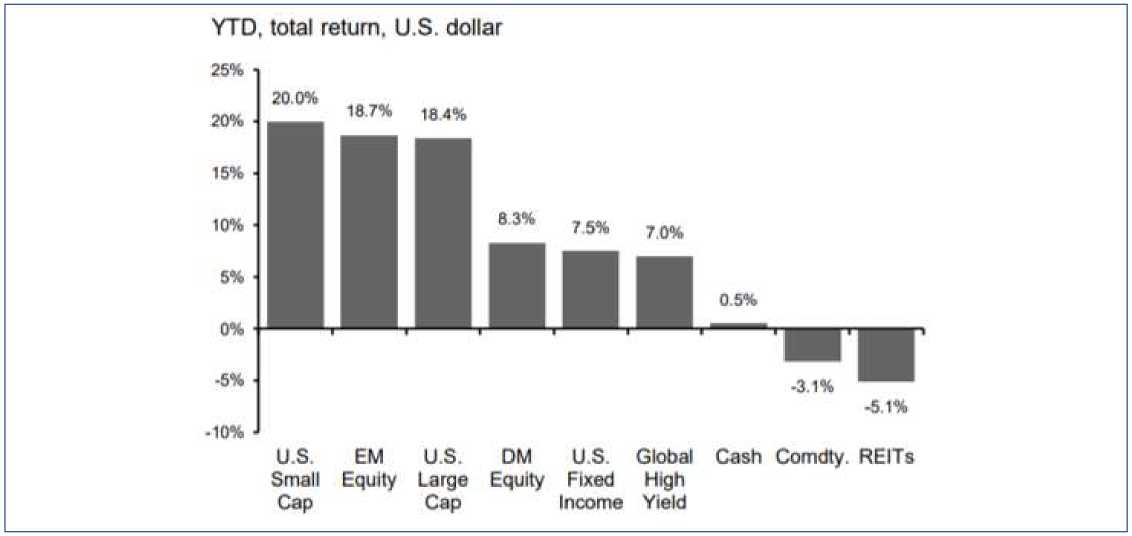
Market Recap

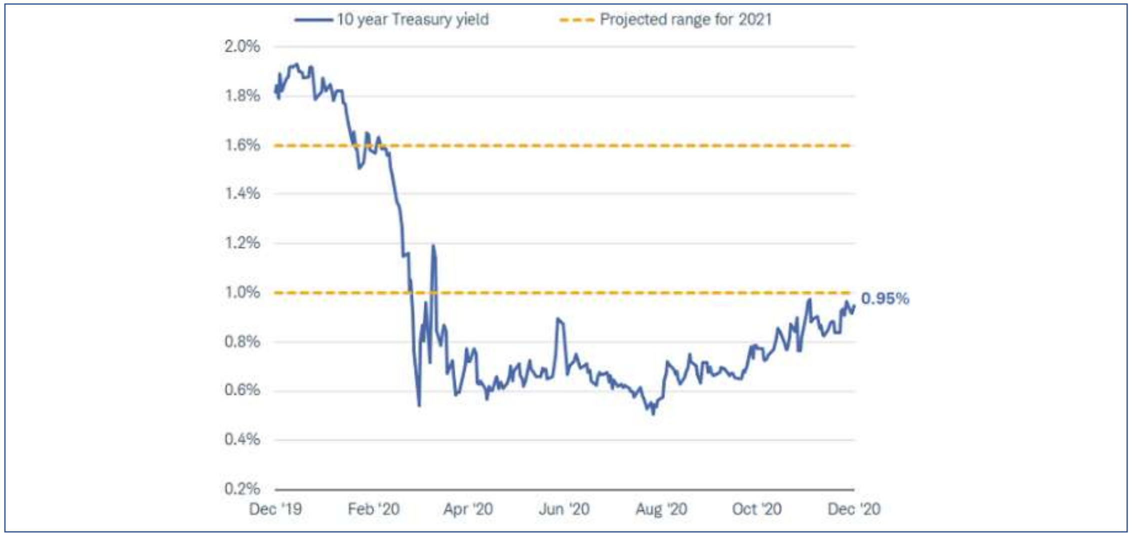
A Year of Incredible Contrast



Source: J.P. Morgan

- After a painful first quarter, most asset classes quickly recovered and ultimately finished the year at or near record levels despite an ongoing pandemic. 2020 will not only be remembered for the terrible damage caused by Covid-19, but also for the Fed's tremendous capacity to cushion the blow to both the economy and financial markets.
- In 2021, economic data should catch up to the market as the vaccination campaign progresses. With expectations rising and substantial optimism already baked in, stock market returns appear likely to take a step back towards longer-term averages.

Interest Rates Creep Higher



Source: Morgan Stanley

- The 10-year Treasury yield has pushed above 1% for the first time since March, and the yield curve (the difference between short and long-term yields) has steepened as investors project stronger growth in 2021.
- Higher yields also reflect the potential for rising inflation (albeit gradually), aided by the prospects for more government spending (e.g. coronavirus relief and infrastructure stimulus) possible under a Democrat-controlled Senate.

01/08/2021

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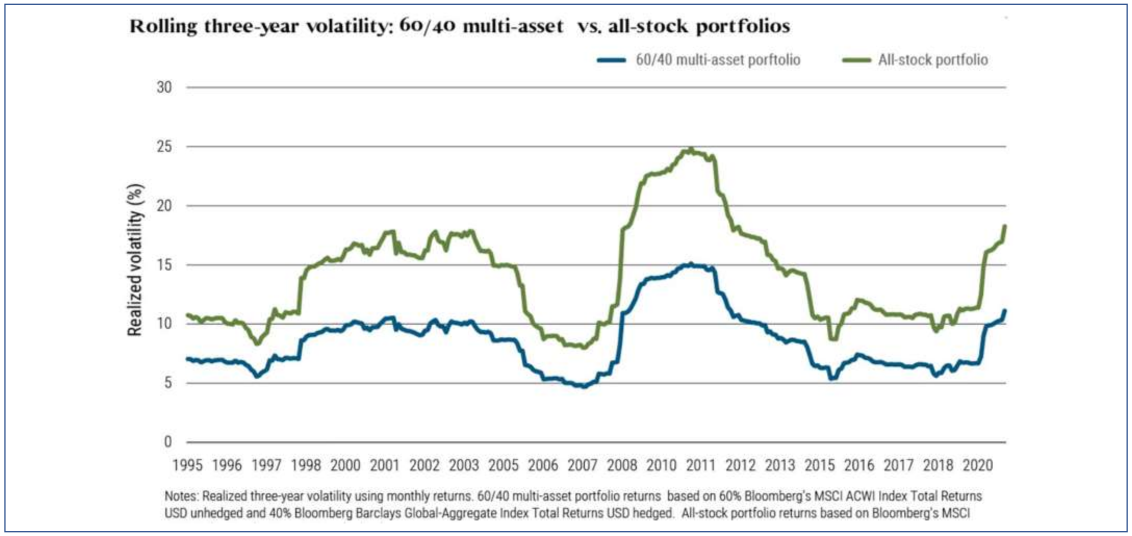
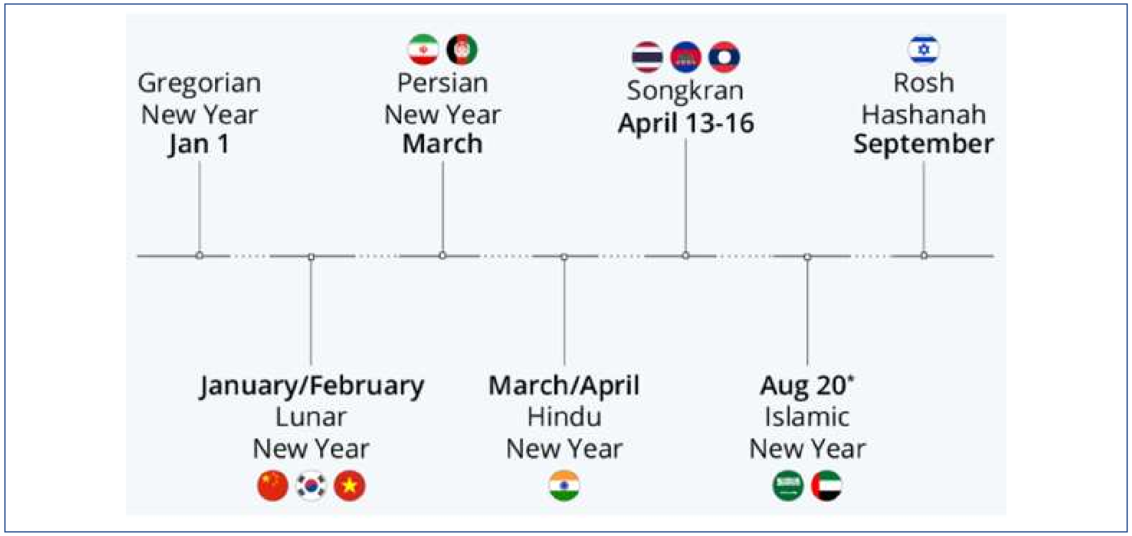
Bonds Remain a Ballast



Source: PIMCO

- Although the 60/40 portfolio has delivered annualized returns of 7.6% over the past 25 years, many investors worry that this multi-asset strategy of stocks and bonds may be obsolete (despite returning 12.3% in 2020).
- Low-interest rates do offer far less income than in previous periods. However, bonds continue to provide important diversification benefits (i.e. when stocks slump, bonds typically rise).
- Stock market volatility is likely to remain elevated in 2021 as monetary and fiscal support fades and inflation risks rise. Investors seeking to dampen volatility and protect their portfolio from unexpected downturns should stay the course with bonds.

Celebrating Throughout the New Year



Source: Statista

- Although a majority of countries follow the Gregorian calendar, various nations ring in the new year at different times throughout the year. In several cases, that date varies from year-to-year based on the lunar calendar.
- The Gregorian calendar is based upon the Earth's completion of a full revolution around the sun (which takes 365.25 days, on average). The lunar calendar follows monthly moon cycles, resulting in approximately 364 days in a year.

Contact: If you have any questions or comments, please do not hesitate to contact us at 703.992.6164. For more information about Harbour Capital Advisors, please visit our website at www.harbourcapitaladvisors.com.

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