Q1 2021 NEWSLETTER

IMPACT

FINANCIAL STRATEGIES

January 6, 2021

Reflection and anticipation on a journey from knowledge to wisdom.

"YOU SHALL NOT PASS!"

These were the words Gandalf declared as he defended his small band of adventurers in first *The Lord of the Rings* film series. It looked as if he had won the battle and saved day as the demon fell into the chasm. In the real world, as we heard more about the approvals and the success rate of several vaccines, the election results came in (relatively) clear. For me, at least, it felt like 2020 was going to be a year that none of us would ever forget, but it was almost over and time to move on to 2021.

All J. R. R. Tolkien fans know what happened next. After the apparent victory, the Balrog reached out of the darkness with a flaming whip, just as Gandalf turned away to finish his journey, wrapped his lower leg, and dragged him into that darkness. And, as I begin this newsletter while in quarantine, I have to say the last 20 days of 2020 felt much the same for me.

After a wonderful road trip to see our folks in Arizona, and a few client meetings over the Thanksgiving holiday, it felt like 2020 was in our rearview mirror. One last important small group business dinner, and then we could wrap up 2020 with a solid December and get this demon of a year behind us. Watch out 2021, here we come! A few days later, back in Colorado, things changed. Stephanie had a scratch in her throat, she started getting congested. Forty-eight hours later we both got diagnosed with Covid-19.

When you read about the virus, or see rapidly expanding numbers, and everyday life is inconvenienced by masks, closures, and travel cancellations, you know it is real. But when you are actually diagnosed, have to make those uncomfortable calls, wonder if a trip to the ER or Urgent Care is imminent, and know that suddenly you cannot leave your house or have face to face contact with anyone for at least 2 weeks, it becomes much more real. Fear creeps in, when, as a foodie, you can't taste or smell anything. Shame, anger, and guilt dominate for days.

Then, on Dec 26th, during my final day of quarantine, my mom, who had been having problems breathing for 2 weeks, had to be taken to the ER to find out that she was in A-Fib. She was hospitalized for 2 nights. Covid? Pneumonia? What else could be wrong? A new fear took hold. My mom and I are incredibly close. She raised me as a single parent for the first 5 years of my life until she married my step-father when I was 6. We talk several times each week and see each other as often as possible. Not being allowed to be there with her or see her face to face as she went through a battery of tests to figure out what was wrong was one of the hardest moments of restraint I've ever had to endure. Suddenly, the *knowledge* of reading about the "no visitors policies," changed into *understanding, empathy and experience (aka wisdom)*. Realizing the lives that have been lost this year, not just from the Covid-19 Virus but also from other causes and tragedies and understanding how much pain and angst because loved ones could not be together breaks my heart; reminding me to think about what really matters. It's the moments that matter.

During all of this, the amount of love, support, and patience that we experienced from of our friends and so many of you was amazing. I cannot begin to express the deep gratitude I have felt during December. From soup deliveries to neighbors' snow shoveling our driveway, to offers to reschedule year-end meetings, and even puppysit Archie. From the minor gestures to the major tasks, we felt so supported and loved and we understand how truly blessed our lives are. That is the best thing about 2020 for me; understanding the strength of our Tribe. Thank you! Corny or not, we love and appreciate each one of you who is getting this newsletter.

Professionally, I can't give enough credit to my team. Even though I was "working" through most of this situation, I was clearly not 100%. My team rose to the challenge, without complaint or hesitation. Deborah took everything on the investment and planning side that she could off of my plate, she even handled several key meetings for me. Keysha diligently safeguarded client needs and requests; sure that nothing got lost, and that your experience with IFS was just like normal, even with the added year-end tasks. The process we have built and refined for years ("The IFS Way") ensured the client experience didn't skip a beat. In today's world and with the complexity of our clients' financial lives (and all of our personal lives when the unexpected happens) knowing that there is a process to ensure continuity of service for you and your families, is something I know is valuable, and I hope you feel the same.

Luckily for Stephanie and I, our symptoms were mild. Neither of us required medical intervention. I had a 104-degree temp, and had to have an extended quarantine. Our taste and smell and physical ability is almost back to normal. Our doctors say we are past Covid. Thankfully, my mother is back at home and doesn't look like she will have any lasting negative effects. She didn't have the Covid. She did not have pneumonia. We are continuing to learn more about her heart condition and if it is hereditary. She will have to make life changes going forward. My sister has been a rock for the family during this situation. We are going through the same parental aging situation now that I have helped navigate with so many of you over the years. I am in it with you. We are here for you, and we want to make sure that we are doing as much as we can so that you have the confidence and clarity to know you can make it through the market ups and downs, and that you have the space to step back and spend your time creating those "Moments of Impact" with those that are most important to you.

Thank you for allowing me to share this personal, intimate message with you. And thank you again for all of your support and kind words. Below you will find the market info as usual. It is the "what" that goes behind everything we do as far as taking care of your finances. Being part of your lives, and helping you accomplish your goals in life is the "why." Happy New Year! Welcome to 2021!

Sincerely,

Justin

For those unfamiliar or interested in the scene described above, here is a YouTube link: Gandalf - "You shall not pass!" YouTube clip

Quarterly Insights – January 2021

The Markets also had a Historic 2020

The most tumultuous year in recent memory ended on a high note for markets as the fourth quarter brought political and medical clarity, and that resulted in substantial market gains over the past three months which helped to make 2020 a surprisingly strong year for market returns.

The fourth quarter started with investors facing substantial uncertainty across multiple fronts. Politically, President Trump contracted COVID-19 which underscored the prevalence of the virus and added further uncertainty to the looming election. Regarding the pandemic, after several months of relative stability in COVID-19 cases, infections began to rise rapidly across much of the United States as fall set in. Additionally, despite multiple rounds of negotiations, Congress and the White House were unable to come to a compromise on a new economic stimulus bill. That uncertainty weighed on markets in October, and the S&P 500 finished the month with modest losses.

But the first two weeks of November provided the clarity markets desired, and that paved the way for substantial gains in stocks over the next month. First, the presidential election was executed successfully, and while there were multiple accusations of election fraud and numerous legal challenges brought by the Trump campaign, Joe Biden was widely accepted as the winner and President-elect. Furthermore, it appeared that Republicans would continue to hold a small majority in the Senate, potentially ensuring a market-friendly, divided government for the next two years.

Then, on Monday, November 9, less than a week after the election, Pfizer announced that its COVID-19 vaccine was more than 90% effective at preventing infection, which was substantially better than initial estimates. A week later, Moderna announced its COVID-19 vaccine was 95% effective at preventing infection. This double dose of positive medical news provided hope for investors that the end of the pandemic was now only months away, and that fueled a strong rally that lasted for the remainder of the month, sending the S&P 500 to new all-time highs.

As we began December, the consistency of the good news in November helped investors look past the surging number of new COVID-19 cases and the growing intensity of lockdown measures implemented across the country to slow the spread of the virus. But by mid-December, New York City school closures and new dining restrictions, along with a near state-wide “Safer at Home” order in California, began to weigh on economic activity and that became a headwind on stocks. Shortly thereafter, however, the FDA approved the distribution of both the Pfizer and Moderna vaccines, and the roll out of the vaccine helped to remind investors that the end of the pandemic was hopefully only months away. As such, the surging number of coronavirus cases and widespread economic lockdowns did not cause a material decline in stocks. Finally, just before the end of the year, Congress approved a $900 billion stimulus bill that would help support the economy as it continues to recover from the pandemic. That news helped the S&P 500 hit a new all-time high just before year-end.

In sum, markets ended a historic year on a high note, as federal economic support, record-breaking vaccine development, and an incredibly resilient corporate America helped to more than offset the worst global pandemic in more than a century.

4th-Quarter and Full-Year 2020 Performance Review

All the major U.S. stock indices were solidly higher in the fourth quarter, led once again by the tech-heavy Nasdaq, which mildly outperformed on still-lingering concerns about near-term economic growth following the surge in COVID-19 cases into year-end. But the Nasdaq outperformance was minor relative to earlier in the year, and the S&P 500 and Dow Jones Industrial Average also posted solidly positive quarterly returns. On a full-year basis, however, the Nasdaq handily outperformed the other two large-cap indices in 2020 as investors sought the secular growth potential of the tech sector amidst macroeconomic uncertainty.

By market capitalization, small caps substantially outperformed large caps in the fourth quarter, and those late year gains helped small caps to slightly outperform large caps in 2020. Through the first three quarters of 2020, large-cap stocks outperformed small caps due to investor concerns about future economic growth during and after the pandemic, as large caps are historically less sensitive to an economic slowdown than small-cap stocks. However, that outperformance was reversed during the last three months of the year on vaccine optimism, more stimulus from Congress, and a reiteration of very accommodative monetary policy from the Fed for years to come.

From an investment style standpoint, value outperformed growth for the first time in 2020 during the fourth quarter. The outperformance by value stocks underscored investor optimism for an economic rebound in 2021, again, courtesy of multiple COVID-19 vaccines and more economic stimulus. For the full year, however, growth massively outperformed value due to strength in the tech sector.

On a sector level, all 11 S&P 500 sectors finished the fourth quarter with positive returns. Cyclical sectors, including energy, financials, industrials, and materials led markets higher over the past three months, which was a reversal from the underperformance those sectors saw throughout the first three quarters of 2020. The familiar influences of vaccine optimism and stimulus hopes were the primary drivers behind the cyclical outperformance in the fourth quarter. For 2020, however, the tech sector was, by far, the best-performing sector in the market as investors flocked to tech stocks that were viewed as beneficiaries of numerous pandemic-related changes in behavior, including substantial increases in online shopping and work from home.

Sector laggards in the fourth quarter were the traditionally defensive market sectors. Utilities, real estate, and consumer staples underperformed the S&P 500 on the prospects of a strong economic rebound. On a full-year basis, energy was the biggest laggard amid the threat that slowing global growth might result in a historic glut in oil inventories worldwide. Energy shares finished 2020 with sizeable losses, despite the big rebound in the fourth quarter.

S&P 500 Total Returns by Month in 2020											
Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
-0.16%	-8.41%	-12.51%	12.68%	4.53%	1.84%	5.51%	7.01%	-3.92%	-2.77%	10.75%	3.71%

Source: Morningstar

US Equity Indexes	Q4 Return	2020 Return
S&P 500	12.15%	18.40%
DJ Industrial Average	10.73%	9.72%
NASDAQ 100	13.09%	48.88%
S&P MidCap 400	24.24%	13.10%
Russell 2000	31.37%	19.96%

Source: YCharts

Looking internationally, foreign markets saw positive returns in the fourth quarter thanks to the combination of the European Central Bank increasing its pandemic-related QE program, Brexit clarity, and general optimism that vaccine distribution would result in a future rebound in global economic growth. Emerging markets outperformed foreign developed markets and the S&P 500 in the fourth quarter thanks to a substantially weaker U.S. dollar along with an improving outlook for the global economy. For the full year 2020, foreign markets registered solidly positive returns, with emerging markets outperforming thanks to the aforementioned decline in the U.S. dollar. However, foreign developed markets underperformed the S&P 500 last year.

International Equity Indexes	Q4 Return	2020 Return
MSCI EAFE TR USD (Foreign Developed)	16.09%	8.28%
MSCI EM TR USD (Emerging Markets)	19.77%	18.69%
MSCI ACWI Ex USA TR USD (Foreign Dev & EM)	17.08%	11.13%

Source: YCharts

Commodities enjoyed strong gains in the fourth quarter, led higher by a rally in oil while gold was little changed over the past three months. Oil prices rose in the fourth quarter thanks to optimism towards a global economic rebound in early 2021 following the vaccine announcements, combined with continued production discipline by “OPEC+.” Gold, meanwhile, spent much of the fourth quarter in negative territory as investors rotated out of the safe-haven metal and into more risky assets following the positive vaccine developments, election results, and stimulus bill passage. For 2020, however, commodities posted a substantially negative return largely due to a significant decline in oil futures prices, which made history by falling into negative territory for the first time ever during the month of April, as the pandemic-related lockdowns crippled demand for refined products. Gold did notably end the year with a positive return, with the weaker dollar and firming inflation expectations buoying the precious metal.

Commodity Indexes	Q4 Return	2020 Return
S&P GSCI (Broad-Based Commodities)	14.49%	-23.72%
S&P GSCI Crude Oil	20.64%	-20.14%
GLD Gold Price	0.70%	24.81%

Source: YCharts/Koyfin.com

Switching to fixed income markets, total returns for most bond classes were positive in the fourth quarter and the leading benchmark for bonds (Bloomberg Barclays US Aggregate Bond Index) experienced slightly positive returns for the ninth straight quarter.

Looking deeper into the fixed income markets, longer-duration bonds underperformed those with shorter durations in the fourth quarter, which was a reversal from most of 2020. That was reflective of a market responding to the Fed's promise of low rates, potentially for years to come.

Confirming improved sentiment in the fourth quarter, which was again due to vaccine distribution and stimulus, corporate bonds saw solidly positive returns as high-yield debt outperformed investment-grade debt. The outperformance of lower quality but higher-yielding corporate debt also underscored rising optimism for an economic rebound in 2021 given the vaccine and stimulus, and a positive view of future corporate earnings.

US Bond Indexes	Q4 Return	2020 Return
BBgBarc US Agg Bond	0.67%	7.51%
BBgBarc US T-Bill 1-3 Mon	0.02%	0.54%
ICE US T-Bond 7-10 Year	-1.30%	10.00%
BBgBarc US MBS (Mortgage-backed)	0.24%	3.87%
BBgBarc Municipal	1.82%	5.21%
BBgBarc US Corporate Invest Grade	3.05%	9.89%
BBgBarc US Corporate High Yield	6.45%	7.11%

Source: YCharts

1st Quarter and 2021 Market Outlook

As we end 2020 and turn our focus towards 2021, we first want to acknowledge the hardship that so many have endured over the past 12 months, be it physical, emotional, or financial, and we sincerely hope that those burdens are eased in 2021 and beyond.

But as we begin a new investing year, we are pleased to say that, from a macroeconomic standpoint, the outlook for 2021 is materially more positive than it was for the majority of 2020.

First, the Fed is continuing its historic QE program and will keep rates low for years to come. That should continue to help to support asset markets broadly. Meanwhile, Congress has finally agreed on another historically large fiscal stimulus bill which will help the economy weather the still ongoing COVID-19 pandemic and related economic lockdowns. Politically, neither party has a material majority in either house of Congress and as such, markets are not concerned about policy risks to the economy (substantial tax increases, excessive regulation, or major initiatives like healthcare reform). Finally, corporate America has once again demonstrated itself to be both resourceful and resilient, and while some industries (airlines, cruise lines, hotels) face a long road to total recovery, many American companies have exited 2020 in strong financial shape. As shocking as it may sound, the fundamental outlook for stocks is positive as we start 2021.

But, as 2020 has taught us all, nothing is guaranteed, and we must expect the unexpected. To that point, unemployment remains historically high (still well above levels we saw at the depths of the Great Recession) and while many of those unemployed workers should return to work once the pandemic begins to recede, it is unclear how many small businesses will have survived to hire them back. Additionally, as the economy begins to normalize, the appetite for more stimulus from Washington will diminish, and again, it is unclear just how quickly we can expect economic growth to return to pre-COVID levels. Regarding stimulus, investors need to remain wary of the negative consequences of the ballooning federal debt and budget deficits. We will continue to closely monitor inflation and interest rates as they are some of the most sensitive instruments to increased deficits and Federal debt. Finally, stock valuations are at multi-year highs.

None of these risks, by themselves, offset the positive factors helping the economy and markets as we begin a new year, and again, the macroeconomic outlook for 2021 is positive. But there are certainly risks and we will continue to monitor them diligently.

In sum, as we consider all that has occurred in 2020 and look forward to 2021, one of the biggest takeaways from this historically volatile year in the markets is that a well-planned, long-term-focused and diversified financial plan can withstand virtually any market surprise and a related bout of volatility, including the worst pandemic in 100 years.

At Impact Financial Strategies, we understand the risks facing both the markets and the economy, and we are committed to helping you effectively navigate this still-challenging investment environment. Successful investing is a marathon, not a sprint, and even intense volatility like we experienced in the first half of 2020 is unlikely to alter a diversified approach set up to meet your long-term investment goals.

Therefore, it's critical for you to stay invested, remain patient, and stick to the plan, as we've worked with you to establish a unique, personal allocation target based on your financial position, risk tolerance, and investment timeline.

The resilient nature of markets in 2020 notwithstanding, we remain vigilant towards risks to portfolios and the economy, and we thank you for your ongoing confidence and trust. Please rest assured that our entire team will remain dedicated to helping you successfully navigate this market environment.

Please do not hesitate to contact us with any questions, comments, or to schedule a call.

Sincerely,

Justin

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Impact Financial Strategies

Helping really cool and successful people retire with confidence and clarity is *what we do*; inspiring them to create MOMENTS of Impact for their family and community is *who we are*.

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The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index. The NASDAQ Composite Index is an unmanaged index of securities traded on the NASDAQ system. The Dow Jones Industrial Average (DJIA), commonly known as "The Dow" is an index representing 30 stocks of companies maintained and reviewed by the editors of the Wall Street Journal. Index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. The MSCI EAFE (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations. The MSCI Emerging Markets is designed to measure equity market performance in 25 emerging market indices. The index's three largest industries are materials, energy, and banks. The MSCI ACWI (All Country World Index) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market.

The Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market The Barclays Capital Municipal Bond is an unmanaged index of all investment grade municipal securities with at least 1 year to maturity.

The Bloomberg Barclays U.S. Corporate High Yield Bond Index is composed of fixed-rate, publicly issued, non-investment grade debt, is unmanaged, with dividends reinvested, and is not available for purchase. The index includes both corporate and non-corporate sectors. The corporate sectors are Industrial, Utility and Finance, which include both U.S. and non-U.S. corporations. The Barclays Capital US Aggregate Index is an unmanaged market value weighted performance benchmark for investment-grade fixed rate debt issues, including government, corporate, asset backed, mortgage backed securities with a maturity of at least 1 year

Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Diversification and asset allocation do not ensure profit or protect against loss. Holding investments for the long term does not insure a profitable outcome. Investing involves risk and you may incur a profit or loss regardless of the strategy selected. Keep in mind that there is no assurance that any strategy will ultimately be successful or profitable nor protect against a loss.

There is no guarantee that these statements, opinions or forecasts provided herein will prove to be correct.

The S&P Midcap 400 is a measurement of changes in 400 domestic stocks chosen by capitalization, liquidity, and industry group representation. It is a capitalization-weighted index, with each stock's weight proportional to its market value. This Index includes the effects of reinvested dividends. The S&P GSCI is the first major investable commodity index. It is one of the most widely recognized benchmarks that is broad-based and production weighted to represent the global commodity market beta. The index is designed to be investable by including the most liquid commodity futures, and provides diversification with low correlations to other asset classes. The S&P GSCI Crude Oil index provides investors with a reliable and publicly available benchmark for investment performance in the crude oil market. The Bloomberg Barclays 1-3 Month U.S. Treasury Bill Index includes all publicly issued zero-coupon U.S. Treasury Bills that have a remaining maturity of less than 3 months and more than 1 month, are rated investment grade, and have $250 million or more of outstanding face value. In addition, the securities must be denominated in U.S. dollars and must be fixed rate and non convertible.

The Bloomberg Barclays US Mortgage Backed Securities (MBS) Index tracks agency mortgage backed pass-through securities (both fixed-rate and hybrid ARM) guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). The index is constructed by grouping individual TBA-deliverable MBS pools into aggregates or generics based on program, coupon and vintage. The Bloomberg Barclays U.S. A Corporate Bond Index measures the investment-grade, fixed rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers. The ICE U.S. Treasury 7-10 Year Bond Index is part of a series of indices intended to assess the U.S. Treasury market. The Index is market value weighted and is designed to include U.S. dollar denominated, fixed rate securities with minimum term to maturity greater than or equal to seven years and less than ten years.