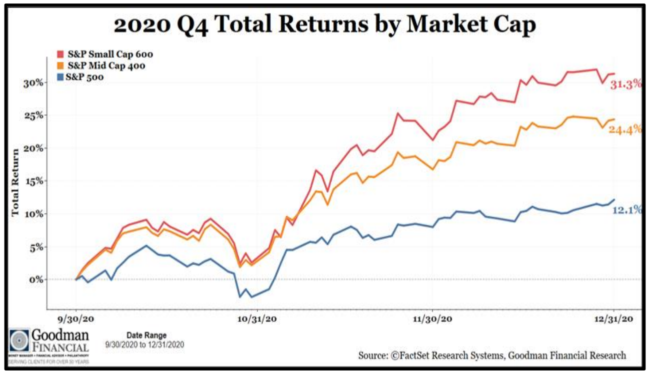
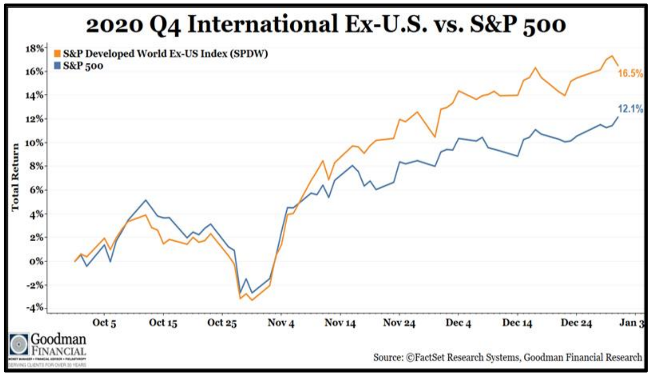
Goodman Financial
MONEY MANAGER • FINANCIAL ADVISOR • PHILANTHROPY
SERVING CLIENTS FOR OVER 30 YEARS

Q4 2020
MARKET & ECONOMIC REVIEW

INDEX	DESCRIPTION	9/30/20	LOW CLOSE	HIGH CLOSE	12/31/20	QTD RETURN*
S&P 500	A market-capitalization weighted index of 500 large U.S companies.	3,363	3,270	3,756	3,756	+11.7%
DJIA	Dow Jones Industrial Average or "The Dow"; A price-weighted average of 30 major U.S. companies.	27,782	26,502	30,606	30,606	+10.2%
Nasdaq Composite Index	A market-capitalization weighted index comprised of over 3,000 companies, mostly in the technology and biotech industries.	11,168	10,912	12,899	12,888	+15.4%
Russell 2000	A market-capitalization weighted index tracking U.S. small-cap stocks.	1,508	1,508	2,007	1,975	+31.0%
NIKKEI 225	A price-weighted index comprised of Japan's top 225 most established companies (in Yen).	23,185	22,977	27,568	27,444	+18.4%
MSCI Emerging Markets	An index comprised of 23 MSCI indices from emerging economies including Brazil, China, India, Mexico, Russia, South Africa, and the UAE.	1,082	1,082	1,291	1,291	+19.3%
Stoxx Europe 600	An index comprised of 600 companies based in one of 18 EU countries including Austria, Belgium, Denmark, France, Germany, Ireland, Spain, and the United Kingdom (in Euro).	361	342	402	399	+10.5%

*** Excludes effects of dividends** **Source: FactSet**





Major Equity Market Indexes & Commentary

- Stocks had solid gains once again in Q4, extending their winning streak to three quarters in a row. Investors reacted with optimism to news during the quarter of positive vaccine trial results which ultimately led to FDA approval of two vaccines, both of which began being used by year-end. Visibility to the end of the Covid-19 epidemic (and related lockdowns/shutdowns) should finally be in sight. Additionally, investors reacted positively to another Covid relief and stimulus package that was finally passed by Congress and signed into law. GFC equity portfolios significantly outperformed their benchmarks during the quarter.

- Small and mid-cap stocks trounced their large-cap brethren during Q4, as seen in the chart below (left). We discussed this in our ***December Market Commentary***, where we highlighted how lopsided the returns have been the past year for mega-cap growth and tech stocks relative to small-cap stocks, reaching levels of small-cap underperformance not seen in decades. In fact, small-cap stocks recorded their best quarter ever in Q4, up over 30%. You may recall that small-caps recorded their worst quarter ever in Q1 of 2020, so the two quarters make for very weird and interesting bookends to a most unusual year!

- International stocks had a solid returns in Q4. As seen in the chart below (right), the S&P Developed World ex-US index (as represented by our SPDW ETF holding) outperformed the S&P 500 index during the quarter. To a large extent this can be attributed to a 5% decline in the U.S. dollar relative to its trade-weighted competitor currencies during the quarter, a chart of which can be found in the ***U.S. Economic Commentary*** part of this Q4 Review. This provided a nice boost to non-U.S. stocks which are priced in non-dollar currencies. It remains to be seen if this move down in the dollar will continue, but we believe there is good chance that more downside in the dollar is possible.

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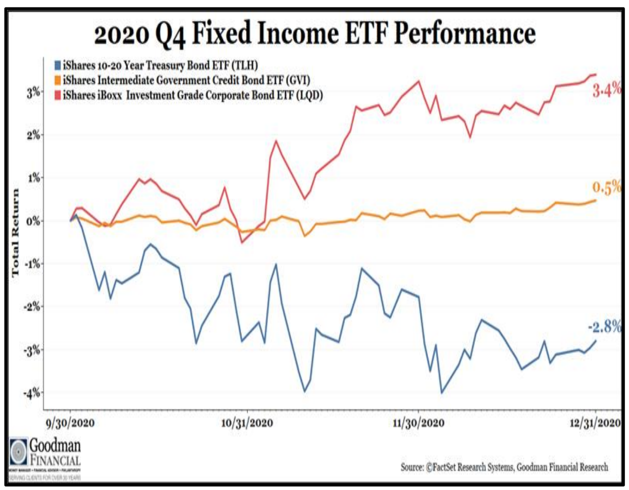
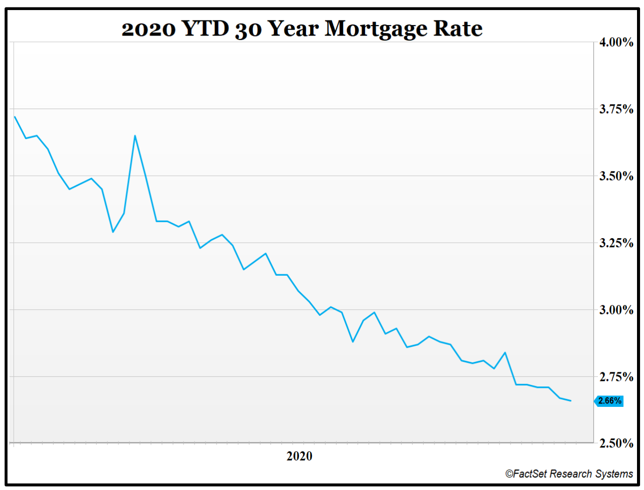
DESCRIPTION	9/30/20	12/31/20	QTD CHANGE IN BASIS POINTS*	DESCRIPTION	9/30/20	12/31/20	QTD CHANGE IN BASIS POINTS*
Federal Funds Target Rate	0.00%-0.25%	0.00%-0.25%	0	15 Yr. Mortgage Rate	2.40%	2.21%	-19
90 Day Treasury Bill	0.10%	0.09%	-1	30 Yr. Mortgage Rate	2.90%	2.67%	-22
2 Yr. Treasury Note	0.13%	0.13%	0	Prime Rate (U.S.)	3.25%	3.25%	0
10 Yr. Treasury Note	0.69%	0.93%	+24	LIBOR (3 Month)	0.23%	0.24%	+1
30 Yr. Treasury Bond	1.46%	1.65%	+19	5-Year CD	1.14%	1.10%	-4

***One basis point is equal to 1/100th of 1% or 0.01%**

Sources: FactSet, Wall St. Journal, U.S. Treasury





Fixed Income Rates & Commentary

- It was a tale of two worlds in fixed income during Q4. As seen in the accompanying table, long-term treasury rates rose in the quarter. Accordingly, longer-dated treasury bonds declined in price in Q4. Meanwhile, investors seeking higher yields have been investing in corporate bonds. This search for yield and associated corporate bond demand has caused corporate “credit spreads” (the extra yield over treasury rates) to decline, such that corporate bond prices rose in Q4, despite the higher interest rates. This can be seen in the chart below (left) which shows Q4 performance for various bond exchange traded funds (ETF’s). As seen, the iShares Investment Grade Corporate bond ETF (LQD) was up 3.4% while the iShares 10-20 Year Treasury Bond ETF (TLH) was down 2.8% for the quarter. Meanwhile the ETF that represents our bond benchmark, the iShares Intermediate Government Credit Bond ETF (GVI) (and which owns both Treasury and corporate bonds) was only up 0.5% for Q4. GFC fixed income portfolios generally outperformed their benchmark during the quarter.

- One bright side to the lower interest rates seen this year has been the decline in mortgage rates. This can be seen in the chart below (right), which shows that the average 30-year mortgage rate has declined from around 3.75% at the start of the year to about 2.65% at year’s end, an all-time low rate. This is a huge boon to housing, with new housing starts and existing home sales soaring, even in the middle of a pandemic-led recession. It has also caused a mad mortgage refinancing rush, leading to lower mortgage payments and more money in the pockets of those lucky homeowners who have refinanced their mortgages.

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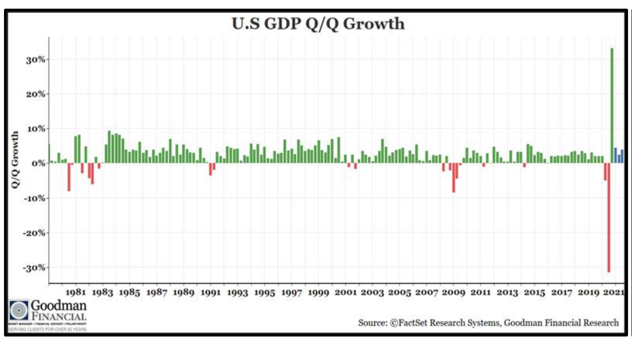
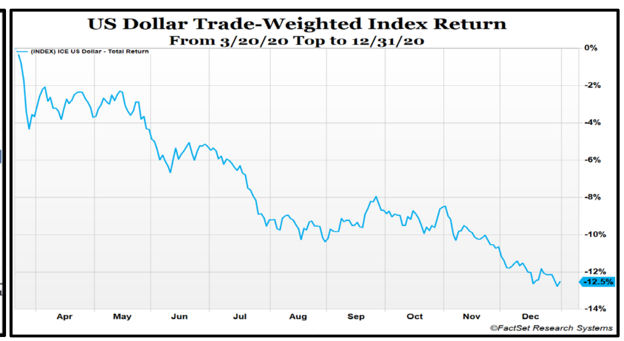
INDICATOR	DESCRIPTION	9/30/20	12/31/20	QTD CHANGE
Weekly Initial Claims for Unemployment Insurance (in Thousands)	The number of new filings for unemployment insurance benefits. Most economists believe claims below 300,000 indicate a healthy labor market environment. **While claims continue to drop, they are still well above the 200,000 weekly type number we were seeing before the pandemic hit.**	837	806	↓ -3.7%
Unemployment Rate *	The percentage of total labor force that is unemployed but actively seeking employment. The U.S. Federal Reserve targets a long-run unemployment rate of between 4.5% and 5%. **The unemployment rate continues to decline, though at a slowing rate.**	7.9%	6.7%	↓ -120 bps
Average Weekly Earnings*	The average weekly salary earned by private, nonfarm employees. **Wages are back to growing again, after falling the past few quarters.**	$1,023	$1,029	↑ +0.6%
Index of Consumer Sentiment	This index is published by the University of Michigan and reflects consumer attitudes towards the state of the economy. **Given the strength of the economic recovery and lower unemployment, the increase in sentiment isn't too surprising. It is still much lower than last year's reading of 93.2.**	80.4	80.7	↑ +0.4%
ISM Purchasing Managers Index (PMI®)	This index represents economic activity in the manufacturing sector. Any value above 42.9 represents economic expansion. **The PMI recovery continues to be good news as this is a more forward-looking indicator of economic activity.**	55.4	60.7	↑ +9.6%
Existing Home Sales (in Millions) *	This data is provided by the National Association of Realtors®. It is a seasonally adjusted annualized rate and reflects completed transactions in houses, townhomes, and condominiums. **Home sales are a real bright spot.**	6.00	6.69	↑ +11.5%
US Capacity Utilization: Manufacturing *	The ratio of production capacity being used to produce finished products compared to the total capacity available. **Utilization continues to improve nicely as the manufacturing economy recovers.**	70.9%	73.1%	↑ +3.1%

***These items are as of 11/30/20, the date of the most recently published statistics**
Sources: FactSet, Federal Reserve Bank of St. Louis, The University of Michigan, U.S. Census Bureau, U.S Department of Labor, Institute of Supply Management





U.S. Economic Commentary

- The numbers of green arrows in the accompanying table reflects the ongoing strength of the U.S. economic recovery currently underway. As seen in the chart below (left), Q3 GDP growth skyrocketed at a 33% annualized rate, following the historic economic crash seen in Q2, where real GDP fell at an almost unbelievable 32% annualized rate. Per FactSet, economists now estimate that Q4 real GDP will grow at a more measured 4.5% annualized rate. This would lead to a 2020 GDP decline of 3.6%, an improvement from the 5.1% decline estimated by economists back in July. Those economists are currently estimating that U.S. real GDP will grow by over 4% in 2021, a rate we believe may prove to be on the low side.

- As seen in the chart below (right), the trade-weighted U.S. dollar has declined by over 12% since the dollar peaked in March of this year – and completely reversed the dollar's gains from the two years preceding that peak. This has broad implications to the economy and markets. As mentioned in the ***Major Equity Market Commentary*** above, this dollar decline has provided a positive backdrop for foreign stocks. Additionally, a declining dollar makes goods imported into the U.S. more expensive and our exported goods cheaper to foreign buyers. Accordingly, a lower dollar is supportive for the manufacturing part of our economy. A lower dollar also leads to higher inflationary pressures, all things equal. We believe this dollar weakness may very well continue as long as the Federal Reserve remains accommodative with a near zero interest rate policy and an expanding balance sheet under its Quantitative Easing policy.