

2020 YEAR END REVIEW JANUARY 2021

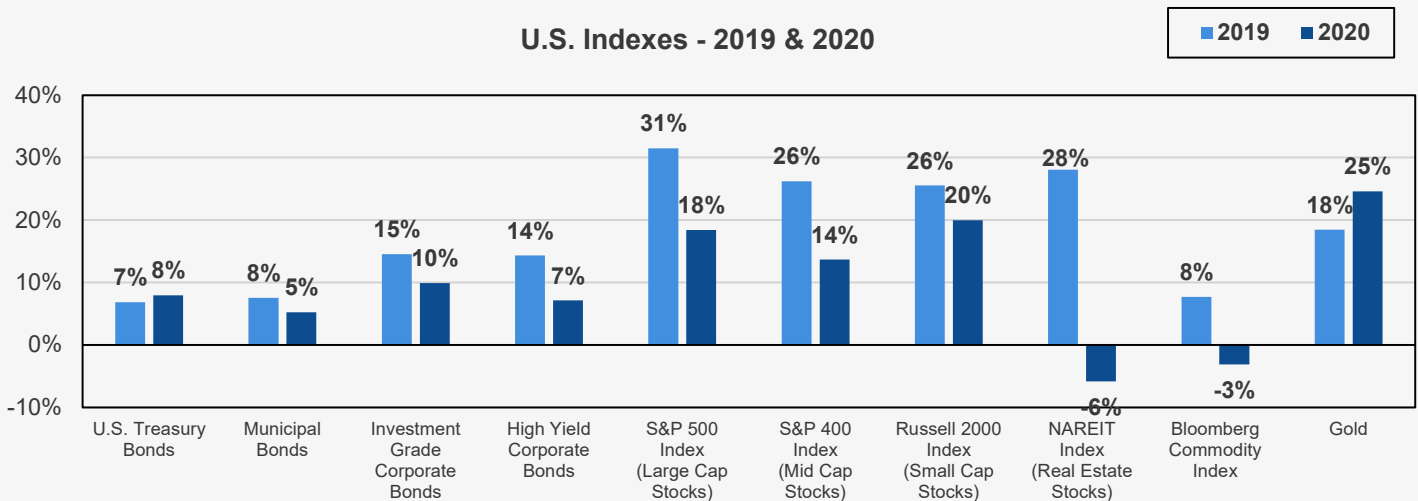


As we continue looking forward and serving our clients for the next 25 years, JVL Wealth Strategies recently announced the election of Matt Kunnen and Chad Soukup as partners. “Matt and Chad are much more than financial advisors; they have meaningful relationships with our clients and coordinate with each families’ team of advisors to proactively ensure long-term financial security,” said Jerry VanderLugt, founder and principal of JVL Wealth Strategies.

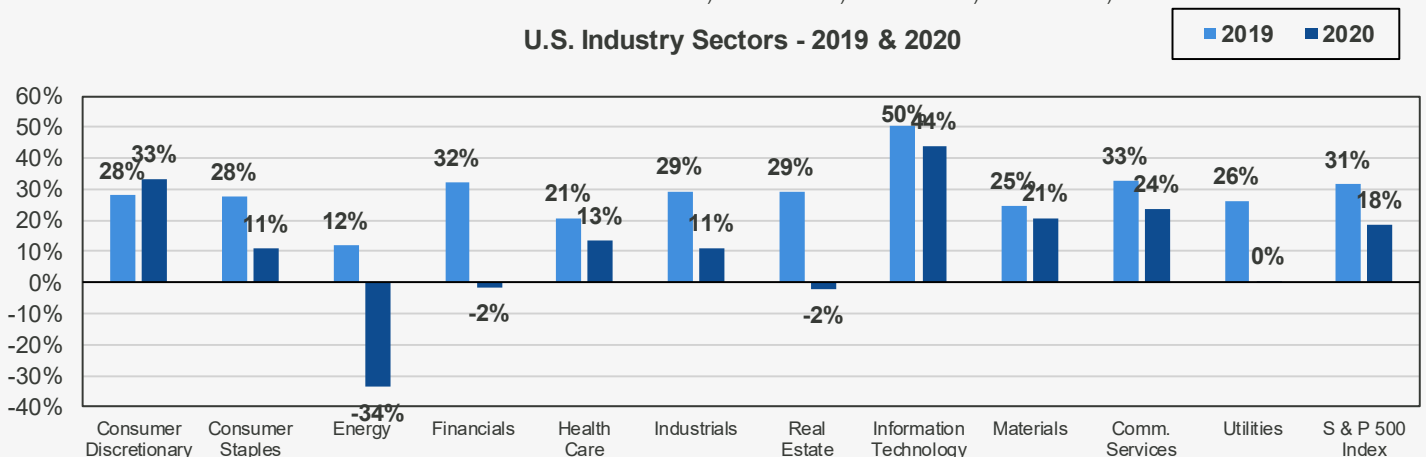
US MARKETS

What a year it was in the markets! Thinking back nine months to the COVID driven March - April market lows, who would have predicted the markets would end the year so strong. While it was a wild ride, 2020 was a very successful year for investors who held on. The following is a look at the past two years in the U.S. markets:

U.S. Indexes - 2019 & 2020

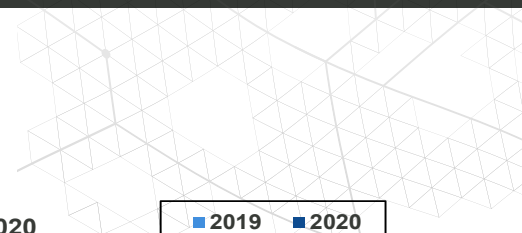


U.S. Industry Sectors - 2019 & 2020

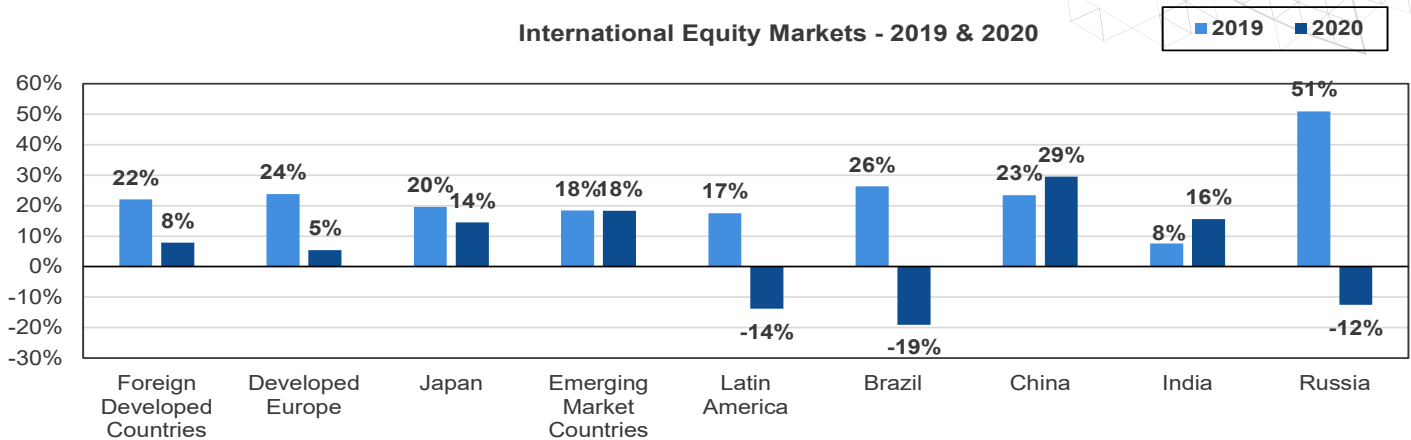


INTERNATIONAL MARKETS

International stock markets trailed the U.S. markets.



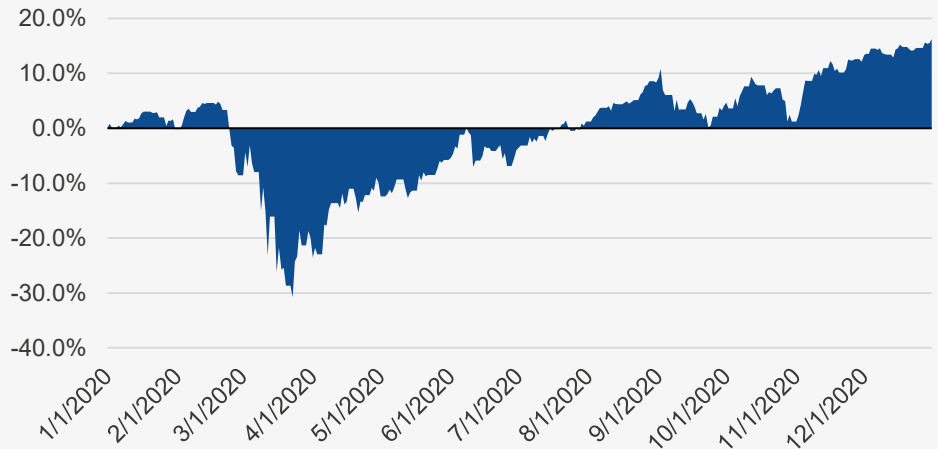
International Equity Markets - 2019 & 2020



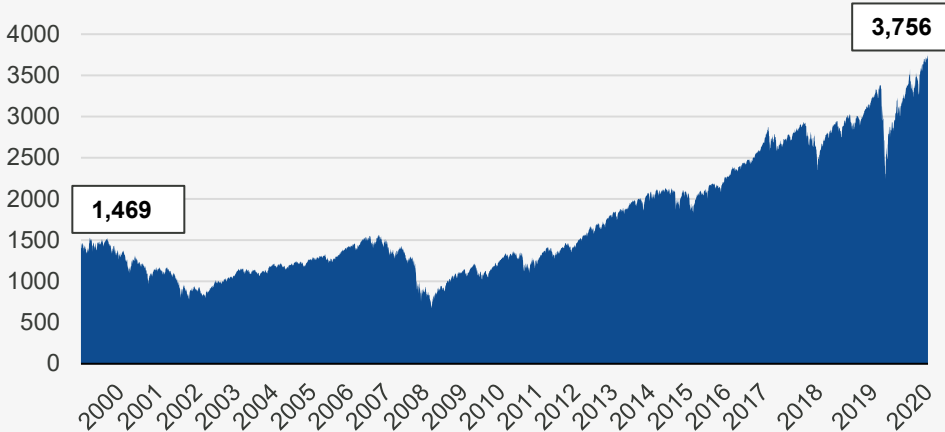
S&P 500

The S&P 500 price only index (excluding dividends) was divided into three distinct periods. The market began to fall off with the discovery of the COVID virus on U.S. soil, bottoming in late March, before rebounding back to break even by the end of July. The market was up 10% by early September before falling back to break even by the end of October. The last two months of the year saw the market rise to end the year up double digits.

S&P 500 Price % Return 2020



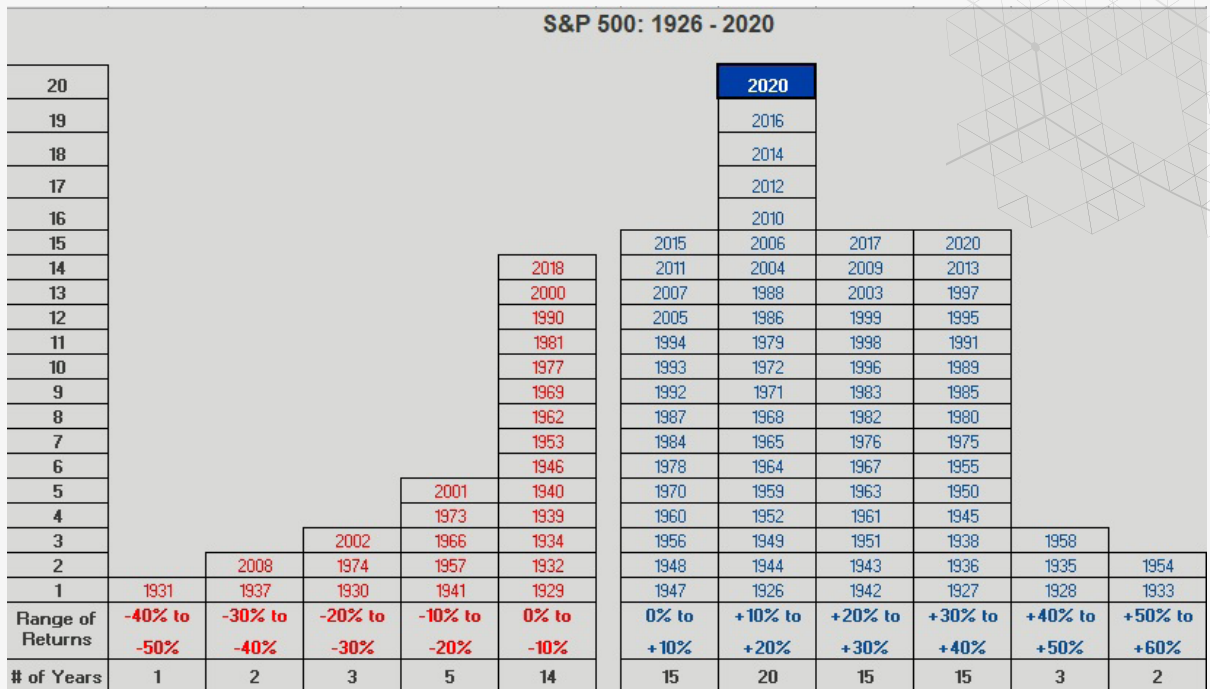
S&P 500 Price Return: 2000-2020



Looking back over the last 21 years, the S&P 500 price only Index (excluding dividends) has experienced three bear markets, yet has gained 155% from where it began on January 1, 2000.

After falling over 30% to start the year, the S&P 500 recovered and finished up for the year **OVER +18%.**

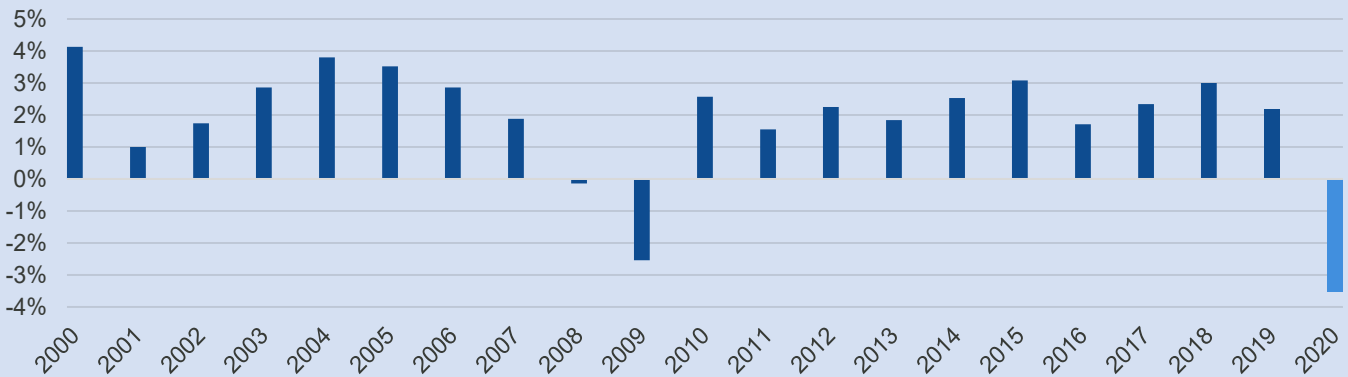
The S&P 500 total return (including dividends) was another positive year. Looking over a longer time period we see that the S&P 500 has been positive in 70 of the past 95 years meaning that 74% of those years (1926 – 2020) have shown positive returns.



GDP

The year was unprecedented as the government mandated the closing of a wide range of businesses for portions of the year. Different regions had different shutdown rules, but the impact on many major industries was felt for a long period of time. As such, the quarterly changes in GDP (Gross Domestic Product) took wild swings during the year. Given the late timing of the shutdowns in March, the 1st Q decrease in GDP was 5%, followed by a 31% drop in the 2nd Q. As many businesses were able to open up the 3rd Q saw an increase of 31%. 4th Q increased slightly at an annual rate of 4%. Overall, it is expected that the U.S. economy shrank by 3.5% during 2020. Current projections are for an increase of 3.75% in 2021.

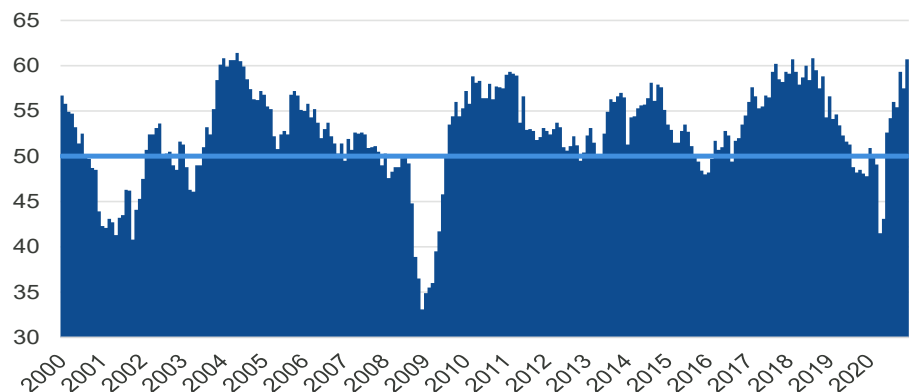
Annual Real GDP Growth: 2000-2020



MANUFACTURING

We continue to keep an eye on the PMI reading (Purchasing Managers Index) which bottomed out at 42 in April, due to the shutdowns, before charging back to record seven consecutive months of readings above 50. When the index is above 50 it signals an expansion in the manufacturing sector, while a reading below 50 indicates a contraction.

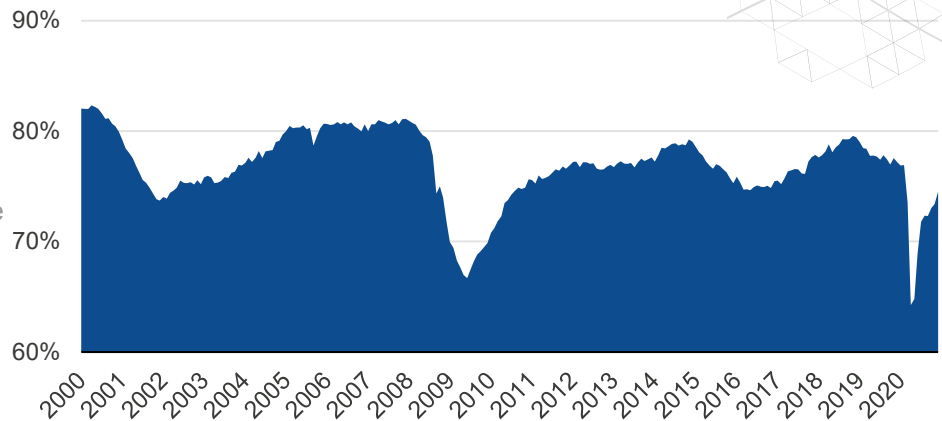
Purchasing Manager's Index (PMI): 2000-2020



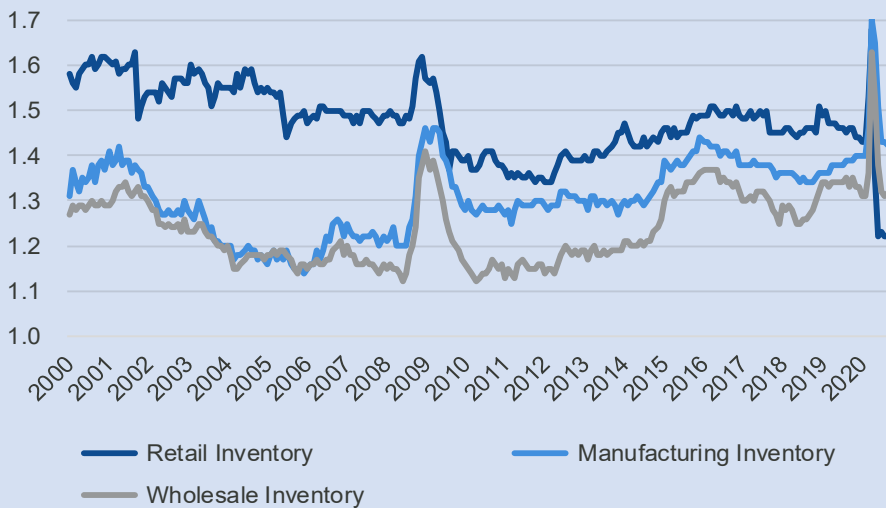
MANUFACTURING

Capacity Utilization: 2000-2020

The capacity utilization rate dropped to 64% in April, before rebounding to 75% by the end of the year. This signals that factories, while busy, have the capacity to increase production should demand rise.



Trade Inventories to Sales Ratios: 2000-2020



Inventory levels confirm the effects of the shutdowns. Inventories levels spiked in April, as demand plummeted, but ended the year at levels comparable to where they started the year.

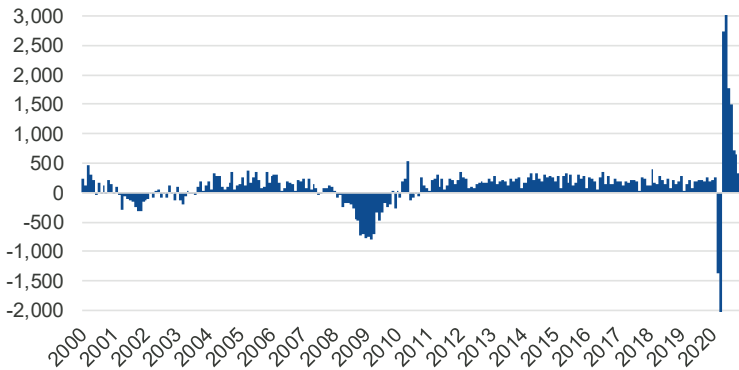
EMPLOYMENT

Employment was the real story of 2020. After reaching a record number of people employed (152 million) and historical lows in the unemployment rate (3.5%) at the beginning of the year, the COVID shut downs brought employment to a halt. The economy lost 22 million jobs in March and April and has only added back 13 million of those jobs. That means that 9 million Americans that were working in January are no longer employed. Many of those jobs are in the leisure, hospitality, travel and retail industries.

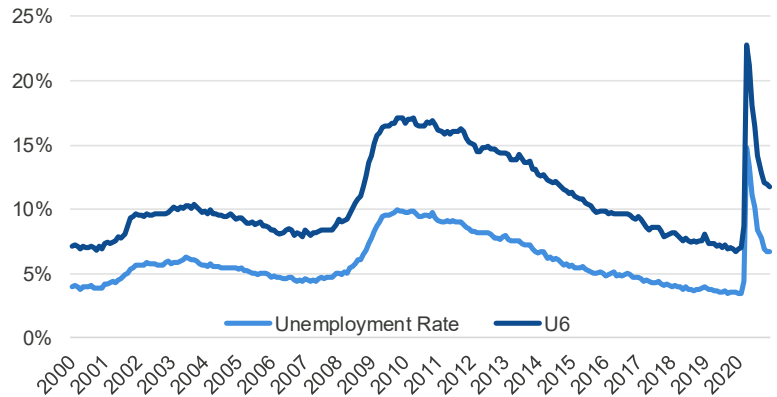
The economy lost **22 MILLION** jobs in March and April and has only added back about **13 MILLION** of those jobs.

The unemployment rate reached 14.8% in April before ending the year at 6.7%. The U6 rate, which is the broadest measure of those unemployed, rose to 22.8% in April, before settling at 11.7% at year end.

Monthly Change in Nonfarm Payrolls (thousands): 2000-2020



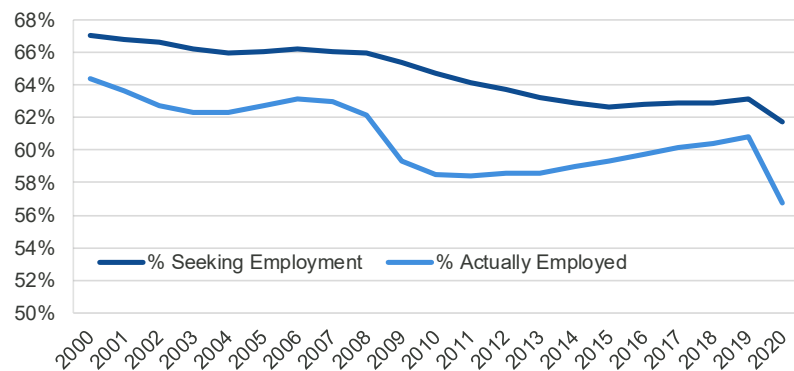
Unemployment Rate & U6 Unemployment: 2000-2020



One way to analyze the employment situation is to look at the raw data. There are 260 million people in the U.S. of working age. Of those, 161 million are “wanting to work”. Of those 161 million persons wanting to work, 148 million are currently employed, leaving 13 million unemployed. Another way to look at the data is that there are 99 million people over the age of 16 who do not “want to work” (age, in school, stay at home parent, etc.) plus another 13 million people who want to work but are not employed.

We can also look at the data to view the percentage of individuals wanting to work with the percentage actually employed. Currently, 61.7% of the U.S. population wants to work and 56.8% are working. This is the lowest level in 50 years.

% of Population age 16 and over Seeking Employment vs Actually Employed: 2000-2020

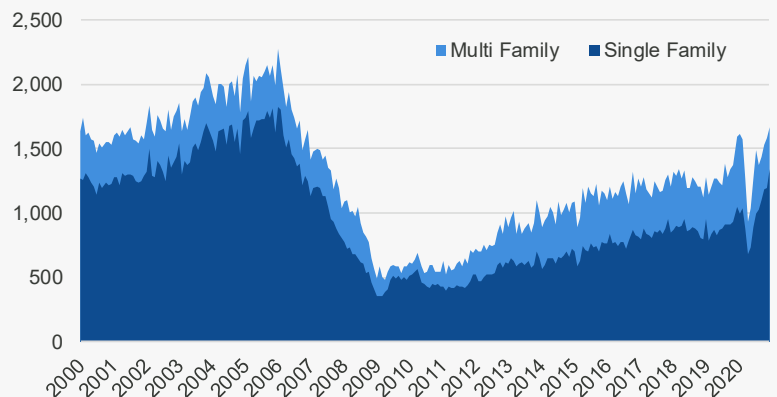


HOUSING

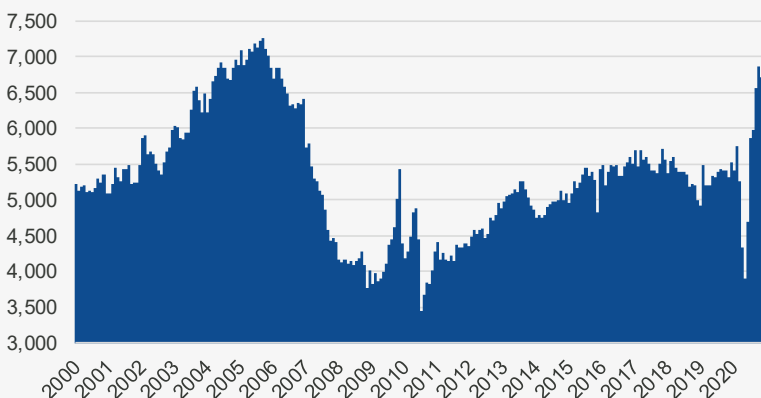
Monthly new home starts took a dive in March and April, but ended the year averaging around 1.4 million per year.

Monthly new home starts ended the year averaging around 1.4 million per year.

New Private Housing Starts (thousands): 2000-2020



Existing Home Sales (thousands): 2000-2020



Sales of existing homes followed the same pattern, dropping significantly during the shutdown, but rebounded to end the year on a 6.7 million per year pace due to the pent-up demand.

Sales of existing homes ended the year on a 6.7 million per year pace.

HOUSING

The interest rate on a 30-year fixed rate mortgage continued to fall during the year. Rates started the year at 3.65% and have fallen to 2.77% as of the end of the year. Falling rates have been good for home sales

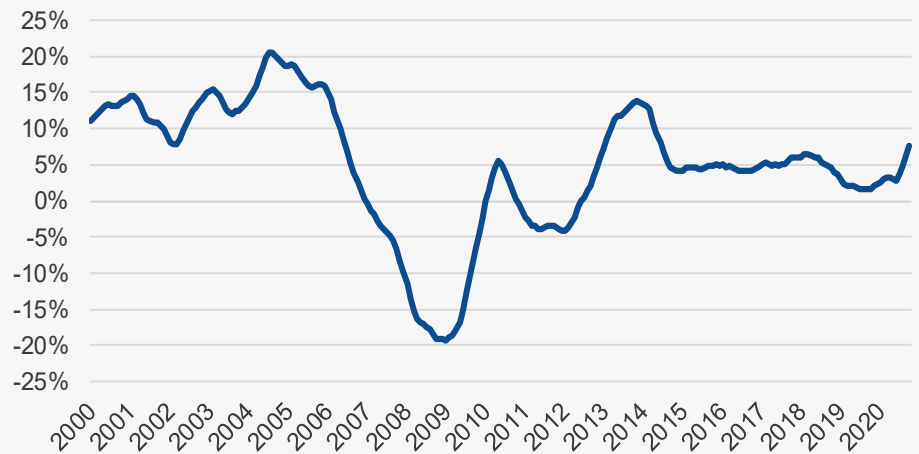
Home prices are **70% above** their 2012 lows.

Providing support to the housing sector is that home prices continue to increase. In 2020, the average home price increased 7% over last year, the largest annual increase since 2013. Home prices are 70% above their 2012 lows. The following chart tracks the year over year percentage change in home prices.

30 Year Fixed Rate Mortgage: 2000-2020



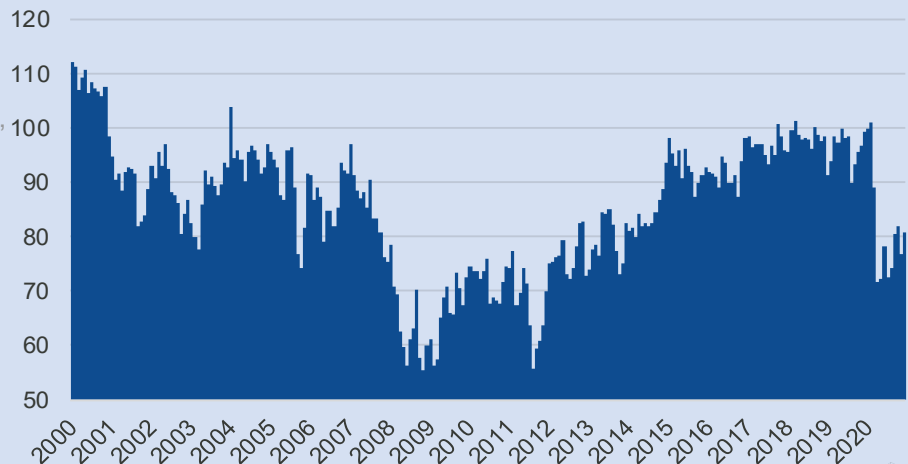
Case-Shiller Home Price Index Year over Year Change: 2000-2020

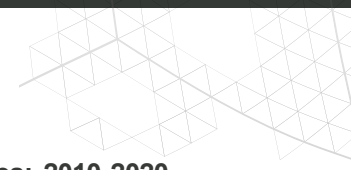


CONSUMER SENTIMENT

As one might expect during a national pandemic, consumer sentiment, as measured by the University of Michigan monthly survey, fell drastically during the year, falling from a reading of 101 in January to 79 in December.

University of Michigan Index of Consumer Sentiment: 2000-2020

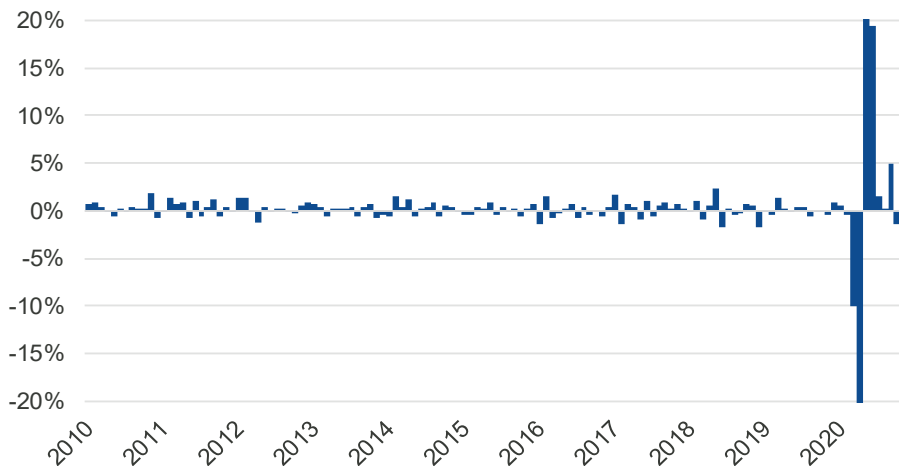




CONSUMERS SALES

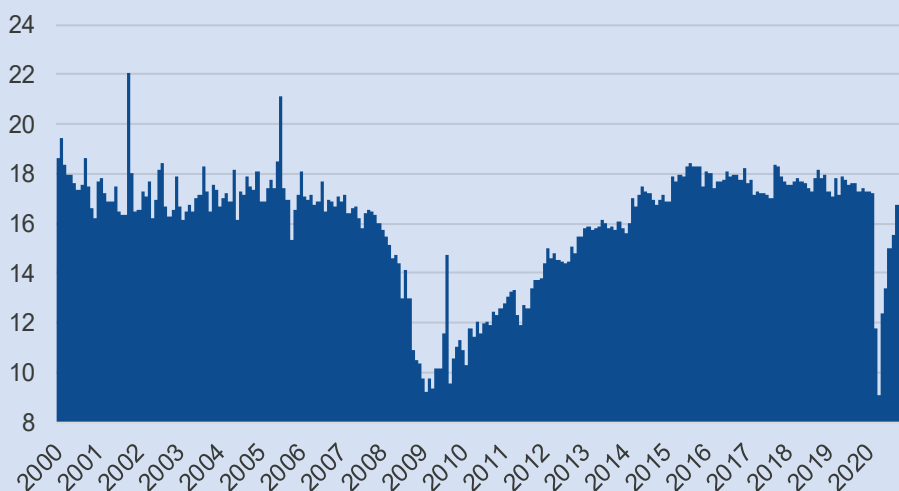
Retail sales were hit as well, falling 35% through April, before rebounding to end the year down 2% from last year.

Month over Month Change in Sales: 2010-2020 General Merchandise, Apparel, Furniture, & Other



The automotive industry took a temporary hit as well. New vehicle sales dropped to an annualized pace of 9 million vehicles in April, before rebounding to an annual pace of 16 million by year end. For the year, there were just under 15 million vehicles sold in the U.S.

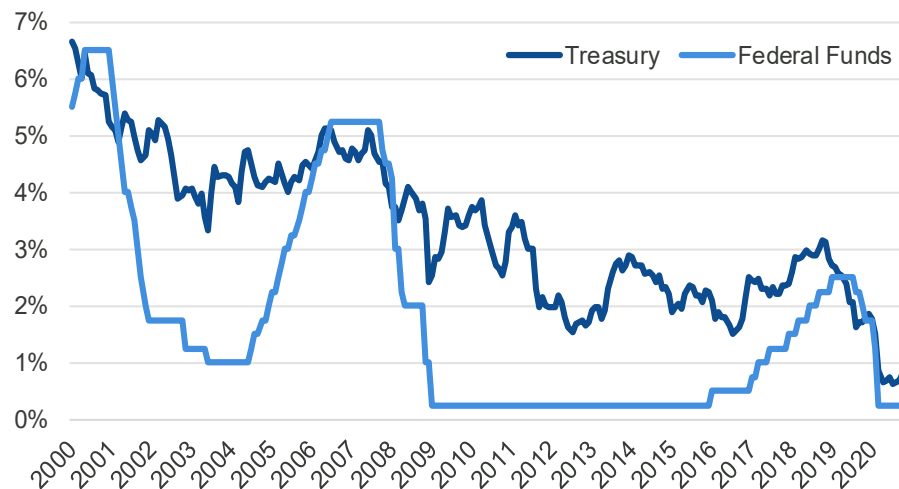
Total Vehicle Sales (millions): 2000-2020



INTEREST RATES

The Federal Reserve lowered the Fed Funds rate in response to the COVID pandemic, lowering it to almost zero. Longer term rates (10 year Treasury rates) are determined by market forces and dropped below 1% by the end of the year.

10 Year Treasury Rate and Federal Funds Rate: 2000-2020

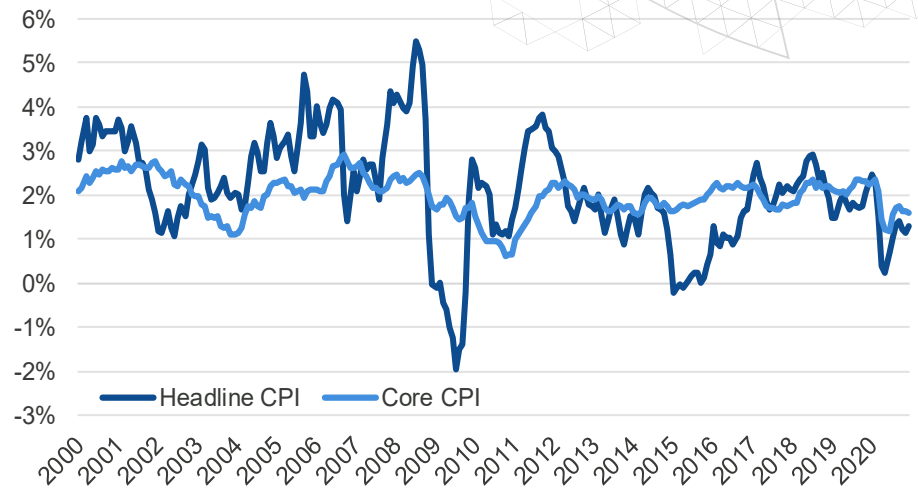


10 year Treasury rates dropped below **BELOW 1%** by the end of the year.

INFLATION

Both headline inflation (which includes food and energy) and core inflation (which excludes food and energy) hovered around 1% - 2% during most of the year. The Federal Reserve has a target of 2% for inflation.

Year over Year Change in CPI: 2000-2020



OIL

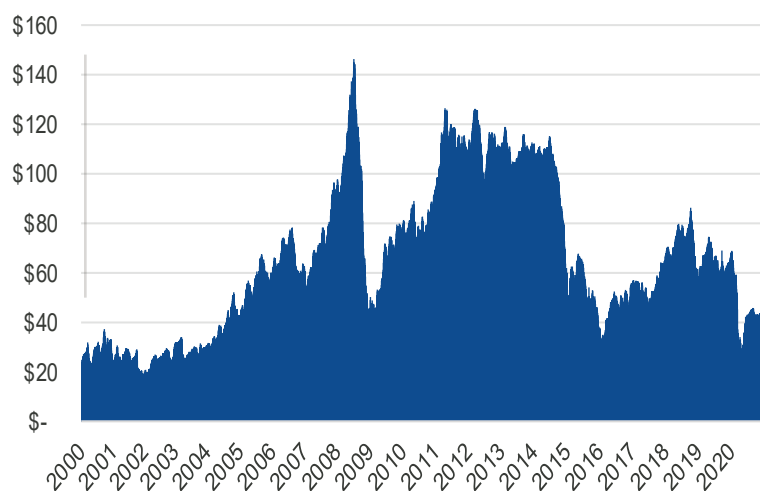
The price of a barrel of oil started the year at \$66, dropped to \$19 in April, and ended the year at \$52. The affordability of oil is one of the tailwinds to a growing economy.

US DOLLAR

The U.S. dollar fell against the other currencies during the year, which makes imports more expensive but makes our exports more attractive to overseas consumers.

A falling USD
compounded with
the impact of a global
shutdown helped drive
oil to **under \$20**.

Brent Crude Price: 2000-2020



Trade Weighted U.S. Dollar Index: 2006-2020

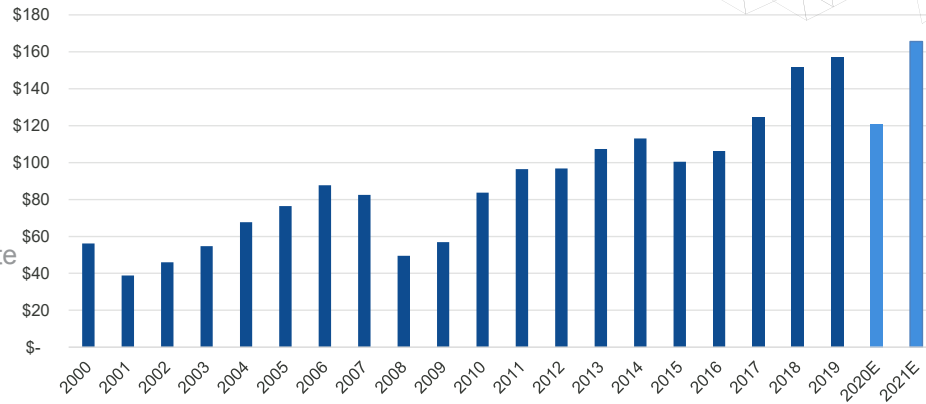


STOCKS

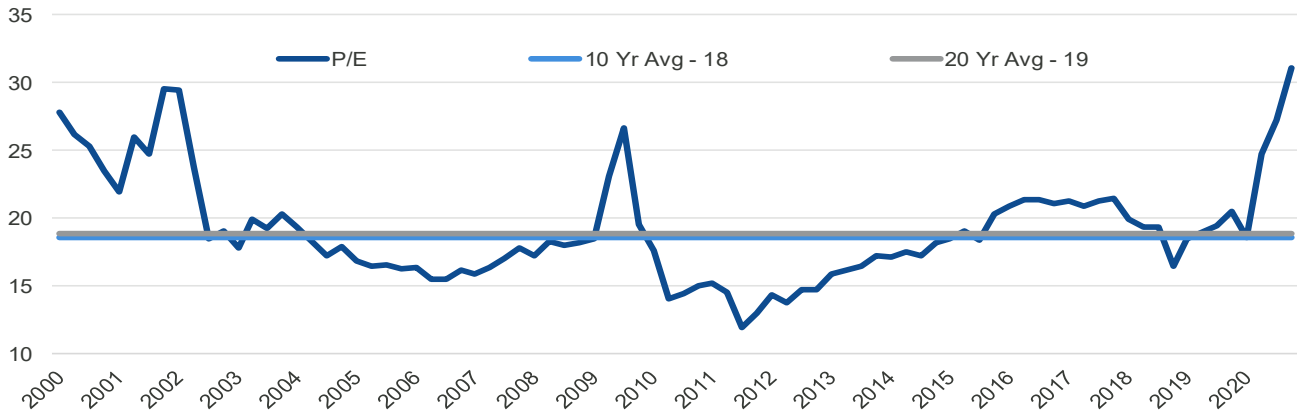
Corporate profits are a large driver of the stock market. The S&P 500 earnings are projected to drop 23% vs. 2019, however 2021 is projected to increase 37% over 2020. Since the market is always looking ahead, the stock market has rebounded based on the future expectations.

Given the S&P 500 was up 18% in 2020, while corporate profits decreased 23%, we see that valuations, as measured by the Price to Earnings (PE) ratio made up the difference, increasing from 21 to 31. That puts current valuations above both the long-term 10 and 20 year averages.

12 Month Operating Earnings: 2000-2021E



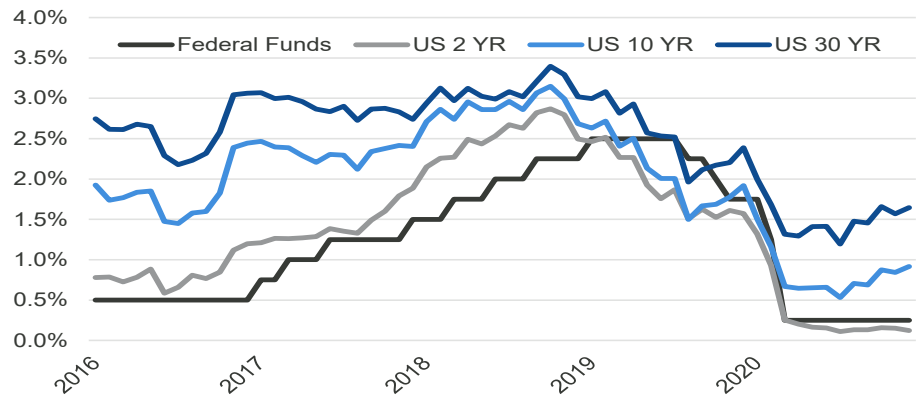
S&P 500 P/E Ratio to Historical Averages: 2000-2020



BONDS

The bond market is a totally different market. Interest rates have remained low and provide a tailwind to owning stocks.

Interest Rate Comparison: 2016-2020



RECAP

During 2020, we experienced market swings like we hadn't seen in many years. March and April saw daily swings of 2,000 + points in the Dow Jones Industrial Average. We proactively booked tax losses for our clients, while reinvesting the proceeds during the market lows. We stayed on course with our investment strategies in spite of the pandemic headline news. Our clients were rewarded with capital losses for tax purposes, while maintaining equity exposure during the ride up in the later part of the year. If you took out the rollercoaster ride and just looked at an 18% return (for the S&P 500), it was a really good year!

At **JVL Wealth Strategies** our mission is to create a financial strategy that helps our clients withstand the ups and downs of the markets. Our role is to prepare our clients for all economic and market conditions. Our planning and strategies can withstand market uncertainties. While we cannot control the news or the events and actions that affect the markets around the world, we can control the strategies and the planning to prepare our clients for the uncertainties the world has to offer.

We deeply value the trust our clients place in us. If you know of someone who could benefit from our experience please let us know.

2020 was a great year for the JVL team, we rebranded under the JVL Wealth Strategies name, created a new look and logo and are very proud of our new website – if you haven't had a chance to visit, please do so at www.jvlwealth.com Feel free to pass the link along.

REFERENCES

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- [18] Information obtained from University of Michigan Survey of Consumers web site: <http://www.sca.isr.umich.edu>
- [19] Information obtained from United States Census Bureau website: <https://www.census.gov>
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- [23] Information obtained from Morningstar Direct: Brent Crude Price
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