The year 2020 will go down in history as a tumultuous year on several fronts. From an investment perspective, global equity markets experienced a 30% decline during the first quarter as investors came to grips with the potential impacts of a novel coronavirus pandemic and the myriad economic impacts that would result. The market panic was surprisingly followed by a swift recovery as many equities were back in black by the fourth quarter of 2020 thanks to unprecedented fiscal and monetary stimulus and the development and roll-out of COVID-19 vaccines, both domestically and abroad, in record time. The S&P 500 wound up rising +18.4% for the year after the 30%+ fall in the first quarter as it rebounded in the latter half of the year led by the five largest stocks in the index (Apple, Microsoft, Amazon, Alphabet, and Facebook). Likewise, international equity markets rebounded as well but continued to underperform their domestic counterparts. Developed international markets returned +7.8% for the year. Emerging international equity markets returned +18.3% boosted by China who was able to contain the pandemic better than its developed peers. Fixed Income had its second consecutive strong year as the Federal Reserve slashed interest rates to zero to help consumers fight the pandemic. Yields on 10-year U.S. Treasury bonds started the year at 1.9% and ended it at 0.9%, going as low as 0.3% in March. For the year, the Bloomberg Barclays U.S. Aggregate Bond Index returned +7.5%. The Federal Reserve lowered its target range for overnight bank deposits in the first quarter bringing the rate to 0.00% - 0.25%, a stark difference to where they started the year at 1.50% - 1.75%.

Against this market backdrop, the Community Foundation of Louisville’s Signature Fund returned +14.6% in 2020, comfortably outperforming its investable passive market Policy Index (+13.7%). Annualized net-of-investment fee returns for the Signature Fund and the passive market Policy Index for various trailing periods through December 31, 2020 are shown in the chart below.

The Signature Fund’s equity portfolio soared in 2020 rising +18.1%. The Fund’s fixed income allocation also had a strong year (+9.0%), while its non-traditional market exposure had a modest year (+4.5%) relative to the two other major portions of the portfolio. The fund experienced relative outperformance in all three portions of the portfolio. The Signature Fund had a top quartile year in 2020 for the second consecutive year and ranks above median for all trailing periods. Seven & ten year rankings are in the top decile of the peer group, which is comprised of Investment Metrics’ Endowments and Foundations between $50 million to $250 million.

Monetary and fiscal stimulus helped U.S. equity markets rebound from the COVID-19 pandemic and the corresponding government-mandated business shutdowns, despite rises in unemployment and declines in GDP not seen since the Great Depression, as investors focused on government support to bridge global economies to a post-pandemic future that should include a rebound in global economic growth amid vaccine deployment. This was all welcome from such an otherwise dreadful year with such personal pain for so many. The pandemic will likely prove to change our lives far into the future, as it will from an investment perspective. We expect that the increase in government debt, higher valuations on equities, and lower yields from fixed income will significantly reduce investors’ future returns.

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