

Excessive Optimism or ZIRP?

Market Review

As the extent of the coronavirus became clear in March 2020, investors sent stocks tumbling 34 percent; the fastest bear market in U.S. History. But to the relief of many, it turned out to be short-lived, with S&P 500 getting get back to a breakeven level, in just five months.

The market's continued their 'rebound' even as the overall economy suffered with investors taking comfort in 'a glass half full approach', heading into the fourth quarter. Stocks closed out the year off solid gains, led by the technology-heavy Nasdaq Composite Index, which notched its best annual performance since 2009, up 43.6% and S&P 500 finishing the year, up 16.26%.

Despite continued hopes of a broad economic recovery, government bond yields moved only modestly higher because of central bank intervention. US 10-year Treasuries ended the quarter with a yield of 0.9%, slightly up over the quarter but down from 1.9% at the start of the year. Similarly, the European Central Bank (ECB) increased the size of its planned asset purchases, helping to keep bond yields down in the Eurozone going into the New Year. The quarter ended with a much anticipated Brexit deal finally being agreed on.

Emerging market equities got a boost to close out 2020, helped by a declining US dollar which created a bullish landscape for commodities. The US dollar is typically a significant factor for commodity prices, as it tends to have an inverse value relationship with raw material prices. Brent and WTI crude oil prices were over 20% higher for the quarter

Investment Perspectives

The economic fallout from the global pandemic will continue to be a legacy of 2020 for years to come. The pandemic continues to be the most significant factor facing markets across all asset classes heading into 2021; with the view for rates (and yields) to likely remain low for even longer.

Markets have been 'cheering' the vaccine news; but how quickly life returns to normal and what the new normal will be like, are big unknowns. The primary assumption is that the virus will be brought under control in 2021, although, a lot is riding on how well the vaccine works, how quickly the vaccine can be distributed and whether enough people are willing to take the vaccine.

If 2020 hasn't demonstrated that the future is unpredictable I'm not sure what will. One might be proven to be "correct" in hindsight, but risks and uncertainties will always exist, so rather than trying to guess what's going to happen, focus on what you can control. Having an effective investment process and plan, ahead of time, will help you to be better prepared for the twists and turns, which are inevitable.

The first step in your process should be to take a look at your investment portfolio and make sure that your investments still align with your risk tolerance. The stock gains for 2020 more than likely will have pushed your stocks and bonds mix unknowingly, out of your risk comfort zone, exposing you to more volatility that you may be prepared to handle in 2021.

Diversification should remain a focus as you look ahead to 2021.

If you have any questions or concerns over your portfolio, please contact us at +1 441 298 0358 or via email at customer@bfm.bm.

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Annual Target Date Rebalance

Annually the Target Date Profile allocations are adjusted as each target-date profile moves along its glide path towards its target year. These allocation adjustments are routine and normally occur near the beginning of each year. For 2021, the following changes will be made to the glide paths for the Target Date Profiles:

1) Shift from Stocks to Fixed Income and Inflation in All Profiles

Following the strong performance in the stock markets in 2020 we will be reducing stock exposure across all profiles. These monies will flow mainly into the inflation products and marginally into bonds.

The 2030 profile is most impacted and will see a 3.5% reduction in stocks.

This rebalance will take place in early February.



Target Date Performance by Profile	Annualized Returns at December 31, 2020			
	10 years	5 years	3 years	1 year
Target Date Retirement	4.14	6.52	6.99	12.07
Index	4.19	6.22	6.40	9.97
Target Date 2020	5.11	7.64	7.55	13.13
Index	5.20	7.39	6.82	10.59
Target Date 2030	6.70	10.25	9.95	17.94
Index	6.63	9.19	7.60	12.46
Target Date 2040	7.27	11.18	10.58	18.99
Index	7.77	10.91	9.36	15.17
Target Date 2050	7.55	11.57	10.69	18.74
Index	8.28	11.49	9.66	15.52
Target Date 2060				19.61
Index				15.55

Risk-Based Performance by Profile	Annualized Returns at December 31, 2020			
	10 years	5 years	3 years	1 year
Guaranteed Interest	0.89	0.93	1.05	0.35
Index	0.89	0.93	1.05	0.35
Conservative Risk	3.55	4.22	4.45	6.35
Index	2.93	3.47	3.51	4.88
Moderate Risk	4.28	4.93	5.17	7.42
Index	3.53	4.37	4.03	6.05
Accumulator	6.87	8.20	8.16	12.86
Index	5.20	6.26	5.66	8.91
Stable Growth	7.98	9.75	10.20	16.58
Index	6.24	7.76	7.42	12.21
Growth Risk	9.18	12.56	13.95	25.22
Index	6.84	9.16	8.92	15.66
Aggressive Risk	11.76	15.40	17.45	31.95
Index	9.39	12.05	12.29	21.78

Data obtained from Morningstar Direct. Risk profile performance is based on historical blend of actual managers. Individual fund performance reflects only the manager currently used for that asset class. Past performance is no guarantee of future performance. The price of the shares of each Profile and the income received from each Profile may go down as well as up, and investors may not get back the full amount that they invested. Investment in any of the Profiles involves risks. Currency fluctuations will affect the value of overseas investments. Information has been provided by BF&M Investment Services Limited, which is licensed to conduct Investment Business by the Bermuda Monetary Authority under the Investment Business Act.



Performance by Fund	Annualized Returns at December 31, 2020			
	10 years	5 years	3 years	1 year
Guaranteed Interest Account (GIA5)	0.89	0.93	1.05	0.35
Enhanced Cash – Payden USD Liquidity (MMKT)	1.00	1.91	2.27	1.93
Bank of America ML US Treasury Bill 3 Month TR USD	0.64	1.20	1.61	0.67
Short Duration - Vanguard Global Short Term Bond Index (BFMSDF)	N/A	2.61	3.22	3.34
BofAML US Treasuries 1-3 Year TR USD	1.30	1.90	2.74	3.10
Global Bond - Lazard Global Bond Core Plus (BFMGBF1)	2.66	5.02	5.57	11.58
Barclays Global Aggregate TR USD	2.83	4.79	4.85	9.20
US Bond - PIMCO Total Return (BF1)	3.97	4.96	5.58	9.17
Barclays US Aggregate Bond TR USD	3.84	4.44	5.34	7.51
Inflation Strategy - PIMCO Inflation Strategy (INFLTN)	1.34	3.93	3.56	4.04
PIMCO Inflation Strategy Benchmark USD	1.78	3.71	2.69	1.14
Global TIPS - Standard Life Global Inflation Linked Bond	4.70	5.93	5.65	9.63
Barclays Gbl. Inflation Linked TIPS TR USD	3.81	5.08	5.92	10.99
High Yield Bond – Alliance Bernstein Global High Yield (HYLDBD)	5.21	6.52	3.52	2.38
Barclays Global High Yield TR USD	6.51	7.84	4.95	7.03
Emerging Mkt Bond - MFS Meridian EM Debt (EMKBD)	5.60	6.97	5.25	7.75
JPM EMBI Plus TR USD	5.64	6.26	4.50	7.05
Global Value Stock - Causeway Global Value (GVF)	8.71	8.53	5.56	5.65
MSCI ACWI NR USD	9.13	12.26	10.06	16.25
Global Growth Stock - Artisan Global Opportunities (IGF)	15.30	18.58	20.20	40.50
MSCI ACWI NR USD	9.13	12.26	10.06	16.25
US Growth Stock - Franklin US Opportunities (USGF)	15.08	19.11	23.90	44.07
MSCI US Large Cap Growth PR USD	16.47	20.62	23.97	42.82
US Value Stock - MFS Meridian US Value (USVF)	10.02	9.42	5.74	2.92
MSCI US Large Cap Value PR USD	7.22	6.57	2.60	-2.33
US Stock Index - Vanguard US 500 Stock Index (INDUSE)	13.02	14.43	13.41	17.66
S&P 500 NR USD	13.18	14.53	13.52	17.75
Global Stock Index - Vanguard Global Stock Index (INDGEQ)	9.68	12.06	10.43	15.82
MSCI World Free NR USD	9.87	12.19	10.54	15.90
Global Small Cap Stock - Vanguard Gbl. Small Cap Index (GSMCEQ)	9.37	11.53	7.80	15.79
MSCI World Small Cap NR USD	9.62	11.75	8.02	15.96
Emerging Market Stock - Schroder Global EM Opp. (EMKEQ)	4.83	15.36	10.29	22.30
MSCI EM PR USD	1.15	10.21	3.68	15.84

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