

# QUARTERLY INSIGHT

## LETTER FROM THE PRESIDENT



How can one possibly summarize 2020? Amid a global pandemic, the deepest recession since World War II, and a contentious political environment, we witnessed the quickest bear market and fastest return to all-time highs ever. The combination of massive stimulus and confidence in American fortitude and ingenuity powered the recovery in the capital markets. That same determination permeated the Johnson Investment Counsel team as we rallied to serve clients throughout the year. I'm proud of

the way our dedicated team continued to interact with clients (often virtually), manage investment portfolios, develop financial plans, and execute estate plans despite many challenges.

In a year like 2020, delivering on our mission of providing financial peace of mind was especially important, and we have never been better positioned to provide comprehensive wealth management to those we serve. Despite the uncertainty of the future, we added employees across all our divisions – Johnson Wealth Management, Johnson Family Office, Johnson Trust Company, and Johnson Asset Management. We added depth and expertise to an already industry-leading team of professionals. We now have 38 Chartered Financial Analysts, 30 Certified Financial Planners, five attorneys, and two Certified Public Accountants on staff, and our family of employees now stands at 140. We continue to invest in people to ensure our comprehensive expertise and personalized service remains a cornerstone of the Johnson Investment Counsel promise.

Our firm continues to grow in both size and scale as the number of clients we serve increases. We now serve clients in 49 states and manage in excess of \$15 billion across our divisions. Johnson Asset Management's outstanding fixed-income performance continues to attract more institutional clients. Johnson Family Office has helped some of the Midwest's most prominent families implement complex estate plans and navigate private business sales. The team of experienced attorneys and trust officers in Johnson Trust Company provides customized solutions to help clients achieve family and legacy goals. And we've grown regionally in our Dayton, Columbus, Cleveland and Southern Michigan locations. This success reflects the confidence our clients have placed in us and their willingness to enthusiastically refer friends and family. For that we are always grateful.

Thank you for your confidence and loyalty during this unprecedented time. We consider it a privilege to serve our clients, and it is a responsibility we do not take lightly. We wish you a joyous, prosperous, and "more normal" 2021.

Sincerely,

Jason O. Jackman, CFA, President

2020:  
FOURTH  
QUARTER

## FEATURING

- » **LETTER FROM THE PRESIDENT**  
page 1
- » **MARKET UPDATE**  
pages 2 & 3
- » **JIC NEWS**  
page 4

## TOTAL RETURNS

	4Q 2020	2020
<b>S&amp;P 500</b>	12.2%	18.4%
<b>Dow Jones Industrial Average</b>	10.7%	9.7%
<b>NASDAQ</b>	15.6%	44.9%
<b>Russell 2000</b>	31.4%	20.0%
<b>MSCI EAFE (International)</b>	16.1%	8.3%
<b>Barclays Aggregate Bond Index</b>	0.7%	7.5%

» WEALTH MANAGEMENT

» FAMILY OFFICE SERVICES

» TRUST COMPANY

» ASSET MANAGEMENT



### THE YEAR IN REVIEW



#### AN UNFORGETTABLE YEAR

The past year was historic and tumultuous in many ways, and it was certainly so for the economy and financial markets. Early this year the markets were focused on the trade war between the U.S. and China, as well as the coming election. Those two issues seem unremarkable compared to the worldwide calamity that was beginning to unfold. News of the spreading virus affected everyone's day-to-day life in some way, and the situation rapidly deteriorated until the world was essentially locked down. Fear and uncertainty ruled the day, which almost always spells trouble for the stock market. And yet by the end of the year we somehow find ourselves contemplating record-high levels of U.S. stock indices. Facing plenty of uncertainty, investors still seem to be looking ahead to 2021 with a sense of optimism about the vaccine rollout, sustained government support, and the hope that the economy could emerge from this crisis on decent footing.

#### EXTREME MARKET VOLATILITY

2020 brought extreme volatility that reflected the panic and fear that took hold in March. It came first in the form of the fastest bear market in history as the S&P 500 plunged 34% in just 23 days. The historical average 35% decline takes about 11 months. Next came the fastest bear-market recovery in history, accomplishing in four months what historically takes four years. By August the losses had been recovered, and the market steadily moved higher in the final stretch of the year. The S&P finished the year 70% above the March 23rd low and up 18% for the year.

In contrast, investment-grade bonds did their job, providing stability and strong returns as interest rates fell. But most other assets experienced roller-coaster rides similar to that of stocks. Oil provides an extreme example. In April, the price of crude oil futures briefly touched -\$37, a negative price for the first time ever, as sellers actually paid buyers to take the oil off their hands. Currencies, other commodities, precious metals, and high-yield bonds were whipsawed as well.

#### RECORD BREAKING ECONOMIC TURMOIL

The drastic market moves reflected the economic damage inflicted by the virus and subsequent lockdowns. The threat of infection led to sudden and massive shifts in consumer spending and behavior. This created big winners and big losers. The hardest-hit industries saw stock prices fall as much as 90%. Small businesses were especially hurt. Travel came to a virtual standstill, and restaurants and bars were shut down, many of them likely forever.

The U.S. economy experienced the worst quarterly GDP contraction on record in the second quarter, a whopping -31% (annualized) fall. For perspective, that's almost four times as bad as the worst quarter in the Great Recession of 2008 and 2009. But as the spread of the virus slowed, lockdowns eased, and consumers adjusted to the new reality, spending rebounded. The third quarter GDP growth figure was an astounding 33% annualized, the largest on record by far.

#### MASSIVE GOVERNMENT INTERVENTION

As the dire consequences of the pandemic set in, the federal government opened the spigots to prop up the American people and markets. Never had such large amounts of money been distributed in such a short time to so many.

The Federal Reserve acted swiftly to provide liquidity and funding to consumers and businesses. It immediately dropped the benchmark interest rate to zero and made it clear it would remain that way for the foreseeable future. As Fed Chairman Jerome Powell put it, "We're not even thinking about thinking about raising rates." These actions provided key support to the market throughout the year. All told, the Fed balance sheet grew by roughly \$3 trillion in four months. That's about the same amount it grew in four years during the financial crisis.

For its part, Congress passed several stimulus bills to provide immediate and direct financial aid. The CARES Act passed quickly in March and provided \$2.2 trillion in the form of direct payments, extra unemployment benefits, loans and grants to businesses large and small, as well as aid to state and local governments. With consumers spending less, personal income and savings increased, allowing many to weather the pandemic better than they could have otherwise. Additional bills passed throughout the year, including a last-minute package just before year-end. These staggering amounts of spending have caused public debt levels to rise to the highest levels relative to GDP since World War II, and further stimulus is likely to come in 2021.

#### VIRUS, VACCINE NEWS DROVE MARKET REVERSALS

Following the stock market was interesting this year on several levels. There was of course the day-to-day volatility of the overall market, but there were also significant themes that played out between and among styles and sectors.

Growth stocks, which typically offer higher earnings growth and trade at higher valuations, continued their decade-long dominance. They were far and away the leaders of 2020, especially amid the worst months of the economic shutdown. In fact, this was the best year ever for growth stocks relative to value stocks. As uncertainty

## MARKET UPDATE



about the future abounded, investors flocked to those stocks that seemed to provide reliable earnings growth despite the pandemic. In contrast, companies most damaged by the lockdowns saw their stock prices fall as much as 90%.

This led to another dominant year for technology stocks in particular, which gained 44%. A handful of companies at the top were the main contributors to the overall gains (Amazon, Alphabet (Google), Apple, Microsoft, and Facebook). At one point, these five stocks were up 35% while the remaining 495 in the S&P 500 were down 5%.

But the early losers staged a remarkable comeback later in the year. Small cap stocks had their best month ever in October, and amazingly ended up outperforming large caps for the year. In addition, some of the value-oriented stocks and sectors enjoyed a reversal of fortune on the back of vaccine news. Value stocks had their largest single-day outperformance relative to growth stocks on the day the Pfizer vaccine was announced. By year end a much larger portion of the index was in positive territory. Still, the longer-term performance and valuation gap between growth and value stocks remains wide.



### IMPLICATIONS OF THE POWER SHIFT IN WASHINGTON

The Georgia Senate elections have shifted power in the Senate to the Democratic party. Some changes in the tax and regulatory landscape are likely now that Democrats control the White House and both houses of Congress. But given the razor-thin margins in both the House and the Senate, implementing new policy could be more difficult than if there were larger majorities.

The most likely result is a diluted version of the Biden economic proposals. Income tax rates are likely to go up for higher-income filers, as well as capital gains tax rates. In addition, the corporate tax rate could rise, and compa-

nies with low effective tax rates could see greater scrutiny. Further stimulus is likely but could be more difficult to pass given pressure on Democrats representing more moderate districts. They will have to strike a balance between joining colleagues in support of more stimulus without appearing to be in favor of reckless spending. It's possible the next stimulus package may look similar to what would have passed if Republicans had retained the Senate.

Health care companies, particularly drug companies, are likely to be pressured as Democrats look to offset spending with cuts to drug prices. Tech companies, especially the largest, may also be taxed more heavily and face antitrust scrutiny. The finance and banking sector could face more regulations. Alternative energy businesses may receive a boost, as well as infrastructure-related businesses, as both have been identified as priorities.

### DISCONNECTS BETWEEN ECONOMY, VIRUS NEWS, AND STOCK MARKET

The stock market is hardly ever a real-time reflection of economic activity or headline news. The market plunge in March anticipated the economic pain to come from the virus and lockdowns. Then the market recovery began even while unemployment peaked and the lockdowns were still in effect in most areas.

As we head into a new year, the market is likely to continue to respond to the outlook for vaccine distribution, the pace of economic reopening, and additional stimulus programs. However, corporate earnings growth as well as inflation indicators could also be key drivers. With multiple issues in focus, the disconnect between market behavior and virus news could continue.

The market's strength in the face of the pandemic was mainly due to expanding valuations, as opposed to underlying earnings growth. As a result, valuations are elevated in certain areas of the market, which can make those stocks sensitive to bad news.

Pandemic or not, it's always true that the markets could be knocked off course in the year ahead. Over the past century, the market has experienced at least a 5% drop nearly every year, and a 10% drop roughly three out of every five years. While many things have changed as a result of the pandemic, this one has not. Therefore, as investors we must always be appropriately diversified and ready for anything. ●

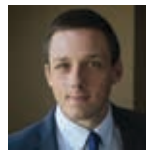
Disclaimer: Any expectations presented should not be taken as a guarantee or other assurance as to future results. Our opinions are a reflection of our best judgment at the time this presentation was created, and we disclaim any obligation to update or alter forward-looking statements as a result of new information, future events or otherwise. The material contained herein is based upon proprietary information and is provided purely for reference and as such is confidential and intended solely for those to whom it was provided by Johnson Investment Counsel.

## NEW DESIGNATIONS

Johnson is committed to continuing education to provide personal development for our employees and better service to our clients. Congratulations to Portfolio Manager Assistant David Christian, CFA, CFP®, who has earned his Certified Financial Planner designation, and to Portfolio Manager Assistant Joe White, CFA, who has earned his Chartered Financial Analyst designation.



Christian



White

## NEW ADDITIONS TO THE TEAM

- > **Benjamin Schwartz**  
Associate Systems Administrator
- > **Charley Doherty**  
Portfolio Manager Assistant

## VIRTUAL WEALTH MANAGEMENT FORUM



Join us for our Wealth Management Forum presented virtually via Zoom on Thursday, February 4th at 4:00 pm. President Jason Jackman, CFA, will share highlights from 2020 and JIC team members will discuss the markets and key wealth management topics. Johnson Trust Company President Michael Barnes, Esq., CTFA, will also share an update.

The event is free but you must register to receive the Zoom link. To register, visit our website [JOHNSONINV.COM](http://JOHNSONINV.COM), and click the red bar on the homepage that reads “CLICK HERE to register for the 2021 Virtual Wealth Management Forum.”

## WEBINAR FOR CURRENT AND FORMER P&G EMPLOYEES



Are you, a family member, friend, or neighbor a current or former Procter & Gamble employee? JIC Senior Portfolio Manager Mike Stanis, CFA, CFP® will be hosting a customized workshop designed to help simplify the process of decision-making for owners of the P&G Profit Sharing Trust (PST).

Mike spent over 17 years with P&G and wants to share what he has learned about transitioning from P&G so that you can make the best decisions for your family.

Join us February 23 for this free virtual workshop “P&G Profit Sharing Trust Options” via Zoom. For details and to register, visit our website [JOHNSONINV.COM](http://JOHNSONINV.COM), and go to the Perspective tab.

## CONGRATULATIONS TO OUR FOUNDER

Congratulations to JIC founder and Chairman Tim Johnson, who closed out 2020 with a marriage milestone. Tim and his wife Janet celebrated 50 years of marriage on December 12th.



*If you are a client of Johnson Investment Counsel, you should receive account statements on at least a quarterly basis directly from the qualified custodian that holds and maintains your assets. You are urged to carefully review all custodial statements for accuracy. If you are not receiving custodial statements, please contact our Chief Compliance Officer, Scott Bischoff at (513) 661-3100.*



## ABOUT US

Johnson Investment Counsel, Inc. is one of Ohio's largest independent wealth management firms, managing over \$15 billion in assets for clients in 49 states. Johnson Investment Counsel is an employee-owned firm, offering a full range of fee-based, integrated wealth management services, including: investment portfolios, education and retirement planning, cash management, estate planning, trust services, charitable giving, mutual funds, 401(k) plans, IRAs, and more. Johnson Investment Counsel has built strong, long-term relationships with individuals, families, charitable organizations, foundations, and corporations through four integrated divisions.

» WEALTH MANAGEMENT

» FAMILY OFFICE SERVICES

» TRUST COMPANY

» ASSET MANAGEMENT

## LOCATIONS

CINCINNATI  
CINCINNATI-KENWOOD  
CLEVELAND-AKRON  
COLUMBUS  
DAYTON  
METRO DETROIT

[WWW.JOHNSONINV.COM](http://WWW.JOHNSONINV.COM)