Fourth Quarter 2020 Market Commentary

Domestic Equity Market Recap

US equities shrugged off surging rates of COVID-19 and elevated political tensions leading up to and following the election. Instead, markets seized on optimism surrounding the approval of multiple vaccines and the increased likelihood of meaningful fiscal stimulus as a new administration takes control in Washington. These developments sparked a so called 'reflationary' trade into assets with greater exposure to accelerated global growth, higher bond yields, and rising inflation.

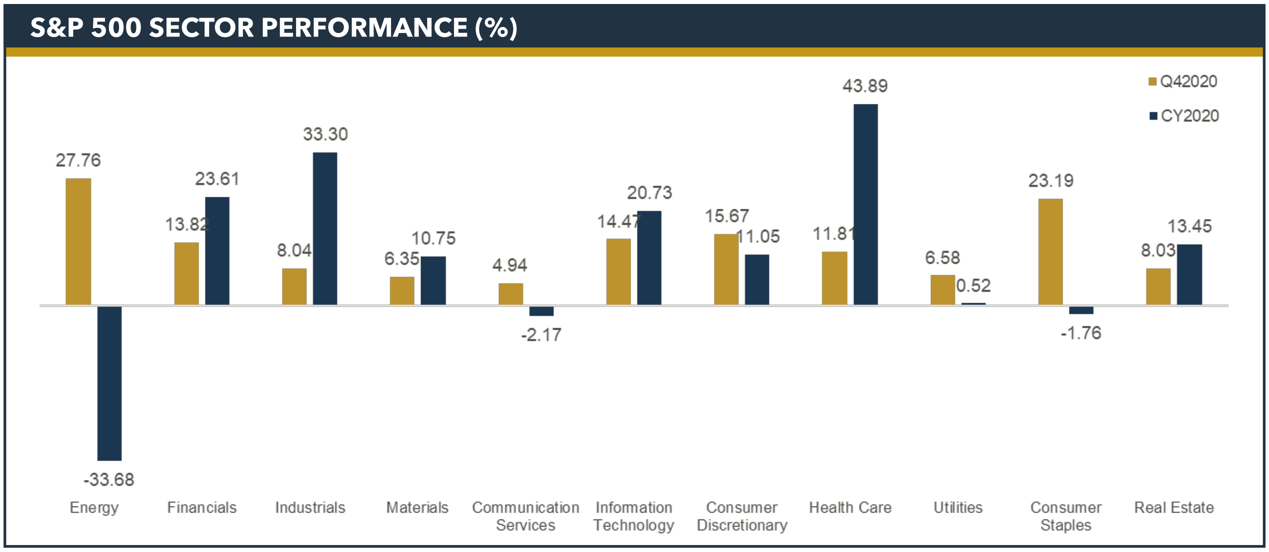
Accordingly, performance in the fourth quarter favored some of 2020's most pressured market segments, with cyclically oriented value stocks outperforming high flying, tech-heavy, growth stocks on a quarterly basis for the first time since the market sell-off in Q4 2018. Returns also improved moving down the capitalization spectrum, as investors sought out smaller companies which tend to be more sensitive to the nascent economic recovery than their larger cap peers. Smaller companies also have less exposure to international operations which might come under pressure given the continued weakening of the U.S. dollar.

BENCHMARK RETURNS (%) (3 TO 10 YEAR FIGURES ANNUALIZED)

EQUITY INDICES (%) **Period Ending 12.31.2020**	**1M**	**3M**	**1Y**	**3Y**	**5Y**	**10Y**
Large Cap						
S&P 500	3.84	12.14	18.39	14.16	15.19	13.86
Russell 1000	4.22	13.69	20.95	14.80	15.57	13.99
Russell 1000 Growth	4.60	11.39	38.49	22.97	20.97	17.19
Russell 1000 Value	3.83	16.25	2.78	6.05	9.71	10.49
Mid Cap						
Russell Mid Cap	4.68	19.91	17.10	11.58	13.37	12.40
Russell Mid Cap Growth	4.80	19.02	35.59	20.47	18.63	15.03
Russell Mid Cap Value	4.62	20.42	4.96	5.34	9.70	10.48
Small Cap						
Russell 2000	8.65	31.36	19.93	10.21	13.22	11.19
Russell 2000 Growth	9.34	29.60	34.61	16.14	16.31	13.46
Russell 2000 Value	7.92	33.34	4.60	3.70	9.63	8.64

Source: Bloomberg as of December 31, 2020

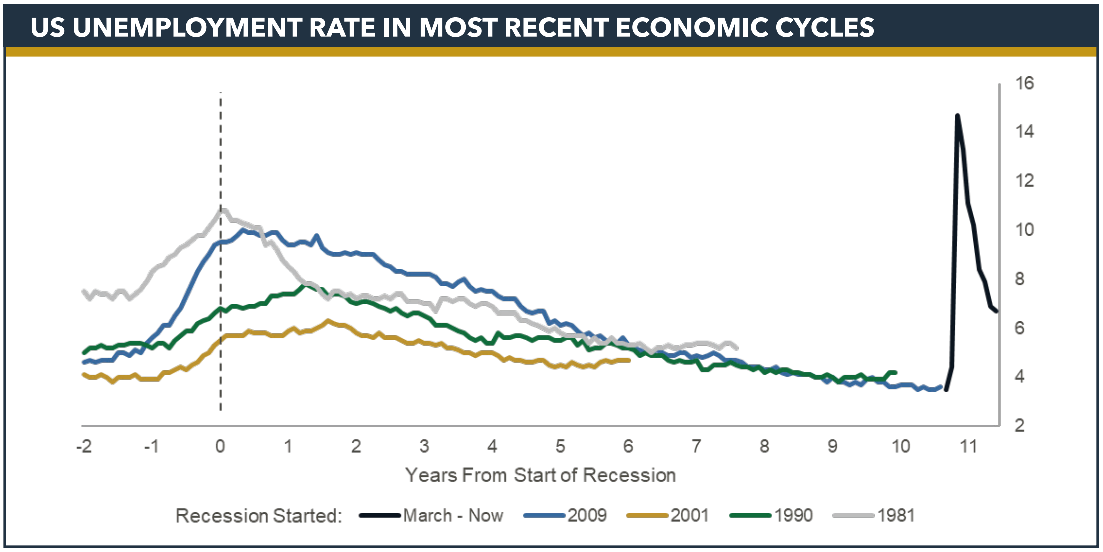
Domestic Equity Market Recap *cont. from page 1*



Source: Bloomberg as of December 31, 2020

Domestic Economic Highlights

The pandemic brought an abrupt end to the longest economic expansion in US history. Coming into February 2020, Total US Payrolls (Public and Private) had increased for 113 consecutive months as the unemployment rate slowly declined to 3.5%, a level not seen since the late 1960s. The gains of the past decade were, however, wiped out by April as more than 20 million jobs were shed. Despite a hiring rebound in the ensuing months, the economy remains in a net loss position of roughly 10 million jobs as of December as the unemployment rate has leveled off at an elevated 6.7%. Even more troublesome, more than 40% of the unemployed have now been jobless for 27 weeks or more. This is considered long-term unemployment and even these numbers likely understate the severity of the labor market shock, as the numbers of marginally attached and part-time workers who would prefer full time employment has increased.



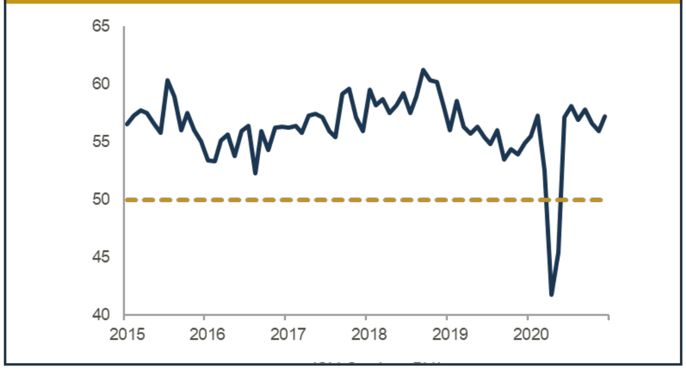
Source: Bloomberg as of December 31, 2020

Domestic Economic Highlights *cont. from page 2*

Despite the bleak picture painted by the labor market, both the ISM Manufacturing and Services Indices were in expansion territory for the seventh consecutive month in December. Notably, the manufacturing gauge surged to a two and a half year high of 60.7 driven by the sub-indices related to demand and consumption.

ISM MANUFACTURING PMI

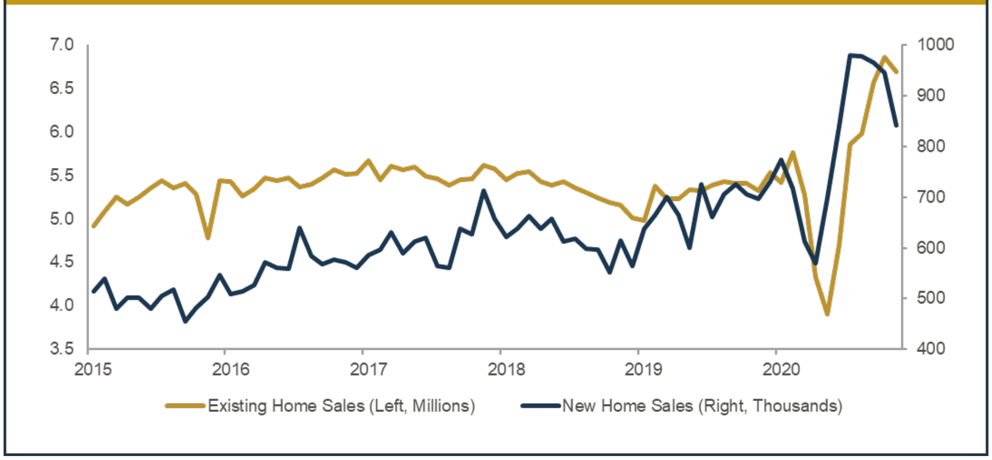
ISM SERVICES PMI



Source: Bloomberg as of December 31, 2020.
Note: Dotted line at 50 represents breakpoint between expansion and contraction

The US housing market, which has been a bright spot throughout 2020, has begun to flash warning signals as both new and existing home sales began to roll over in Q4. While some of this may be attributable to normal seasonality, the strong price appreciation seen throughout the year, with home prices up nearly 9% year on year in November, may have begun to dampen demand. Should this cause hesitation among sellers, already tight inventories may keep price pressures high, further dragging on housing activity.

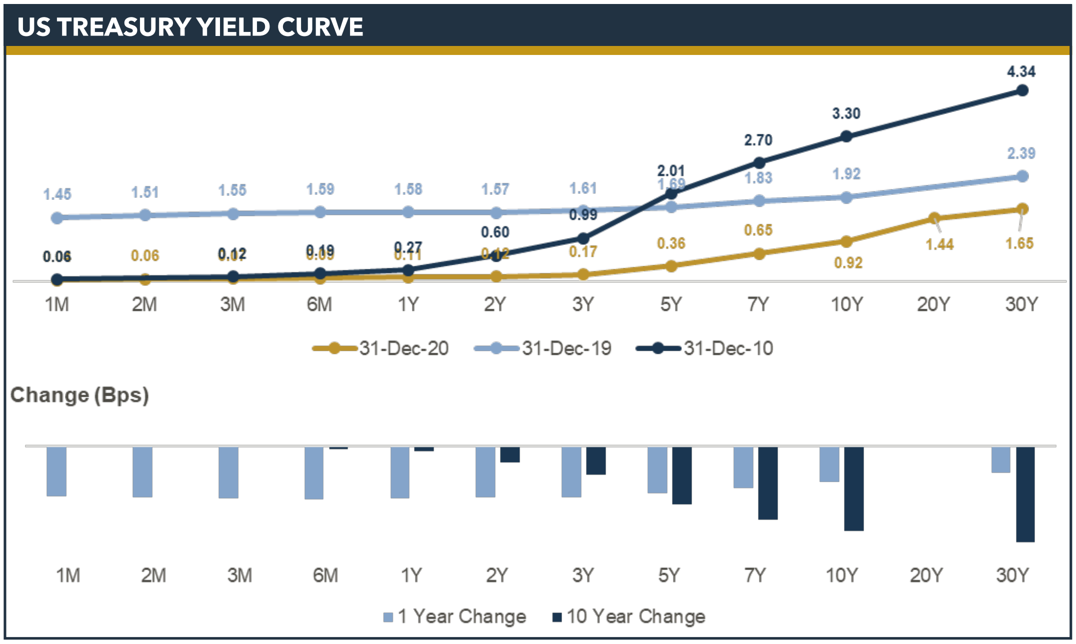
US HOUSING MARKET



Source: Bloomberg as of December 31, 2020

Domestic Bond Market Recap

A combination of the Federal Reserve's low interest rate policy and increasing forecasts for growth and inflation has steepened the yield curve. The spread between 2 year and 10 year Treasury yields is now above 1% for the first time since May of 2017. The rotation of new voting members onto the Federal Open Market Committee will introduce new dovish members, more inclined to keep rates low, in the new year. This, coupled with Democratic control of both the House and the Senate, will likely result in an increase in government spending with the new administration. However, rates remain historically low, with the 30-year treasury yielding just 1.65% at year end, and any significant moves higher may be capped by the Fed's bond buying program.



Source: Bloomberg as of December 31, 2020. Note: 20 Year Historical Treasury data not available as the US Treasury did not issue 20 Year maturity bonds from 1986-May 2020.

In the corporate bond space, spreads continued to tighten off their late-March peaks, with both High Yield and Investment grade spreads back below historical averages. Investors seem willing to accept any excess yield above the risk-free rate. As a result of the yield compression in Treasuries, Investment Grade US corporate bonds currently carry negative real yields (nominal yields less the rate of inflation) for the first time in history. With durations (bond price sensitivity to changes in prevailing interest rates) at record highs, and many firms over-leveraged, selectivity in bond segments and maturities has helped to mitigate risks.

International Equity Market Recap

International equities staged a broad rally in Q4. In the Eurozone, despite a new wave of COVID-19 lockdowns and restrictions, vaccine hopes helped to boost share prices, particularly in the Energy and Financial sectors. A landmark €1.8 trillion spending package passed by the EU, and a long-awaited Brexit trade deal helped to cement positive momentum. In the UK, which has seen a particularly high rate of COVID-19 infections and recently entered its third national lockdown, gains were more muted and favored domestically oriented firms. Emerging markets saw particularly strong performance, rising +20% in the quarter. Many emerging market economies are driven by commodity exports to developed economies. The commodity rally and broad USD weakness has provided a boost to these economies and their stock markets. China saw positive returns, but sentiment was weakened by a fresh round of US tensions related to anti-trust concerns.

Source: Bloomberg as of December 31, 2020

INTERNATIONAL EQUITY INDICES (%) as of Dec. 31, 2020

Period	1M	3M	1Y	3Y	5Y	10Y
MSCI EAF	4.67	16.09	8.39	4.87	8.05	6.09
MSCI EM	7.25	19.61	18.50	6.46	13.18	3.97
FTSE 100	3.28	10.86	-11.45	-1.80	4.78	4.83
Nikkei 225	3.93	18.49	18.24	8.58	9.72	12.50
MSCI China	2.79	11.26	29.02	8.89	15.22	7.79

Commodity Recap

Commodities were a major beneficiary of the improved outlook for global growth, with the S&P GSCI rallying +17% in Q4, yet still finishing the year down -6%. Energy staged a strong recovery as optimistic demand forecasts outweighed concerns of global over-supply. This was aided by unilateral production cut of one million barrels a day by Saudi Arabia. In all, West Texas Intermediate Crude (WTI) rose +17% for the quarter, although oil still closed the year -30% at $48.52/bbl.

As risk appetites improved, the differing demand drivers of key precious metals resulted in varied returns. Gold, which is mainly used as a store of value and portfolio hedge, traded sideways throughout the quarter while Copper, which trades more cyclically as an industrial input, rallied +17%. It is noteworthy that China accounts for approximately 50% of worldwide copper consumption. Silver, which uniquely combines some aspects of safe haven demand and cyclical applications as the most conductive metal, continued to rally +13% in the quarter to finish the year +44%.

COMMODITIES (%) as of Dec. 31, 2020

Period	1M	3M	1Y	3Y	5Y	10Y
S&P GSCI Index	6.19	16.93	-6.13	-2.55	5.60	-4.24
Gold	7.09	0.04	23.61	12.91	11.79	3.12
Copper	3.79	17.29	31.84	5.88	12.86	0.04
Silver	17.62	12.47	43.82	15.03	13.09	-1.74
WTI Crude	5.73	16.66	-29.94	-8.85	-20.73	

Source: Bloomberg as of December 31, 2020

Strategy Focus: The Limited Term Enhanced Yield Strategy

The extremely low interest rate environment has led many investors to seek alternatives to their cash holdings. As a result, Berkshire Wealth Management has constructed and launched our Limited Term Enhanced Yield Strategy. The Limited Term Enhanced Yield portfolio is focused on credit quality, diversification and principal preservation as a result of its short average maturity. The Strategy consists of a combination of mutual funds and ETFs and has the flexibility needed to adjust to changing interest rate environments. This approach makes sense for those individuals or institutions that have high cash balances and are seeking to earn a yield in excess of what CDs, bank accounts, and money market accounts currently offer in today's ultra-low interest rate environment.

We are happy to explore this and other alternatives to traditional cash and cash equivalent investments.

2021 Outlook

As we enter the New Year, changes are afoot in the financial markets. The permanence of these changes in leadership, however, remains to be seen. The rollout of COVID-19 inoculations is undoubtedly a positive development for physical and economic health. However, uncertainty surrounding the availability and distribution of the vaccines as well as their efficacy against recently discovered mutations of the virus has the potential to delay the economy's return to full strength. Additionally, while the transition to a new political administration always introduces a level of legislative and regulatory uncertainty, today's divisive political climate has brought these concerns to the forefront.

Ultimately, we believe that two factors will drive a normalization of economic growth: a broadening of the earnings recovery, and the rebound of the consumer. We note that consumer sentiment, which predicts willingness for discretionary spending, has stabilized 20 points below pre-pandemic levels and failed to show signs of meaningful improvement. Accordingly, personal savings rates have spiked, leaving an estimated $2.5 trillion on the sidelines. Until consumer strength returns, particularly to the hard-hit services sector which normally drives two-thirds of GDP, earnings and therefore share performance will remain uneven.

With these factors in mind, we continue to favor a broadly diversified approach to our investment portfolios. Last quarter, we added to our Industrial weighting and may consider adding to our bank and commodity exposure should the recovery prove sustainable. In our fixed income portfolios, we continue to have a quality bias and the duration of the portfolio remains shorter than the benchmark given the potential for further steepening of the yield curve.

Sincerely,

The Berkshire Bank
Wealth Management Team

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