2020: It Was the Best – and Worst – of Times

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As Charles Dickens wrote in his A Tale of Two Cities: *"It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of Light, it was the season of Darkness."* Those words were written in 1859, but they could have been written yesterday.

How do we even begin to describe the year that was 2020? It was a year of so many extremes – a once-in-a-century pandemic, the most widely contested elections in U.S. history, unprecedented economic collapse, historic unemployment, tsunamis of misinformation and disinformation, and truly unimaginable levels of mistrust, suffering, and despair in the souls of people everywhere.

But there were also great things happening in response to the crisis. Entire industries were transformed practically overnight into the production of personal protective equipment, which was so desperately needed everywhere, and all at once. Government agencies and the pharmaceutical industry raced to develop vaccines at a pace never seen or even imagined before. And on an individual level, countless first responders, doctors, nurses, and other healthcare workers worked around the clock to attend to the sick and dying. Facing the greatest collective challenges since World War II, Americans rose to the occasion. We all did whatever we could to help our loved ones and our communities, and there were everyday heroes among us.

We are not out of the woods yet. The pandemic is still in the process of infecting and killing millions of people across the globe. There are new strains of the virus emerging that are more easily spread and could be much harder to fight. But at this point in early

2021, thanks to the miracles of modern medicine and science, we are starting to see some light at the end of the tunnel. We have a number of vaccines now for COVID-19, in varying degrees of availability, and if we can just hold on for a bit longer – a few hundred more Zoom meetings, a few more months of social distancing – we will achieve significant levels of victory over this outbreak. And eventually, perhaps, we can work through the other calamities that have befallen us.

In the world of planned giving, we need to start thinking about how to move forward again. Despite all of the lives lost, all of the jobs lost, and the millions of people who remain unemployed and millions who remain underemployed, we still have an economic system that is relatively healthy and strong, and we have a country full of charitable organizations that are doing everything they can to make life a little better. There are always too many human needs – which were only exacerbated by the pandemic and its destructive forces – but we also have scores of people who can help the not-for-profit sector fulfill its mission.

Investments

In taking review of 2020, we think it is important to understand exactly what happened in the realm of investments. Planned giving rests on a premise that successful and affluent people – who are also charitably inclined – are willing and able to use portions of their wealth to contribute to charitable causes; and we presume that thoughtful plans can bring considerable benefit to both the charity and the donor. There was much panic in the early and middle parts of 2020 as the economy was cratering and the stock market was crashing. There were periods of time when our financial and economic experts were warning that we could descend to a time possibly even worse than the Great Depression. And yet, after things got very bad, they started to get much better. We went from rock bottom to the top of the mountain, in a matter of months (depending upon how you define the top of the mountain, of course).

We have written about investments and their relationship to planned giving before. After the disappointing results of the stock market in 2018, we tried to make sense of it all in the big picture. In April, 2019, we offered our assessment of how the historic ups and downs of the stock market tend not to dilute the long-term positive results of sensibly balanced investment portfolios: https://www.pgcalc.com/support/knowledge-base/pg-calc-featured-articles/now-dust-has-settled-investments-and-life-income. We want gift planning professionals to understand that mainstream investment portfolios – such as those of planned giving donors, not-for-profit endowments, and split-interest trusts – tend to maintain a slow-and-steady uphill track. With an investment posture that is thoughtful and cautious, using stocks and bonds issued by reputable and secure entities, market values and income earnings tend to go up in the long run.

The majority of investment portfolios that we work with typically have large components of stock (equity) and bond (fixed income) holdings. There may be smaller amounts of cash and other types of investments – international holdings, for example, can offer greater diversification – but for this discussion, we can basically focus on the domestic stock and fixed income components. A "balanced" portfolio usually means the investment objective is for both growth and income – the equity side is for the long-term growth in value, whereas the fixed income side is intended to produce some amount of current income. Income yields are lower than ever before, but the typical investment portfolio still produces an income yield of 2 to 2 1/2%. And yet, there is more to the fixed income side than production of current income; the bonds are also in the basket to protect against the overall value of the portfolio from declining significantly when stock values are dropping precipitously.

Which leads us to 2020. We will use the Standard and Poor's stock index as our measure for equity performance, since it is still the most widely used vehicle. At the end of 2019, the S&P 500 had closed at $3,230.78. After suffering a decline of 6.2% in 2018, the index had delivered a positive return of 28.9% in 2019. So, we started the year of 2020 on a high note. And in early 2020, the index continued to trend upward, reaching a high of $3,386.15 on February 19. That represented almost 5% in less than 2 months. But we were on the precipice of disaster. As news of the Coronavirus broke out in early March, stocks began to tumble worldwide. By the middle of March, it was clear that both the U.S. and the world in general were caught in the path of a destructive force that would bring the world to its knees. On March 16, the freefall started to occur; the S&P 500 closed at $2,386.13. That marked a 26.1 percent decline since December 31 and a 29.5% drop since mid-February. And the damage continued. Within another week, the index dropped further, to $2,237.40, meaning that by this measure of the stock market, we were down over 30% since the beginning of the year and down almost 34% since the middle of February.

The Economy

Sometimes people refer to the stock market as a proxy for the economy, but that is not really true. The stock market simply measures what investors are willing to pay for shares of companies, whereas any comments about the economy are really about the volume of business activity and monetary transactions. In classic economic terms, the stock market is an estimate or a perception of what the economy will do in the near future – in the next 6 to 12 months.

Let us look for a minute about what happened with the economy in 2020. In the first quarter, the U.S. economy shrank at a rate of about 5%. It is almost surprising that the drop was not larger, but remember, the onslaught of news about the pandemic did not really begin until the middle of March. There was not a huge amount of damage done in the last two weeks of March.

But things would get much, much worse. We were about to experience the largest economic collapse since the start of the Great Depression. In the second quarter of 2020, U.S. GDP dropped by an astonishing rate – more than 31%, by most measures. This was historic and life-changing: almost a third of all business activity and monetary transactions in the U.S. simply disappeared. In hindsight, it makes sense, as thousands of factories shut down and businesses shifted either to working from home or they closed completely. There were food shortages; basic goods like toilet paper and household cleaners became precious commodities in short supply. It was a frighteningly new world, unimaginable in modern-day living. Truly, it was a season of Darkness.

As Dickens continued in his opening paragraph: *"…it was the spring of hope, it was the winter of despair, we had everything before us, we had nothing before us, we were all going direct to Heaven, we were all going direct the other way—in short, the period was so far like the present period, that some of its noisiest authorities insisted on its being received, for good or for evil, in the superlative degree of comparison only."*

The Stock Market

And what happened to the stock market at the close of the first quarter? On March 31, the S&P 500 had bumped up slightly to close at $2,584.59, but that represented a drop of 20% since the beginning of the year. Folks who follow the stock market may realize that a drop of 20% represents a significant threshold for investors; when a major stock index declines by 20% or more, the traditional view is that the system has entered into a bear market. That means things are pretty bad in general and stocks are losing value, and it usually lasts for a while.

In this case, however, the stock market started turning around in the second quarter of 2020. The index closed at $3,100.29 on June 30, which represented an increase of approximately 20%. Does that mean the gains offset the losses of the prior quarter? No, because once a 20% loss has been sustained, it takes a gain of a larger percentage to return to the starting point. For the six months ending on June 30, the performance was still negative by about 4%. At the midpoint of 2020, as the pandemic was raging across the country and across the globe, the stock market was still gasping for air, and the economy was in shambles.

The rest of 2020 continued to be a struggle, in terms of managing the pandemic, in terms of the economic malaise, and in terms of the human spirit. We saw surges of the virus and occasional visions of hope; the stock market continued to improve, and the economy began to rebound. The estimated GDP in the 3rd quarter of 2020 hit an unprecedented increase of over 33%. We were certainly not back to normal, in so many ways, but business activity was recovering dramatically. And the stock market continued to anticipate economic strength in the near future: the S&P gained 8.5% in the third quarter and 11.7% in the fourth quarter. Indeed, the annual rate of return came out at over 16%. After a year of historic losses, the stock market appeared to be on the incline again. The estimated GDP in the fourth quarter came in at 4%; certain areas of the economy were clearly in an expansion mode, but there were still many businesses and even entire sectors that were completely shut down.

So, after all the suffering and horror, how did 2020 turn out in terms of investments? Let us remember that the stock market is only part of the investment scenario for donors and other parties. The fixed income side of the picture is measured by various bond indexes, and the most commonly used index is the Bloomberg Barclays Aggregate Bond Index. For the year in total, the investment return on this index was 7.5%. That is actually a very good return on this bond index – it typically runs between 4 and 5%. This means that with a theoretical portfolio mix of 50% equities and 50% fixed income, the 2020 blended investment rate of return would be 11.88%.

In previous articles, we have discussed the long-term averages of investment returns on this theoretical combination of indices, and it is worth taking a look at where we end up after incorporating 2020 into the mix. The average blended portfolio return for the past 5 years was 9.5%, and the average for the past 10 years was 8.84%. The average returns for the past 15, 20, and 25 years are 7.72%, 6.79%, and 8.03%, respectively. As we have said before, these are really conservative numbers – they assume there is no specific asset selection process, no strategic shifting of equity proportion vs. fixed income proportion – basically a paint-by-numbers approach. Individual donors – especially those with access to experienced investment professionals – are likely to have done better than these averages.

Yearly Rates of Return

Year(s)	Bloomberg Barclays Agg.	S&P 500	Portfolio consisting of 50% each
Average for 25 years - 1996 to 2020	5.21%	10.84%	8.03%
Average for 20 years - 2001 to 2020	4.88%	8.70%	6.79%

Year(s)	Bloomberg Barclays Agg.	S&P 500	Portfolio consisting of 50% each
Average - 15 years - 2006 to 2020	4.53%	10.91%	7.72%
Average - 10 years - 2011 to 2020	3.90%	13.78%	8.84%
Average - 5 years - 2016 to 2020	4.48%	14.52%	9.50%
1996	3.64%	22.96%	13.30%
1997	9.64%	33.36%	21.50%
1998	8.70%	28.58%	18.64%
1999	-0.82%	21.04%	10.11%
2000	11.63%	-9.11%	1.26%
2001	8.43%	-11.89%	-1.73%
2002	10.26%	-22.10%	-5.92%
2003	4.10%	28.68%	16.39%
2004	4.34%	10.88%	7.61%
2005	2.43%	4.91%	3.67%
2006	4.33%	15.79%	10.06%
2007	6.97%	5.49%	6.23%
2008	5.24%	-37.00%	-15.88%
2009	5.93%	26.46%	16.20%
2010	6.54%	15.06%	10.80%
2011	7.84%	2.11%	4.98%
2012	4.22%	16.00%	10.11%
2013	-2.02%	32.39%	15.19%
2014	5.97%	13.46%	9.72%
2015	0.55%	1.25%	0.90%
2016	2.65%	12.00%	7.33%
2017	3.54%	21.70%	12.62%
2018	0.01%	-6.24%	-3.12%
2019	8.72%	28.88%	18.80%
2020	7.50%	16.26%	11.88%

Conclusion

In summary, as we look back at the year that was 2020, and as we try to assess where our donors are now, we believe most planned giving donors are experiencing at least some degree of renewed optimism over their financial assets. Americans have seen their investment portfolios sustain devastating losses over the past year, but there has been significant rebound. We seem to be rounding the corner in our battle against COVID-19, and the economy is poised for significant additional recovery. Despite all of the bickering and tensions and gridlock in Washington, DC, it is clear that the federal government will continue doing what it can to improve the economy and the lives of all of us. We believe donors can feel confident in establishing charitable trusts, gift annuities, and other split-interest gift arrangements; charities can continue to manage gift annuity pools and other charitable asset funds with knowledge that careful and prudent investment practices result in reasonably favorable outcomes. We have survived a year like no other, and we are by no means back to normal, but slow and steady wins the race, and it appears that we are once again on the upswing.