

# Student of the Market

February 2021

**BlackRock**<sup>®</sup>

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February 2021

**January  
market  
returns**

**Up and  
downside  
capture**

**Market  
Timing**

**Individual  
stocks**

**Small cap  
stocks**

**Fund flows**

**Interest rate  
predictions**

Source: Morningstar as of 1/31/21. **Past performance is no guarantee of future results.** Index performance is shown for illustrative purposes only. You cannot invest directly in an index.

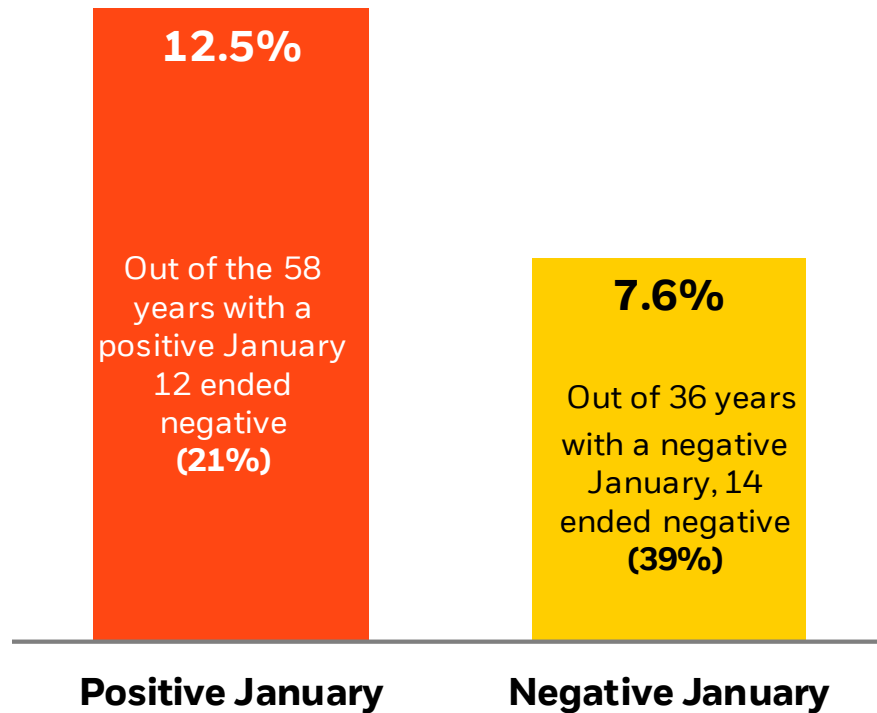
JANUARY MARKET RETURNS

# So goes January, so goes the year?

Annual percentage returns

## Average return following January

Return of the remaining 11 months, per calendar year, since 1926



## Average returns since Financial Crisis

(1/1/2009 – 1/1/21)

	January return	Return for rest of year (11 mo)
<b>2021</b>	-1.01	?
<b>2020</b>	-0.04	18.45
<b>2019</b>	8.01	21.73
<b>2018</b>	5.73	-9.56
<b>2017</b>	1.90	19.56
<b>2016</b>	-4.96	17.81
<b>2015</b>	-3.00	4.52
<b>2014</b>	-3.46	17.76
<b>2013</b>	5.18	25.87
<b>2012</b>	4.48	11.03
<b>2011</b>	2.37	-0.25
<b>2010</b>	-3.60	19.36
<b>2009</b>	-8.43	38.10

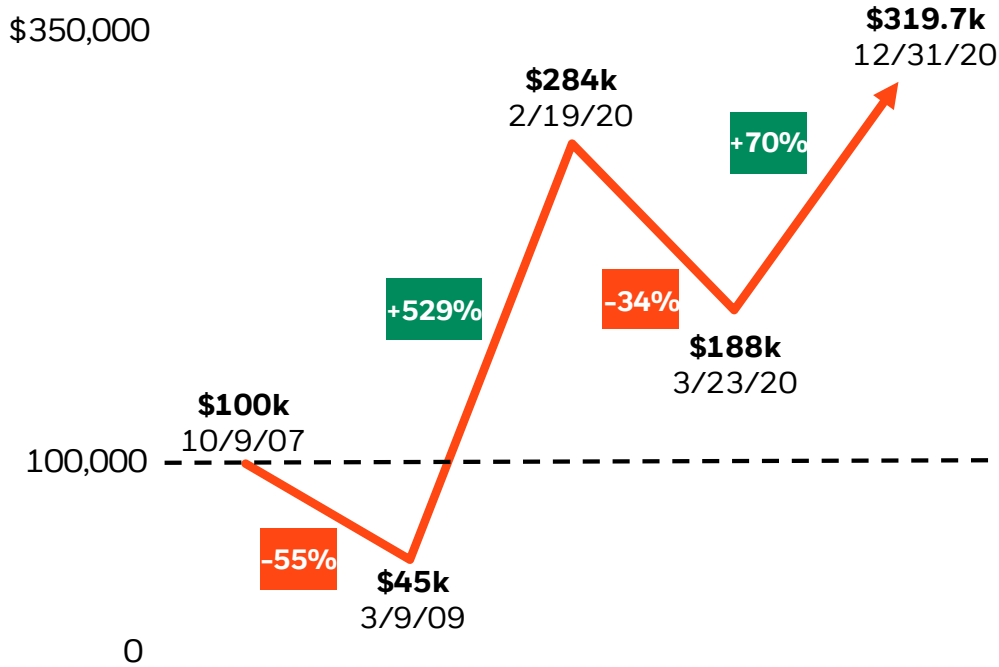
→ 6 of the last 12 Januarys have been negative, but all 6 finished the year higher

Source: Morningstar as of 1/31/21. U.S. Stocks represented by the S&P 500 Index after 1979 and by the IASBBI US Lrg Cap Index before 1979. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You can not invest directly in the index

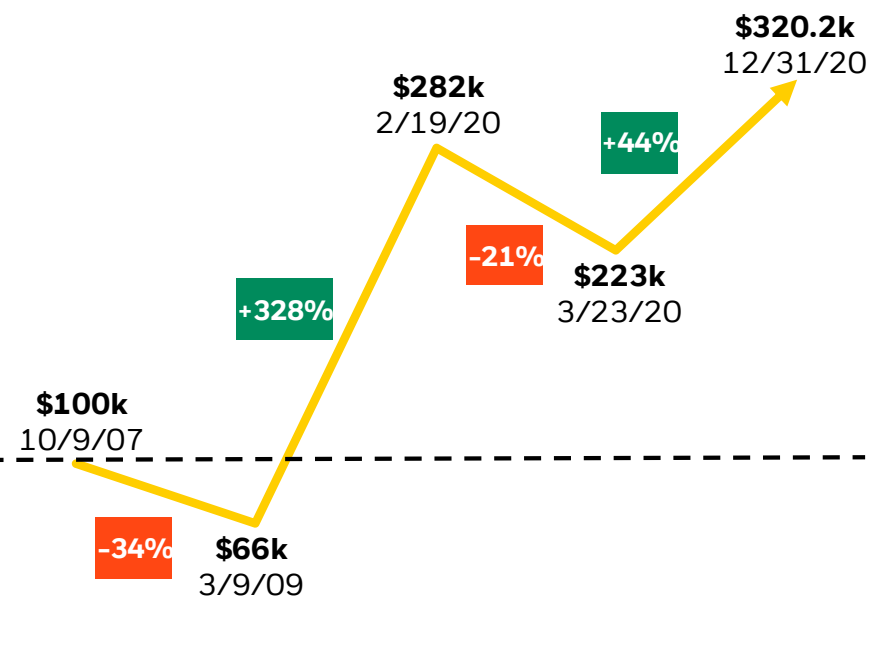
UP AND DOWNSIDE CAPTURE

# Win more by losing less

**All the up and all the down**  
(S&P 500 returns)



**A little more than half the up and half the down**  
(Capturing 62% of the last 2 bull and bear market S&P 500 returns)

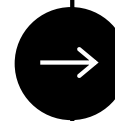
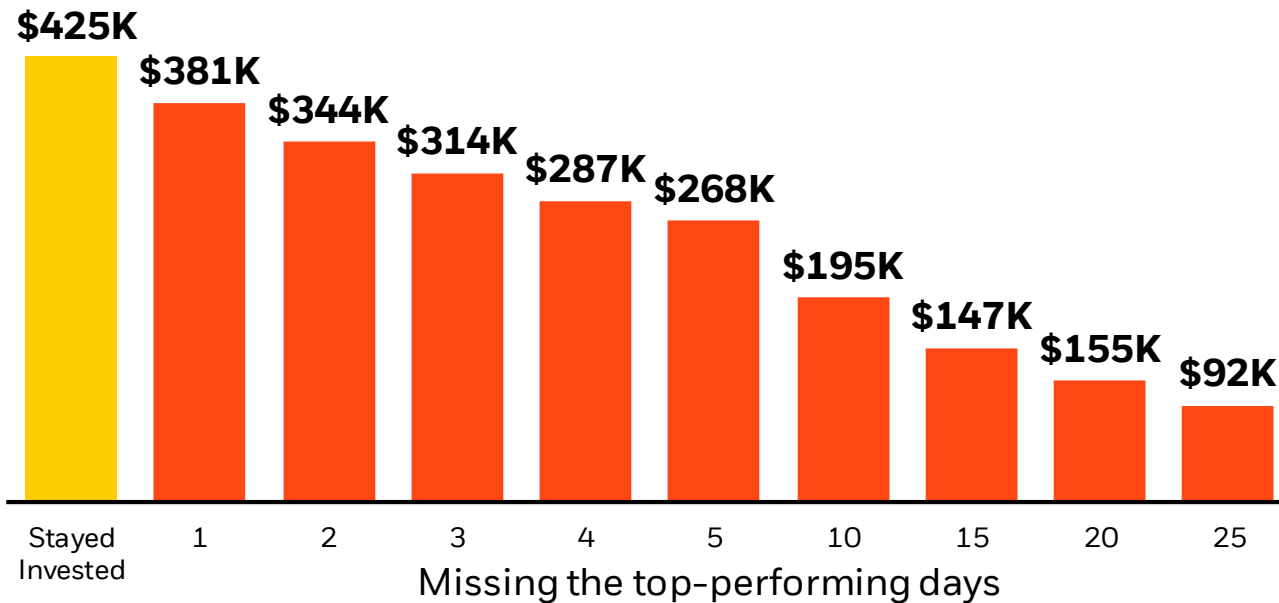


Source: Morningstar as of 12/31/20. Stocks are represented by the S&P 500 Index, an unmanaged index that is generally considered representative of the U.S. stock market. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

# It's time in the market, not timing the market

## Missing top-performing days can hurt your return

Hypothetical \$100,000 investment in the S&P 500 Index over the last 20 years (2001-2020)



**Don't miss out when markets snap back**

22 of the 25 worst days in the market were within one month of one of the 25 best days

Source: BlackRock; Bloomberg as of 12/31/20. Stocks are represented by the S&P 500 Index, an unmanaged index that is generally considered representative of the U.S. stock market. **Past performance does not guarantee or indicate future results.** It is not possible to invest directly in an index.

## INDIVIDUAL STOCKS

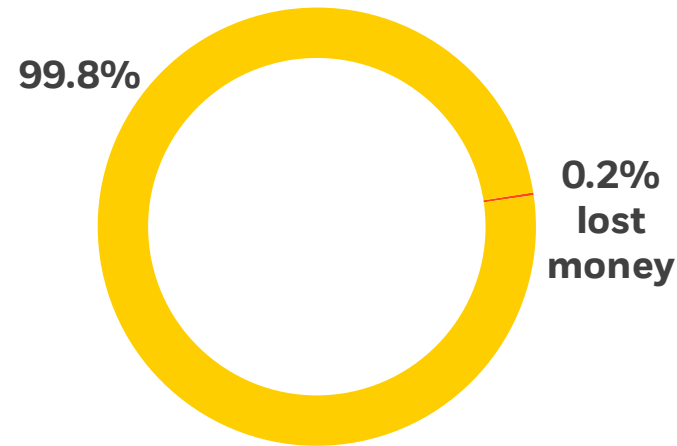
# Chase individual stocks at your own risk

Not all stocks are created equal, but there's strength in numbers. U.S. stocks broadly gained 15.2% over the last 5 years.

**Individual U.S. stocks**  
(last 5 years)



**U.S. stock mutual funds and ETFs**  
(last 5 years)



	# positive	# negative	% lost money
U.S. stocks	2420	1225	34%
U.S. stock mutual funds	1755	4	0.2%
U.S. stock ETFs	270	0	0%

Source: Morningstar as of 12/31/20. Mutual Funds and ETFs are the Morningstar U.S. Equity Category, oldest share class only. U.S. Individual Stocks are the Morningstar US Stock Universe, all securities on the NYSE and NASDAQ. Analysis does not include obsolete mutual funds, ETFs or stocks as defined by Morningstar. **Past performance does not guarantee or indicate future results.**

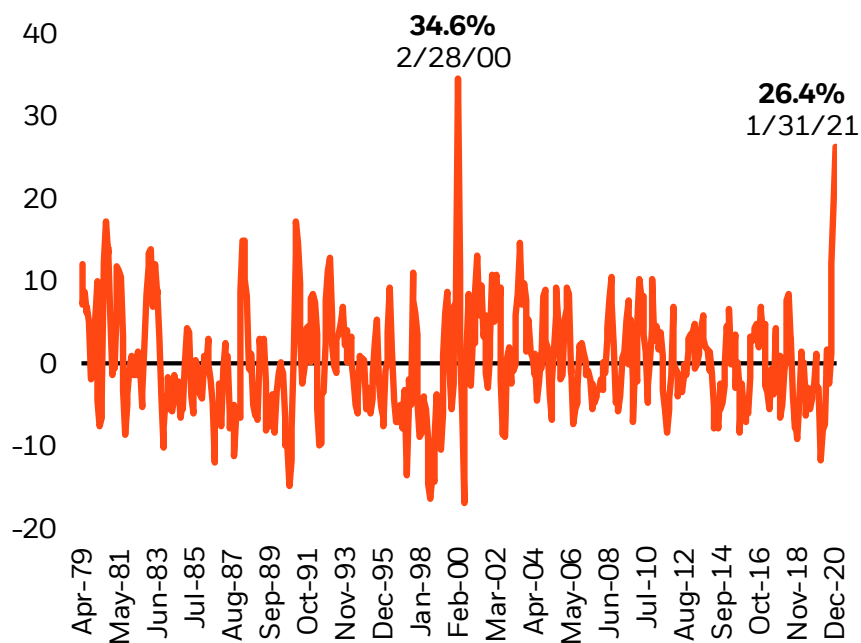
SMALL CAP STOCKS

# Historic bounce back in small caps

Small cap stocks outperformed large caps in 2020 for the first time in 4 years

## Historic small cap outperformance over large cap stocks in the last 4 months

(4-month rolling performance, 1979-1/31/2021)



## Top 10 periods of small cap outperformance

(4-month rolling performance, 1/1/79- 1/31/21)

	Top 10: (Sm cap - Lg cap)	3 years later: (Sm cap - Lg cap)
Feb-00	34.6%	0.4%
Jan-21	26.4%	?
Dec-20	19.1%	?
Aug-80	17.3%	7.1%
Mar-91	17.2%	6.5%
Mar-88	14.9%	-8.8%
Apr-88	14.9%	-9.4%
Aug-03	14.7%	-3.5%
Apr-91	14.6%	6.4%
Oct-80	14.2%	3.8%

Source: Morningstar as of 1/31/21. Large cap stocks are represented by the S&P 500 Index. Small-cap stocks are represented by the Russell 2000 TR USD Index. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

FUND FLOWS

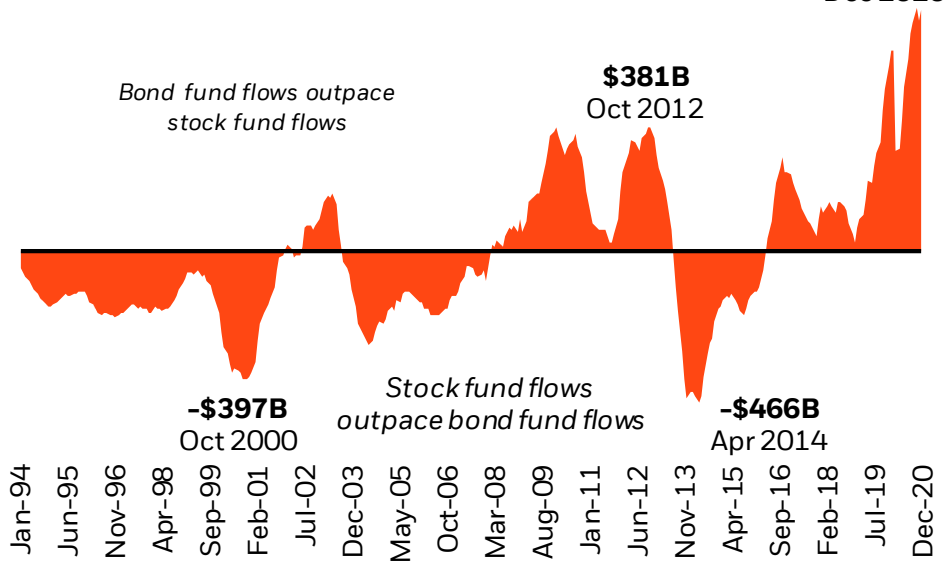
# Record year for fund inflows and outflows

2020 saw record outflows in equity funds, while bond fund had historic inflows

## Record divergence between stock and bond flows in 2020

12-month bond flows minus stocks flows  
(Mutual fund and ETFs, 1/1/94 – 12/31/20)

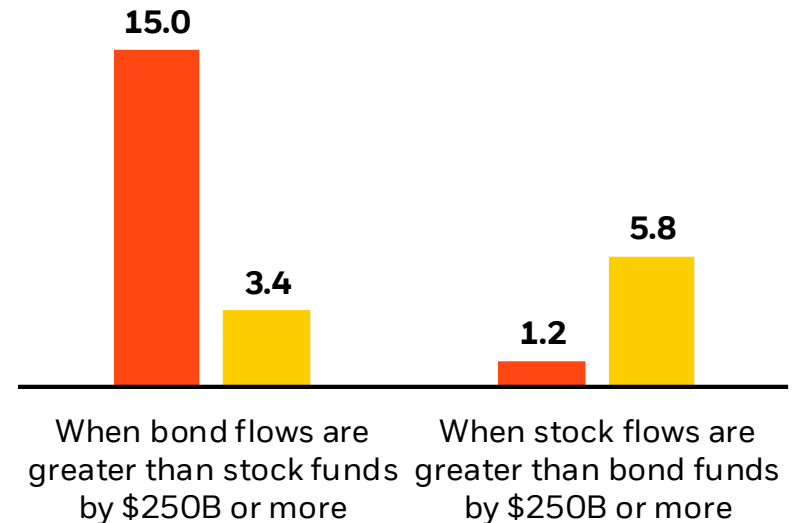
**\$745B**  
Dec 2020



## Average return following large divergences

Average 3-year performance

■ U.S. stocks ■ U.S. bonds



Source: Morningstar, BlackRock as of 12/31/20. Stock funds are represented by the Morningstar Broad Equity Category including US, International and sector funds. Bond funds are represented by the Morningstar Broad Bond Category including US, Bond funds and municipal funds. Past performance does not guarantee or indicate future results.



## INTEREST RATE PREDICTIONS

# Most economists can't predict rates

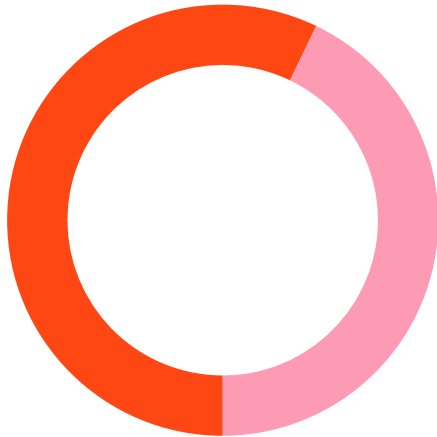
A survey of more than 30 Wall Street economists shows that the year-over-year prediction of the directional change of the 10-Year U.S. Treasury Bond was only correct 45% of the time since 1992.

### Philadelphia Federal Reserve survey of 30+ Wall Street economists

(10-Year Treasury Bond year-over-year predictions 1992 – 2020)

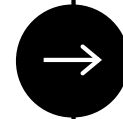
Incorrectly  
predicted the  
direction of  
interest rates

**57%**



Correctly  
predicted the  
direction of  
interest rates

**43%**



Since 1992, economists predicted higher interest rates

**23 out of 28 years**

The average amount of error was

**0.96%**

The prediction for year end 2021 is

**1.15%**

Source: Morningstar, Philadelphia Federal Reserve as of 12/31/20. The 4<sup>th</sup> quarter median calendar year forecast used, the median forecast for the direction of the 10-year U.S. Treasury Bond was correct in 12 of 28 years. **Past performance does not guarantee or indicate future results**

# Student of the Market: February 2021

Returns as of 1/31/2021	Total Ret 1 Year	Total Ret 5 Years	Total Ret 10 Years
S&P 500 TR USD	17.25	16.16	13.50
BBgBarc US Agg Bond TR USD	4.72	4.00	3.75
IA SBBI US IT Govt TR USD	7.25	4.00	3.12
IA SBBI US Large Stock TR USD Ext	17.25	16.16	13.50
Russell 2000 TR USD	30.17	16.50	11.78

Source: Morningstar. Performance data quoted represents past performance and is no guarantee of future results. Current performance may be lower or higher than that shown. ©2020 Morningstar. All Rights Reserved. The information, data, analyses and opinions contained herein (1) include the confidential and proprietary information of Morningstar, (2) may include, or be derived from, account information provided by a financial advisor which cannot be verified by Morningstar, (3) may not be copied or redistributed, (4) do not constitute investment advice offered by Morningstar, (5) are provided solely for informational purposes and therefore are not an offer to buy or sell a security, and (6) are not warranted to be correct, complete or accurate. Except as otherwise required by law, Morningstar shall not be responsible for any trading decisions, damages or other losses resulting from, or related to, this information, data, analyses or opinions or their use. This material is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. The opinions expressed are as of 1/31/21 and may change as subsequent conditions vary. The information and opinions contained in this material are derived from proprietary and nonproprietary sources deemed by BlackRock to be reliable, are not necessarily all-inclusive and are not guaranteed as to accuracy. Past performance is no guarantee of future results. There is no guarantee that any forecasts made will come to pass. Reliance upon information in this material is at the sole discretion of the reader.

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