

2020 4th Quarter – Economic & Market Commentary

January 16, 2021

2020 was a year none of us will forget anytime soon.

It started strongly, with equity markets at all-time highs and unemployment near record lows. But by mid-March, the coronavirus had reached North America after emerging overseas in late 2019. Governments around the world abruptly shuttered their economies and issued shelter-in-place orders in an effort to slow the spread of the disease – resulting in sharp and drastic declines across major stock indexes globally.

As the first wave of COVID-19 infections began to slow over the second and third quarters of the year, markets then staged an impressive recovery. This was particularly true in the U.S. where the S&P 500 Index, a broad representation of the U.S. equity market, regained all of its losses by mid-August – the fastest rebound on record.

Despite a resurgence of COVID-19 cases and renewed lockdowns in many regions, markets trended upward during the fourth quarter of 2020, boosted by growing clarity around the outcome of the U.S. presidential election and significant COVID-19 vaccine progress. With the rollout out of approved vaccines across many developed countries including in Canada, the U.S. and the U.K., the global outlook for an economic recovery is improving, although there will undoubtedly be some volatility along the way.

Capital markets in the fourth quarter

The S&P 500 Index experienced a pullback due to uncertainty in the days leading up to the U.S. election but soared in the weeks that followed, driven by the energy and financials sectors, to end the year at a new all-time high. The U.S. index was up 7.1% for the fourth quarter and 16.1% for the year in Canadian-dollar terms. The MSCI World Index, which reflects returns for developed equity markets around the globe, was up 9.0% for the quarter and 13.6% for the year.

The Canadian economy was boosted by stronger demand for energy and higher oil prices in the fourth quarter, along with the approval of Pfizer's COVID-19 vaccine. While the S&P/TSX Composite Index has moved upward since its pandemic-induced low in March, the Canadian benchmark has yet to return to the record level reached in February. The index posted a gain of 9.5% for the quarter and 5.6% for the year-to-date.

Interest rates remained unchanged in Canada, the U.S. and Europe during the final three-month period of the year. In December, the Bank of Canada held its benchmark interest rate steady at 0.25% after cutting rates in March in response to the COVID-19 pandemic. The Bank of Canada reiterated it will continue to buy Government of Canada bonds at a rate of about \$4 billion per week to keep downward pressure on interest rates, and restated that it would keep the benchmark lending rate near zero until sometime in 2023. The U.S. Federal Reserve maintained its target for the federal funds rate at a range of 0% to 0.25%. The European Central Bank held interest rates on its main refinancing operations, marginal lending facility and key deposit rate at 0.00%, 0.25% and -0.50%, respectively and also expanded its monetary stimulus program.

What can we expect now?

The events of 2020 have given us yet another reminder of how unpredictable markets, and life in general, can be. At the beginning of the year, no one would have predicted a global pandemic unfolding, or that markets would plummet only to recover in record time, or even that the best-performing stocks would be those that enabled work-from-home and e-commerce.

One of the best ways to protect your portfolio from the unexpected is diversification. We have worked together to broadly diversify your investments and always ensure that all of your eggs are never in just one basket.

2020 also again reminded us just how very important it is to stay invested. Those people who sold their investments after markets plummeted in March simply locked in those short term losses, while people who chose to stay invested (along with those who took advantage of the opportunity to add to their holdings) were rewarded for their patience when markets bounced back just a few short months later.

Looking ahead, the pandemic will continue to impact markets in the coming months as vaccine distribution gets underway. Accommodative fiscal and monetary policies from central banks around the world are also expected to continue for some time.

I would like to wish you and your family a happy and healthy new year. I would also like to thank to you for your continued trust in me and for the opportunity to assist you in working toward your financial goals.

Amanda and I are always here to help. Should you have any questions regarding your investments, please do not hesitate to contact the office.



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