

MARKET SPOTLIGHT - DECEMBER 2020

Writing the Next Chapter

As we get ready to say goodbye to 2020, we're welcoming a positive development in the battle against COVID-19. Several effective vaccines are moving closer to a distribution date, even as a new wave of the pandemic prompts lockdowns in many nations.

This month, we look at the evolution taking place in global financial markets. A new U.S. administration and potential COVID containment are some of the milestones that could make next year's global economy look very different from the one we're leaving behind.



Ending the year on an up note

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Finally, the much anticipated U.S. election has a declared winner—even though challenges to the vote count continue. The equity surge that followed the Biden victory can be seen as a relief rally, a stamp of approval or perhaps just a “now back to business” refocus. On the medical front, we're encouraged by the announcement of two highly effective COVID vaccines, but the battle isn't over. Next step to tackle—the logistics of getting the vaccines to the people.

The split U.S. Congress (still to be confirmed at this date) likely implies a smaller stimulus package will be passed. As a result, the Federal Reserve will need to “make up the difference” by keeping rates historically low for even longer and possibly increasing Quantitative Easing at its December meeting. “Lower for even longer” rates combined with effective vaccines would be a positive for risky assets, credit spreads and cyclical sectors of the equity market. This would also increase the likelihood of a lower U.S. dollar (as we've been forecasting) and, consequently, a relatively higher Canadian dollar.

On the international front, we believe the new administration will take a less aggressive approach to trade negotiations, especially with China, where Biden will be less inclined to use tariffs as the weapon of choice. This further increases our optimism around the economic prospects for China and Southeast Asian countries, where management of the pandemic has been quite effective.

There are other areas where we expect the next four years to look different than the last four. Climate change and environmental issues, including the implications for energy production, are a few areas that we'll be keeping a close eye on as the new administration settles in. The split in Congress lowers the likelihood of a corporate tax increase and the threat of an enforced breakup of big technology firms.

Although Black Friday seems to be morphing into a month of Black Fridays, this year's results will be particularly revealing on several fronts. Recent strong earnings reports from retailers highlighted the growing

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Ending the year on an up note

importance of an on-line sales channel. We'll be watching to see if consumers feel inclined to spend some of their accumulated savings and how the COVID lockdown will influence the choice of online vs. in-person shopping. The holiday season will be another revealing point of reference. Early Black Friday sales figures indicate that the North American consumer is ready to spend online, but not in-person.

After a year that many are calling one of the strangest they've ever experienced, marked by much uncertainty,

and at times fear and pessimism, we're seeing some light at the end of the tunnel. We're encouraged that our positive stance on the global economy is bearing fruit and we'll continue to follow global developments closely in the months to come. The strong growth resurgence in China, developments around Brexit and a post-vaccine COVID world will provide much food for thought.

I wish you all the best for a safe and joyful holiday season!



COVID-19: here come the vaccines

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With a relatively modest degree of progress in the field of treatments for COVID-19, attention has largely shifted to the development of effective vaccination strategies. This has become particularly important with the emergence of data suggesting that COVID-19 may directly impact many organs outside the respiratory system, leading to significant potential complications, particularly those resulting from cardiac or vascular involvement. That is not entirely surprising given the fact that the ACE-2 receptor, through which SARS-COV2 infects human cells, is widely expressed in many different tissues.

Fortunately, it now appears that effective vaccines are just around the corner. Early initial studies with various vaccine modalities demonstrated their ability to elicit an immune response against SARS-COV2 in human subjects. Among the most promising vaccination modalities were the mRNA, viral vectored and traditional subunit approaches, which were subsequently advanced into pivotal clinical trials. The key question that needed to be addressed was whether vaccination would lead to decreased risk of contracting COVID-19 while being safe. Interim data from two Phase 3 trials of mRNA vaccine candidates, developed by Pfizer in collaboration with BioNTech as well as Moderna, offered insight into their early

efficacy. Both have reported an over 90% reduction of infection risk in vaccinated individuals as compared to placebo—a result considered by many as meeting highest expectations. While we are still awaiting the safety data from these trials, which will be limited to a two month duration of follow-up, there appear to be no notable adverse events emerging thus far.

It's reasonable to expect that regulatory agencies across key developed markets will grant approvals to both mRNA vaccines in the coming months. However, given the relatively limited data available, particularly on safety, these products will likely be initially administered to high risk populations only. Broad-based vaccinations will therefore begin to be deployed globally in the middle of 2021, assuming that no new concerns arise from the ongoing studies. However, the critical question regarding the durability of vaccine-induced protection, which may be compromised by waning of the immune response as well as viral evolution, remains unanswered. At the moment, it appears that we could expect effective immunity in vaccinated individuals to last for a period of at least 1-2 years. Also, SARS-COV2 is not currently exhibiting structural alterations profound enough to evade it. Nevertheless, repeat vaccinations as well as novel developments may be required to address COVID-19 in the future.



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Gold, copper and oil — outlook in 2021

In the months ahead, the outlook for the commodity sector will be driven by the push and pull of vaccine hope and growing COVID case counts worldwide. The v-shaped recovery in China has supported metal prices, in particular copper and iron ore, and has put a floor under the oil price at about \$40/barrel. We need to see some recovery in the rest of the world to support prices as we head into 2021. In terms of the outlook for gold, price action has been whipped around by stimulus and vaccine expectations. However, we expect the gold price to be supported into 2021 on continued accommodative fiscal and monetary policies by central banks and governments worldwide.



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Technology

Will sector rotation leave technology behind?

The COVID-19 pandemic accelerated a substantial number of technology-driven secular trends. These include the growth of e-commerce, the digital transformation of businesses and wider adoption of interactive media and entertainment. The technology sector saw significant stock outperformance and higher valuations during this period. In the coming months, with vaccines set to rollout, we broadly expect the technology sector to underperform, as a deceleration of these secular trends is widely expected. However, select areas of technology exposed to travel, online advertising and offline payments should actually outperform, as they see significant benefit from a reopening of economies and a reduction in virus concerns.

Which equity sectors look attractive?

Looking into 2021, a successful rollout of a COVID vaccine could contribute to a significant rotation and broadening of equity market leadership. Many value stocks that have lagged in 2020 could see a recovery in earnings and stock prices. For example, many REITs with attractive yields are currently trading at record low valuations. These businesses could see stabilizing occupancy and cash flow levels, leading to a revaluation of stock prices.

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