MONTHLY MARKET INSIGHTS

Data and opinions as of January 6, 2021

Stocks end the year strong

Stocks continued their rally into year-end as coronavirus vaccines began to be administered to the public and a second US$900 billion fiscal support package was finally passed, providing Americans with a one-time payment of $600. A post-Brexit trade agreement came into effect January 1, 2021, avoiding much of the uncertainty and discord were the U.K. to leave the E.U. without a deal.

It now appears that Democrats have won both seats in the Georgia senate elections. With Vice President-elect Kamala Harris as the tie-breaking Senate vote, the Democrats have effectively achieved majority control of both the House and Senate (known as the "Blue Sweep"). This will likely have major implications in areas such as COVID-19 relief efforts, climate change action, corporate tax, and regulation.

The NEI perspective

2021 will be characterized by five major transitions: 1) to a fiscal-led recovery, 2) to a digital economy, 3) to a sustainable economy, 4) to a durable economy, and 5) to an equitable/inclusive economy.

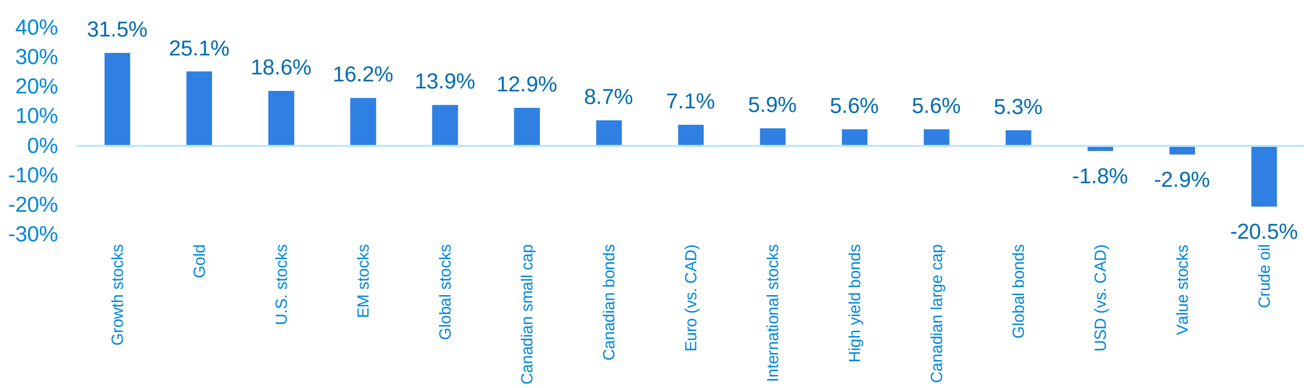
A rising fiscal tide will not lift all boats. Expansionary fiscal measures combined with continued global economic recovery and reflation will benefit some asset classes and sectors at the expense of others.

Active management will be key to navigating 2021. While we expect positive returns from equities, the cyclical rotation will likely create even greater intra-market opportunities. For bond investors, with real yields at negative levels and the expectation they will rise slowly over the next few years, investors will need to think beyond the traditional "buy and hold" strategy to generate returns.

From NEI's 2021 Market Outlook. *Click here to get the full report (pdf).*

Asset class returns for 2020

Chart notes on page 2.



A look back at 2020

Needless to say, 2020 was quite the eventful year. As overused as it was, “unprecedented” was probably the best word to describe many of the events throughout the year. Below are some highlights:

- News of the coronavirus first emerged in late 2019, and market reaction was muted even as the epicenter at the time (Wuhan, China) went into a full-scale lockdown. On March 11, the WHO declared COVID-19 a pandemic. The S&P 500 saw its *fastest ever sell-off into bear market territory*, dropping 33.9% in just 23 trading days. Even investment grade bonds saw extreme volatility and sold-off as investors sought liquidity.
- At the peak of the pandemic, as many as 6.8 million Americans filed for unemployment claims in a *single week*.
- As the global economy came to a halt, oil demand fell, and storage was quickly filling up. Traders had to pay to get futures contracts off their hands to avoid taking physical delivery of the oil, which led to crude oil futures trading as low as *negative* US$37 per barrel in April.
- In response to the extreme stress across financial markets, central banks cut interest rates to near zero and announced asset purchase programs at never-seen-before levels, growing their balance sheets by US$7.5 trillion. And, for the first time, recognizing that we are facing a global health crisis (not a financial crisis), governments also turned on their fiscal taps, injecting nearly US$12 trillion into the economy to support businesses and individuals impacted by the virus and lockdowns.
- As a result of these aggressive policy measures, the fastest sell-off was followed by one of the strongest rallies in history, as the S&P 500 ended the year 70.2% higher from its March 23 low. However, not all segments of the market benefitted from the spectacular rally, as the five largest companies (FAANG), making up approximately 20% of the index, drove a large portion of the index returns during this period. This means that despite the double-digit gains of the S&P 500, more than one-third of the companies in the index still saw negative returns in 2020.

Chart notes

Source: Morningstar. Data as of December 31, 2020. C$ unless otherwise indicated. “Growth stocks”: MSCI World Growth; “U.S. stocks”: MSCI World USA; “EM stocks”: MSCI Emerging Markets; “Global stocks”: MSCI World; “Canadian small cap stocks”: S&P/TSX Small Cap; “Canadian bonds”: FTSE Canada Universe Bond; “International stocks”: MSCI EAFE; “High yield bonds”: Bloomberg Barclays U.S. High Yield 2% Issuer Cap; “Canadian large cap stocks”: S&P/TSX Composite; “Global bonds”: Bloomberg Barclays Global Aggregate; “Value stocks”: MSCI World Value; “Crude oil (US$)”: West Texas Intermediate.