Monthly Market Monitor

December 2020

HIGHLIGHTS

Vaccine news drives markets to new highs

It is no longer a matter of "if," but "when" a vaccine will be available, as multiple drug companies announced positive early trial results. However, with approval processes, distribution efforts, and the general public's muted enthusiasm, it may take some time to achieve herd immunity to COVID-19.

Lockdowns continue

The appearance of second and third waves of the coronavirus has prompted nations to reinstate temporary lockdowns. These measures will no doubt have a negative impact on Q4 economic activity and are already reflected in equity market weakness.

Fiscal policy will drive the recovery

While it is unlikely we'll see a U.S. stimulus package this year, the nomination of former Fed Chair Janet Yellen as Treasury Secretary bodes well for a coordinated monetary and fiscal response over the longer-term.

ASSET ALLOCATION OUTLOOK SUMMARY

■ This month

■ Last month

	Negative		Neutral		Positive
Equity					
Canada Equity			■		
U.S. Equity				■	
International Equity			■		
EM Equity				■	
Fixed Income					
Government Bonds		■			
Corporate Bonds				■	
High Yield Bonds			■		
Overall equity				■	
Overall fixed income		■			

This table illustrates the short-term outlook of NEI's Asset Allocation Team on various equity and fixed income asset classes as of November 30, 2020. If an asset class has a blue box in its row and no green box, it means this month's outlook is the same as the prior month's.

U.S.

What was initially thought to be a tail-risk for markets, the odds of President Trump refusing to concede has largely diminished. With most of his lawsuits shot down, Trump has formally allowed the Biden Administration to begin its transition. Furthermore, it has been reported that President Trump will give up power if the Electoral College votes for Biden in December, the outcome indicated by votes across the U.S.

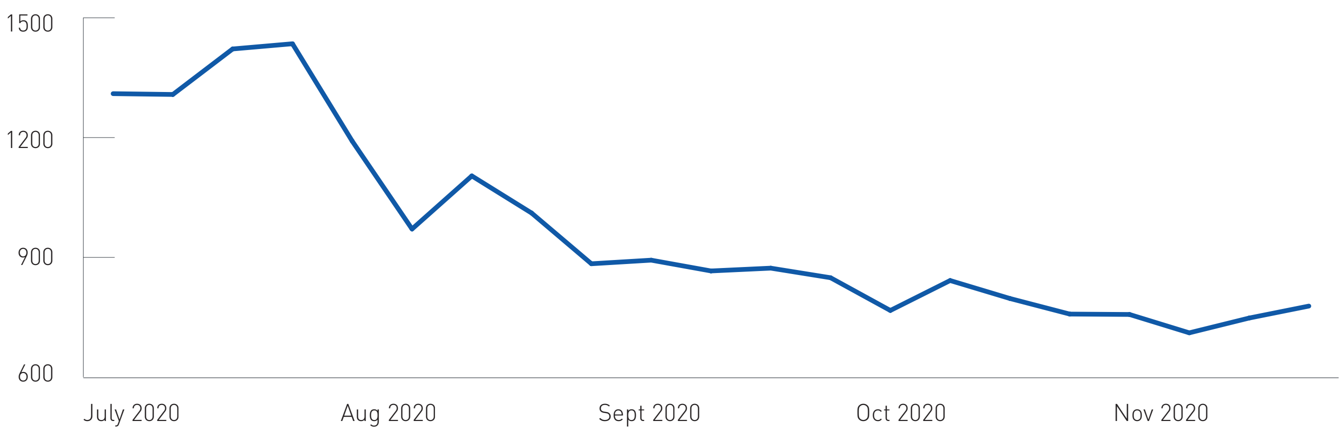
But the elections are not over yet. Last month it was initially thought the Democrats had missed their chance for a "Blue Sweep" (control of the presidency, the House, and the Senate), but there remains a sliver of chance. A run-off election in Georgia on January 5 puts two Senate seats up for grabs. Should Democrats take both, it would give them exactly 50 seats in the Senate, with Vice President-elect Kamala Harris as the tie-breaking vote, effectively giving Democrats the majority.

It is unclear in the short term how markets will digest a potential Blue Sweep, as on the one hand, a Senate majority would allow Democrats the ability to push more fiscal spending to the people, but on the other hand, it would also pave the way for higher corporate taxes and increased regulation. With former Federal Reserve Chair Janet Yellen as Biden's pick for Treasury Secretary, markets have high hopes for coordinated stimulus measures between the Treasury and Fed during this fragile economic recovery period.

Recent vaccine developments have boosted investor sentiment. Pfizer (in partnership with BioNTech), Moderna, and AstraZeneca have all released encouraging early trial results. In fact, the November PMI readings show that business activity has accelerated on the news. Even just a single vaccine getting approval from the U.S. Food and Drug Administration would be a huge leap forward, but the rollout timeline could be advanced considerably if there are multiple approvals. The main concern going forward is scaling up supply, as well as the successful and widespread distribution necessary to achieve herd immunity.

Number of Americans filing for unemployment rose for two consecutive weeks

U.S. Initial Jobless Claims ('000s)



Source: Bloomberg. Data as of November 30, 2020.

Markets have rallied strongly with elections out of the way and a vaccine beginning to be priced in. With those uncertainties reduced, the focus once again turns to the stimulus response as the fight against the pandemic continues. Case counts continue to climb, once again testing a dangerous scenario in which the healthcare system becomes overwhelmed. With many small businesses already on the brink of collapse, further lockdown measures could be devastating. Jobless claims ticked higher for the first time in weeks and personal income fell in October. The data is pointing to a stalling recovery. Economists have long said the last mile would be the hardest, and it seems that to reach the end goal more stimulus will be required.

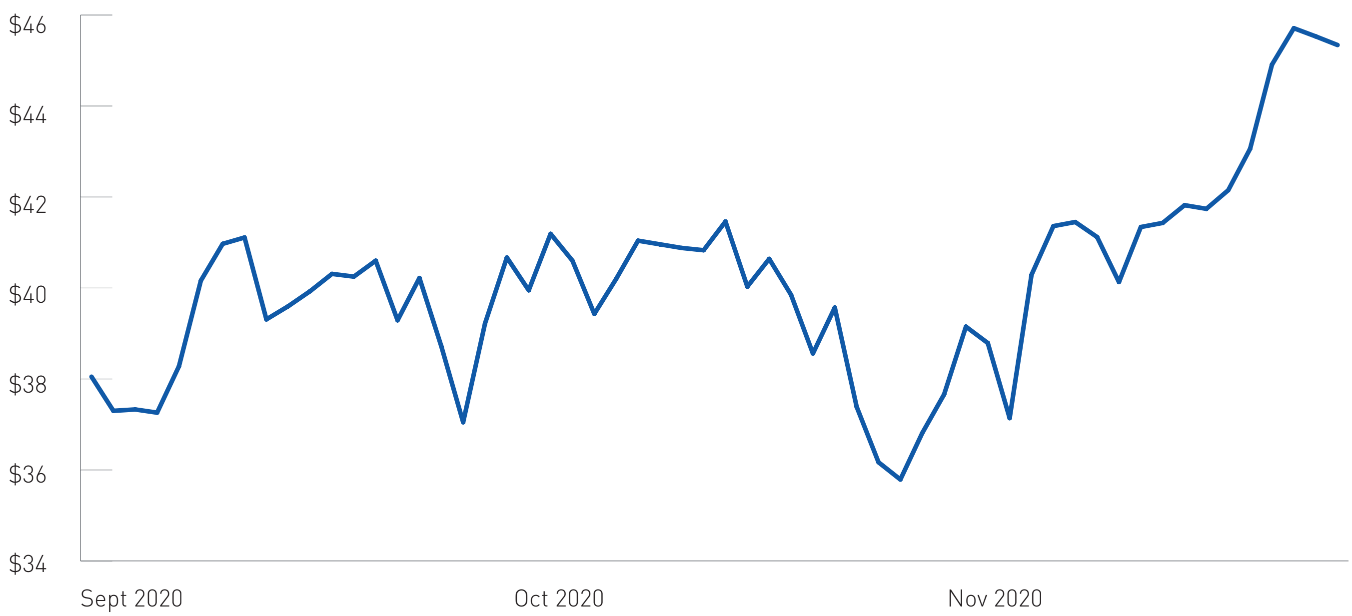
CANADA

Cases continue to mount in Canada, which is reporting new daily highs. Vancouver and Toronto tightened their lockdowns with both Ontario and B.C. introducing new measures. Alberta followed suit, as its active case count has now surpassed that of Ontario. Generally speaking, stricter measures have been taken on social and indoor gatherings, as well as non-essential businesses.

The new shutdowns will no doubt hurt small businesses. Even before the new lockdowns, an October survey from the Canadian Federation of Independent Business shows that 74% of respondents were worried about the uncertainty around a second wave, and 39% of businesses were losing money each day they were open.

Crude oil rallied 27% in November

WTI Crude ($US/bbl)



Source: Bloomberg. Data as of November 30, 2020.

Oil prices have recovered strongly on the vaccine news. Crude oil prices topped US$45/barrel, gaining 26.7% in November. The OPEC+ coalition continues to support prices with many members in favor of extending the current production cuts, though no formal decision has been made. Strong activity in China has contributed to the recovery thus far, but the stalling European economy poses headwinds.

The latest federal fiscal update reaffirms Canada's leading position in terms of government response to the pandemic. Finance Minister Chrystia Freeland unveiled $51.7 billion of new spending over two years, with a focus on enhanced wage subsidies for businesses. The projected deficit for 2020 is now $381.6 billion, or about 17.5% of GDP. In comparison, last year Canada had a deficit of 1.7% of GDP.

While this fiscal update may fuel concerns of growing debt levels and their long-term implications, we must remind ourselves that we are dealing with a global health crisis, not a financial crisis. The playbook is different this time and policymakers require a different set of tools. In this case, a well-coordinated monetary and fiscal response should support a robust economic recovery.

INTERNATIONAL AND EMERGING MARKETS

Europe looks to be entering a long, dark winter as countries introduce more aggressive restrictions. The IHS Market Eurozone Composite PMI contracted to 45.2 in November from a neutral reading of 50.0. The deterioration is broad-based, but once again the services sector has been hit the hardest.

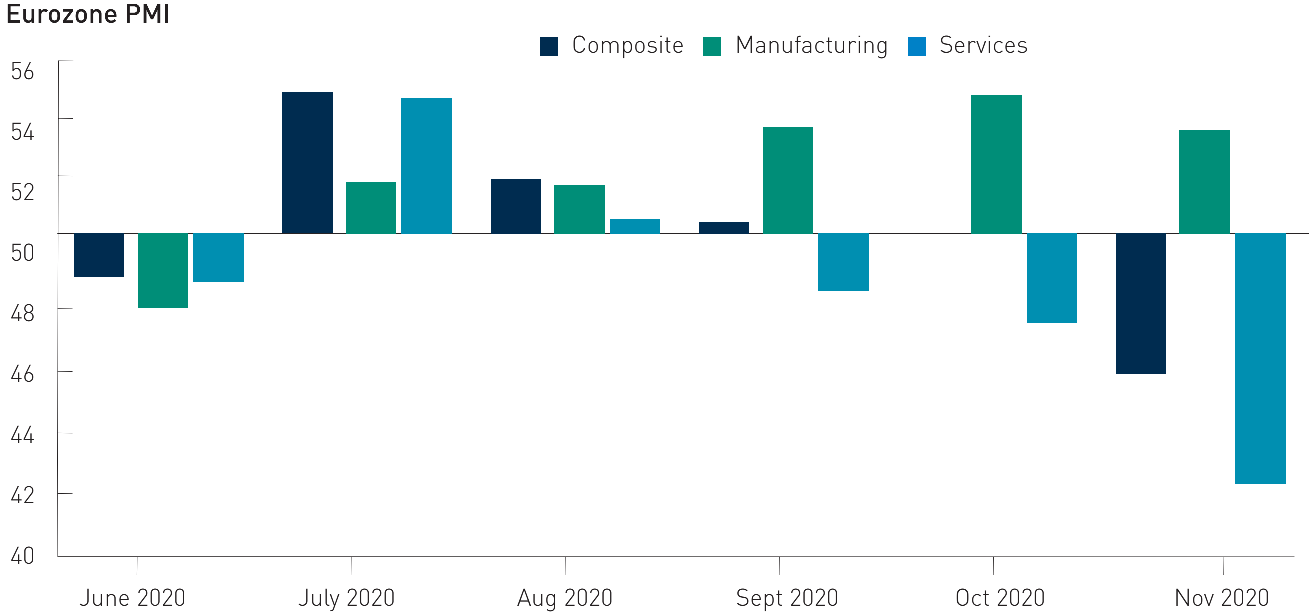
Germany is the only eurozone country whose PMI has yet to turn contractionary. However, the Germany ZEW Indicator of Economic Sentiment has quickly fallen to 39.0 from an all-time high of 77.4 just two months ago. With the second wave and partial lockdown, there are worries that Germany may fall back into recession with the market consensus for Q4 GDP now sitting at 0%. Growth expectations for the eurozone have already turned negative.

The European Central Bank minutes reaffirmed the messaging from the last meeting: the central bank will recalibrate its tools in the upcoming meeting. The economic recovery is losing momentum and inflation expectations continue to worsen. Prices in the euro area have fallen 0.5% since June, with the ECB noting that "35% of all items were currently posting negative growth rates and underlying price pressures were also weak, raising concerns over a lasting impact."

On the topic of Brexit, the European Union and United Kingdom are still unable to overcome the last hurdles on a post-Brexit trade deal. Talks were hindered with an EU negotiator testing positive for the coronavirus. Progress has been slow and with the un-extendible Brexit transition to end in December, it is now a race against time to overcome differences.

Weakening services sector has dragged Eurozone Composite PMI to contraction in November

Eurozone PMI

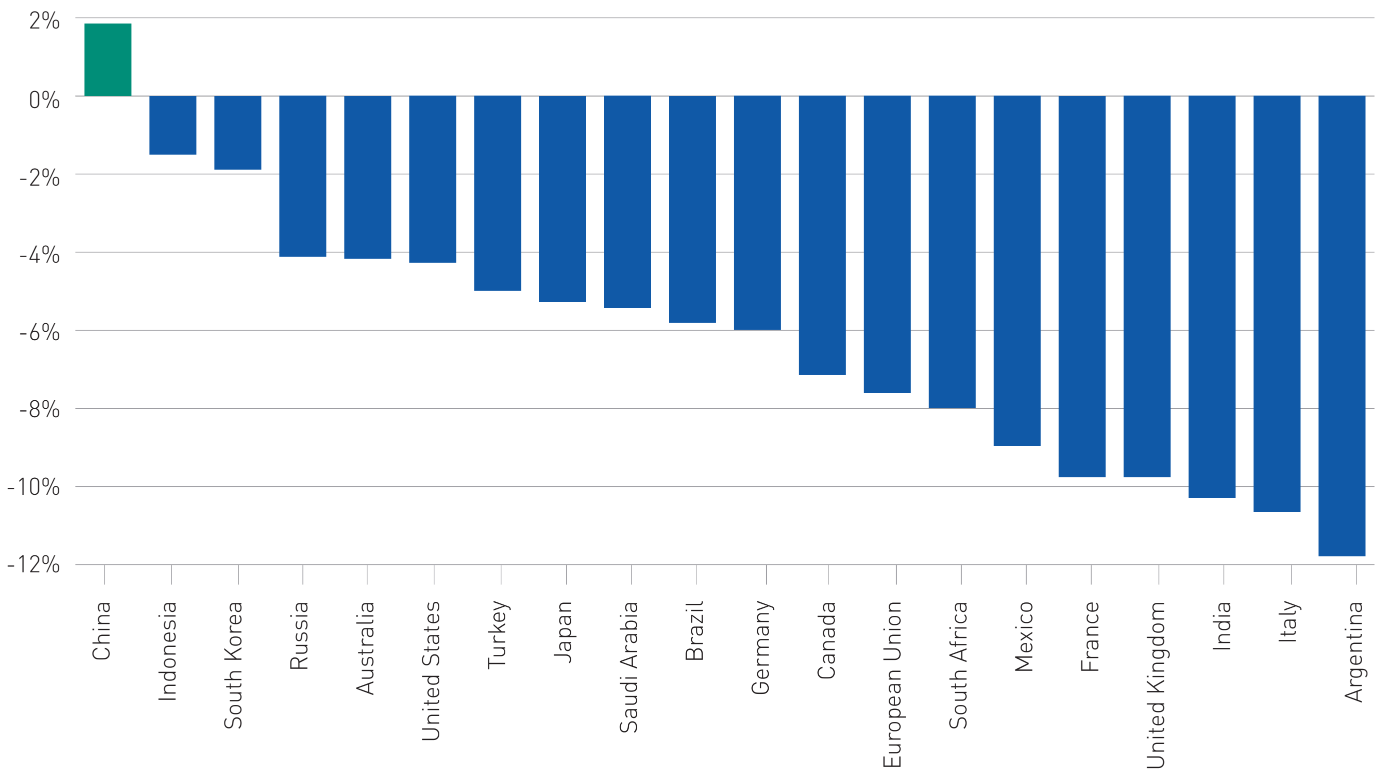


Source: Bloomberg. Data as of November 30, 2020.

China continues to lead the global recovery. In fact, it is the only G20 country forecast to grow in 2020, albeit only 1.85%, and is truly experiencing a V-shaped recovery. Aggressive measures including a robust contact tracing system and strong response from the government and central bank have proved successful. Chinese monetary policy has tightened from the peak of the crisis and is likely to slowly taper as the economy improves, but is expected to remain supportive. October data show that retail sales are up 4.3% year-over-year and industrial production increased 6.9% year-over-year. However, PMI surveys have shown that foreign demand has been weak, lagging the broad recovery. With countries facing rising case counts and tightening restrictions, any further recovery could be stalled.

China is the only G20 country to see positive GDP growth for 2020

G20 FY2020 GDP Forecast



Source: IMF World Economic Outlook, October 2020.

MARKET PERFORMANCE

Percent return in Canadian dollars

	1 Mo	3 Mo	6 Mo	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs
Fixed Income								
Bloomberg Barclays Canada Aggregate	0.97	0.53	2.23	8.09	6.93	5.25	4.24	4.41
Bloomberg Barclays Global Aggregate ($C Hdg)	0.55	0.91	1.75	5.05	4.80	4.54	3.89	4.28
Bloomberg Barclays US HY 2% Issuer Cap ($C Hdg)	3.85	3.24	10.01	3.74	5.74	4.53	6.72	6.57
Equities								
MSCI World (Developed Markets)	9.62	4.98	13.55	11.12	11.73	9.73	10.27	12.78
MSCI World Growth	7.76	2.76	17.40	27.45	28.09	17.45	14.92	15.68
MSCI World Value	11.78	7.59	9.59	-4.62	-4.05	1.88	5.40	9.73
MSCI Canada	10.59	4.04	13.45	1.64	1.80	3.90	7.02	5.02
MSCI USA	8.38	3.93	13.98	15.91	16.43	13.58	13.12	16.38
MSCI EAFE	12.26	7.42	12.66	2.96	3.78	3.47	5.61	8.34
MSCI Europe	13.73	6.16	12.59	0.58	2.03	2.69	4.68	8.17
MSCI Japan	9.33	11.17	10.97	9.88	9.51	5.09	7.26	9.36
MSCI Pacific Ex Japan	11.48	6.63	17.78	1.14	1.19	3.89	7.72	7.53
MSCI EM (Emerging Markets)	6.18	9.12	22.95	10.13	15.54	5.13	10.12	6.04
World Currencies (relative to CAD)								
US Dollar	-2.81	-0.54	-6.24	-0.07	-2.44	0.20	-0.54	2.35
Euro	-0.19	-0.52	0.82	6.50	5.85	0.30	1.97	1.49
Pound Sterling	0.35	-0.83	1.25	0.71	0.70	-0.27	-2.90	0.79
Yen	-2.56	1.15	-3.13	4.15	2.46	2.58	2.84	0.14

Source: Morningstar. Data as of November 30, 2020.

12/20