

Monthly Market Monitor

February 2021

NEI

HIGHLIGHTS



Main street vs Wall Street sparks volatility

Markets ended January in the red as day traders hurt several hedge funds through an epic coordinated short squeeze involving stocks such as videogame retailer GameStop. Short covering and the seeking of liquidity led to a broad-based selloff.



Vaccines will drive the global recovery...

...and vaccination rates will determine how quickly we get there. Already, we are seeing regional differences in vaccine distribution rates which could potentially lead to an uneven recovery.



Policy to remain accommodative

Central banks show no intention of letting off the gas pedal anytime soon. With former Fed Chair Janet Yellen as Treasury Secretary, U.S. President Joe Biden's pandemic relief priorities should provide the necessary support in the meantime.

ASSET ALLOCATION OUTLOOK SUMMARY

	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 month
 Last month

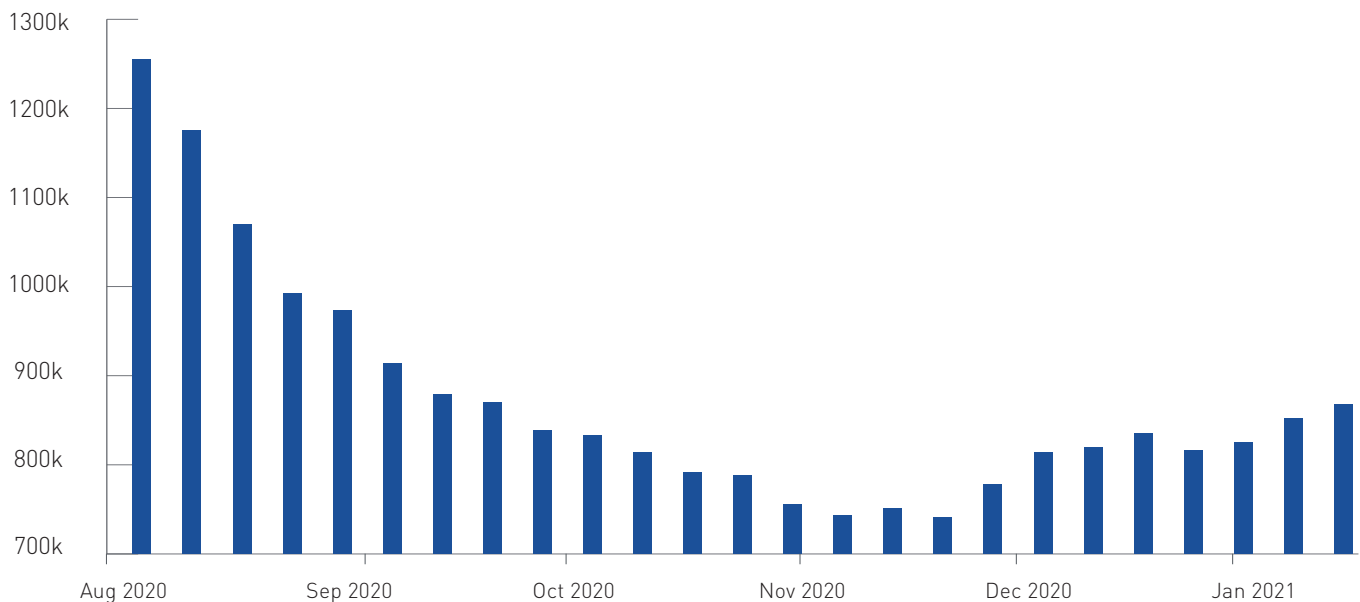
This table illustrates the short-term outlook of NEI's Asset Allocation Team on various equity and fixed income asset classes as of January 31, 2021. If an asset class has a blue box in its row and no green box, it means this month's outlook is the same as the prior month's.

With February around the corner, we can finally place U.S. election turmoil in the rearview mirror. Joe Biden has been sworn in and, leading a unified House and Senate, is set to tackle the most pressing issues of our times, including the pandemic response, climate change, systemic racism, and inequality. Biden has declared the U.S. pandemic response a top priority as part of his first 100 days, with the intent of increasing testing, ramping up production of protective equipment, and creating a distribution plan, among other things.

Although the worst recession of our generation technically ended in the third quarter last year, it's easy to see there remains slack in many parts of the economy.

U.S. unemployment filings on the rise again

U.S. initial jobless claims (4 week moving avg)



Source: Bloomberg. Data as of January 31, 2021.

In the U.S., unemployment filings are rising again and personal incomes fell in October and November, though December showed a modest uptick. The data is pointing to a stalling recovery. Economists have long said the last mile would be the hardest, and it seems that things will indeed get worse before they get better.

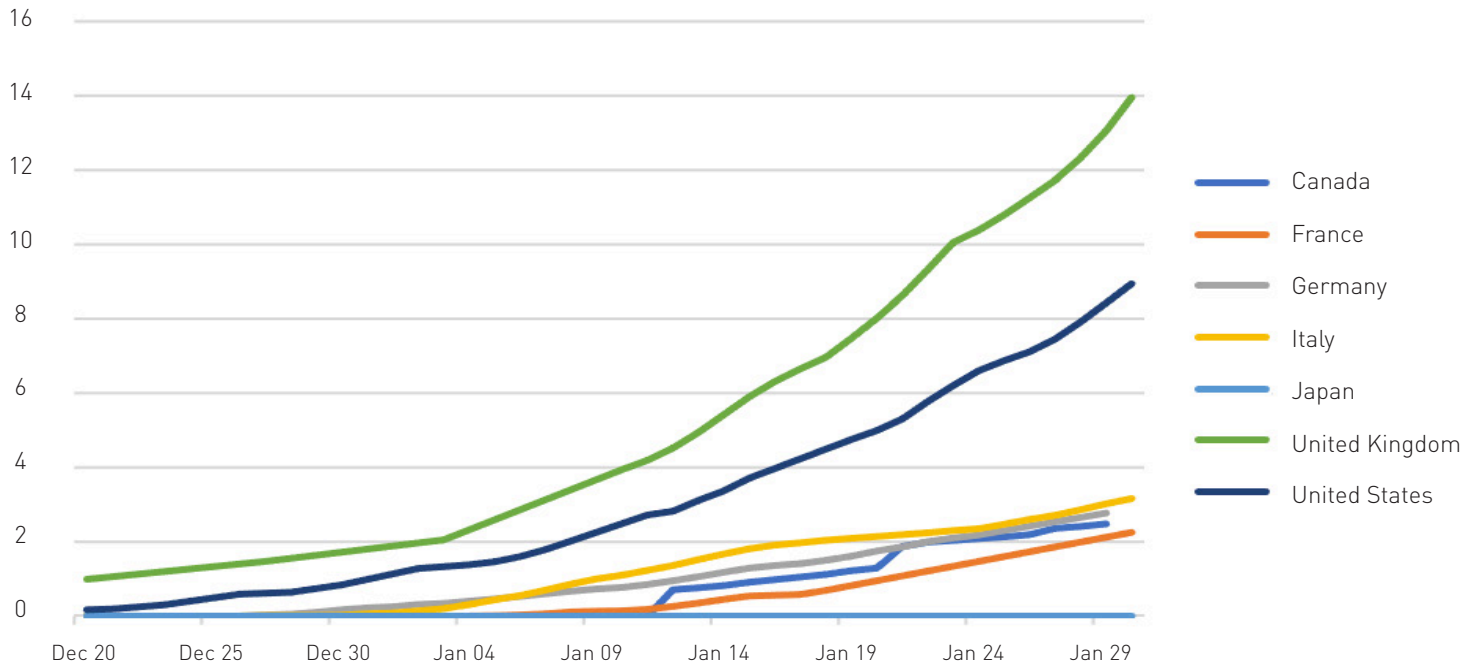
But another US\$1.9 trillion stimulus package is in the works, and as long as transfer payments continue to provide economic life support, things will likely keep chugging along. With former Federal Reserve Chair Janet Yellen assuming the helm of the Treasury department, we can expect this backdrop of coordinated monetary and fiscal expansion for several years to come. In turn, all these factors will likely fuel a reflationary environment that will be favorable for risk assets such as equities and commodities over the longer term. We continue to be underweight fixed income in our asset allocation solutions, primarily in government bonds, with a relative overweight to credit.

In the near term, our overweight equity position has been benefitting from the strong market momentum that started back in November. Sentiment indicators show increasing consensus among global fund managers, resulting in similar portfolio positioning and potentially crowded trades, which can sometimes be a contrarian indicator. Not to say that we are expecting an immediate equity correction, but signs of froth are there and all it takes is the right catalyst.

We also believe there has been a shift in the key pandemic risk factors: whether nations can scale up vaccine production and meet widespread distribution needs in time, along with, as a secondary factor, the general willingness of the population to get vaccinated. Vaccination rates will be the critical data point to monitor going forward.

Early indications show divergence in pace of vaccine rollout

Cumulative COVID-19 vaccination doses administered per 100 people, G7



Source: www.ourworldindata.org/covid-vaccinations

Equitable access to vaccines is absolutely crucial. Vaccine pre-orders across developed economies is reportedly enough to immunize more than 160% of their populations, nearly four times per-capita compared to that of emerging economies. And for approved vaccines from U.S.-based companies Pfizer and Moderna, more than 90% of their future shipments will go to developed economies, and that creates the growing risk of a diverging recovery.

Our base case is that vaccines will provide a broad tailwind for the global economy this year. In fact, the International Monetary Fund raised their 2021 GDP growth forecast from 5.2% to 5.5%, citing “expectations of a vaccine-powered strengthening of activity later in the year and additional policy support in a few large economies.” Delays in the vaccine rollout means we will be locked down for longer, and in this scenario, we could see an equity market pullback. However, given our longer-term view, this may also present buying opportunities.

On a regional basis, we are gradually paring back our overweight to U.S. equities in our asset allocation solutions. A broad-based global recovery will likely see the more cyclical-heavy ex-U.S. markets outperform, hence we are overweight EAFE and emerging markets with a slight tilt towards Asia Pacific (China, Japan, Hong Kong, Taiwan, South Korea) where the pandemic is generally under control.

Canada, despite having pre-ordered more than 400 million vaccine doses (highest per capita in the world), has seen one of the slowest vaccine rollouts across the G7 (chart above). Combined with having the largest fiscal response in proportion to GDP, this should set us up for a strong recovery down the road, but from the perspective of our asset allocations, we will remain neutral for now.

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	-1.09	0.17	-1.42	-1.09	4.23	5.41	3.75	4.38
Bloomberg Barclays Global Aggregate (\$C Hdg)	-0.55	0.26	-0.09	-0.55	2.88	4.64	3.59	4.32
Bloomberg Barclays US HY 2% Issuer Cap (\$C Hdg)	0.32	6.09	6.45	0.32	5.97	5.00	8.11	6.36
Equities								
MSCI World (Developed Markets)	-0.73	11.52	10.83	-0.73	11.52	9.77	11.19	12.23
MSCI World Growth	-0.71	10.39	11.09	-0.71	25.88	17.42	16.05	15.38
MSCI World Value	-0.74	12.95	10.66	-0.74	-2.65	2.00	6.12	8.93
MSCI Canada	-0.81	11.68	7.65	-0.81	1.06	4.30	8.17	4.59
MSCI USA	-0.69	10.14	10.39	-0.69	15.31	13.54	13.88	15.85
MSCI EAFE	-0.80	14.57	12.13	-0.80	5.23	3.62	6.75	7.75
MSCI Europe	-1.18	15.68	9.36	-1.18	2.90	2.63	5.86	7.35
MSCI Japan	-0.73	11.10	18.25	-0.73	10.98	5.55	8.20	9.01
MSCI Pacific Ex Japan	0.97	16.50	14.66	0.97	5.38	4.53	9.01	7.63
MSCI EM (Emerging Markets)	3.34	15.81	18.32	3.34	23.53	5.84	12.82	6.81
World Currencies (relative to CAD)								
US Dollar	0.27	-4.19	-4.63	0.27	-3.41	1.36	-1.92	2.48
Euro	-0.44	-0.08	-2.02	-0.44	5.89	0.51	0.38	1.25
Pound Sterling	0.73	1.75	-0.22	0.73	0.62	0.18	-2.55	0.91
Yen	-1.12	-4.33	-3.69	-1.12	-0.01	2.78	0.97	-0.01

Source: Morningstar. Data as of January 31, 2021.

This material is for informational and educational purposes and it is not intended to provide specific advice including, without limitation, investment, financial, tax or similar matters. The views expressed herein are subject to change without notice as markets change over time. Information herein is believed to be reliable but NEI does not warrant its completeness or accuracy. Views expressed regarding a particular security, industry or market sector should not be considered an indication of trading intent of any funds managed by NEI Investments. Forward-looking statements are not guaranteed of future performance and risks and uncertainties often cause actual results to differ materially from forward-looking information or expectations. Do not place undue reliance on forward-looking information.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance, analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to computing, computing or creating any MCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages.

NEI Investments is a registered trademark of Northwest & Ethical Investments L.P. ("NEI LP"). Northwest & Ethical Investments Inc. is the general partner of NEI LP and a wholly-owned subsidiary of Aviso Wealth Inc. ("Aviso"). Aviso is the sole limited partner of NEI LP. Aviso is a wholly-owned subsidiary of Aviso Wealth LP ("Aviso Wealth LP"), which in turn is owned 50% by Desjardins Financial Holding Inc. ("Desjardins") and 50% by a limited partnership owned by the five Provincial Credit Union Centrals (the "Centrals") and the CUMIS Group Limited.