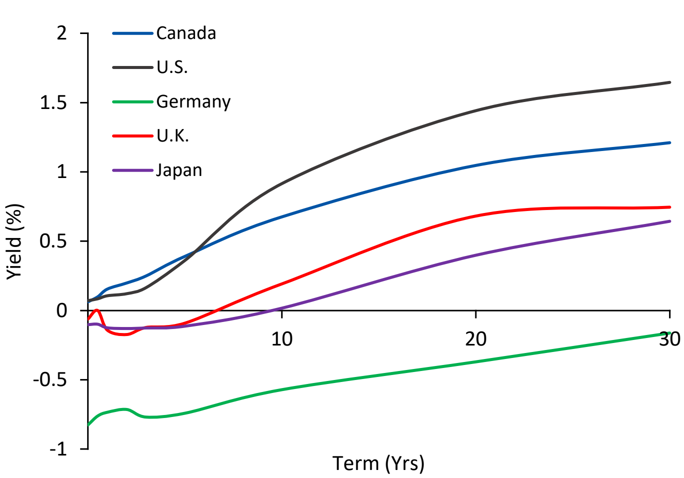
Market Statistics

	Dec/20	Sep/20	Jun/20	Dec/19
Yields (%)				
90 Day T-Bill	0.07	0.12	0.21	1.66
10 Yr. Canada Bond	0.68	0.56	0.53	1.70
30 Yr. Canada Bond	1.21	1.11	0.99	1.76
Rates				
C.P.I. (annual %)	0.95	0.51	0.66	2.25
US$/C$	0.79	0.75	0.74	0.77
Euro/C$	0.64	0.64	0.65	0.69
Prices (US$)				
Crude Oil (bbl.)	49	40	39	61
Natural Gas (mm)	2.54	2.53	1.75	2.19
Gold (oz.)	1,893	1,888	1,793	1,520

Market Returns

	Periods Ending Dec. 31/20			
			Annualized	
	3 Mo.	1 Yr.	5 Yrs.	10 Yrs.
S&P/TSX	9.0	5.6	9.3	5.8
S&P 500 (C$)	7.1	16.1	13.3	16.7
S&P 500 (US$)	12.2	18.4	15.2	13.9
MSCI EAFE Net (C$)	10.8	5.7	5.7	8.2
MSCI EAFE Net (US$)	16.1	7.8	7.5	5.5
MSCI World Net (C$)	8.8	13.6	10.3	12.6
MSCI World Net (US$)	14.0	15.9	12.2	9.9
Bond Universe	0.6	8.7	4.2	4.5
91 Day T-Bills	0.0	0.9	1.0	0.9

Yield Curves



The Economy

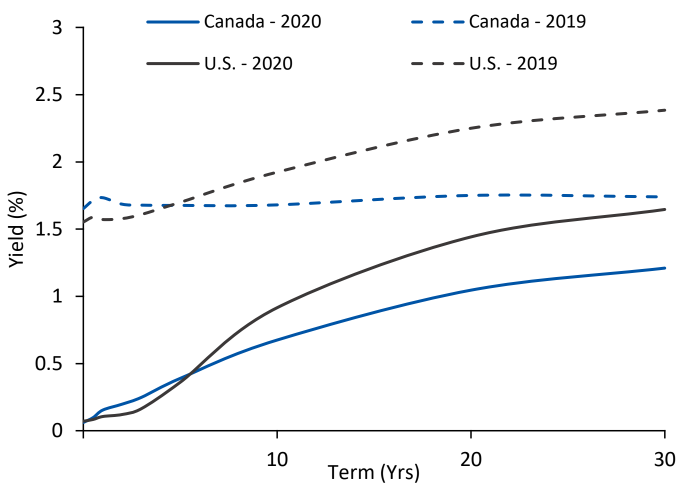
The coronavirus vaccine has arrived and as a result the prospect for global economic growth in 2021 and beyond has improved dramatically. Barring any further medical set-backs, the timing and strength of the economic recovery will largely depend on how efficiently the various new vaccines can be distributed and their acceptance by the general population. Experts have suggested it will take six to twelve months within the developed nations.

With the most recent rise in infections and shutdowns of businesses, we expect the acceleration in economic growth will likely be back-end loaded in 2021, but nevertheless strong. The major developed economies have implemented massive fiscal stimulus programs in the form of supplemented wages, direct payments, and reduced rents and utility rates. As governments look to aid the all-important consumer many of these programs have been reloaded (most recently in the U.S.) heading into the first quarter of 2021. Interest rates have also been lowered to unprecedented levels. **Fiscal spending and expansionary monetary policy will further fuel the growth that economies experience by simply seeing businesses reopen.**

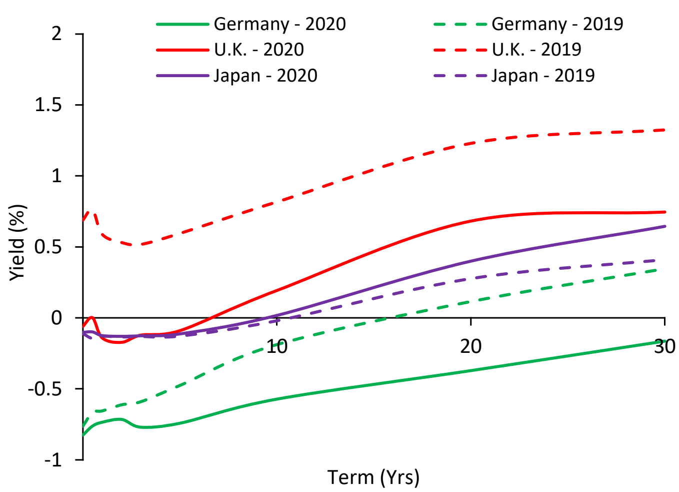
The extension of quantitative easing programs by global central bankers with the purchase of long-term government and corporate bonds has reduced long term interest rates. This has significantly enhanced and complimented the more common monetary approach of lowering short-term interest rates. The charts on page two illustrate the magnitude of the reduction of interest rates at all maturities over the last year. For the consumer, the reduction of long-term interest rates makes home buying (or any real estate purchase) more affordable as mortgage rates are most dependent on long-term interest rates. Similarly, for businesses long-term investments or infrastructure build costs are reduced by lower long-term borrowing rates.

There may be some hurdles to overcome in 2021. A strong recovery runs the risk of pushing inflation to levels which could put upward pressure on longer-term interest rates. In the U.K., while a Brexit agreement has been reached, the transition will still have a dampening effect on growth. In the U.S., Biden campaigned on implementing higher corporate taxes which he hopes to enact early in his mandate. This will unwind the sizable reductions achieved by the Trump administration which resulted in higher profit margins for corporations. There are also the unknown implications of anti-trust investigations into the largest technology related companies – probably the greatest beneficiaries profit-wise of the pandemic.

Canada & U.S. Government Bond Yields

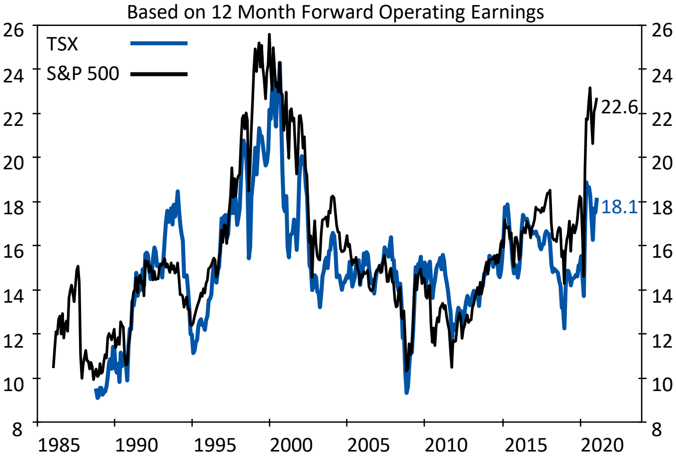


Germany, U.K. & Japan Government Bond Yields



Price-Earnings Multiples

Based on 12 Month Forward Operating Earnings



Bottom Up Earnings Based on CPMS (TSE) and IBES (S&P) Consensus JAN 2021

The Markets

Powered by the fourth quarter, where the S&P/TSX returned 9.0% and the World index 8.8% (in C$), equity returns were strongly positive for 2020, an unexpected outcome given the onset of the virus in March. Despite the shutting down of businesses, a number of industries performed well during the pandemic and demonstrated good profit growth. **Technology related companies now dominate the U.S. stock market. For the year, they contributed 80% of the S&P 500 return and they now comprise 40% of the index. In Canada, the sector (which is mostly driven by Shopify) also contributed 80% of the S&P/TSX return in 2020.** The announcement of a vaccine in November brought overwhelming confidence in an economic recovery. This propelled more economically sensitive company share prices higher, including those hit hardest by the pandemic, like cruise ship and hotel companies. As usual, equity markets move in advance of any actual profit improvement.

The gains in the stock market have raised share price multiples, even when taking into account the forecasted earnings increases (demonstrated by chart on the bottom left). Any disappointment in the rate or timing of economic growth could cause a correction, but low interest rates do provide support for elevated valuations of all assets be they infrastructure, real estate or equities. Most central bankers have stated that interest rates will remain low for years in order to not only assist in economic recovery, but also to help governments fund the debt incurred during the pandemic and contain the interest expense on those debts. **We continue to view equities favourably and consider our portfolios to carry less risk than the overall markets given the well-diversified selection of companies owned.** Unlike the main market indices, we have not allowed any one sector, such as the highly priced technology related areas, to dominate. Furthermore, we have a limited exposure to shares of companies that are more cyclical and therefore most dependent on growth.

The lowering of short-term interest rates and sizeable bond purchases by central bankers provided for decent bond returns in 2020, despite yields opening the year at unattractive levels. Dividend yields available from our strong cash flow companies remain higher than current bond yields and therefore, along with selected preferred shares, equities are also favoured for income purposes. Nevertheless, owning a minority portion in bonds does add steadiness to portfolios as they are less volatile than stocks and provide a source of funds for any near-term needs.

Sources: TD Securities Inc., Bloomberg