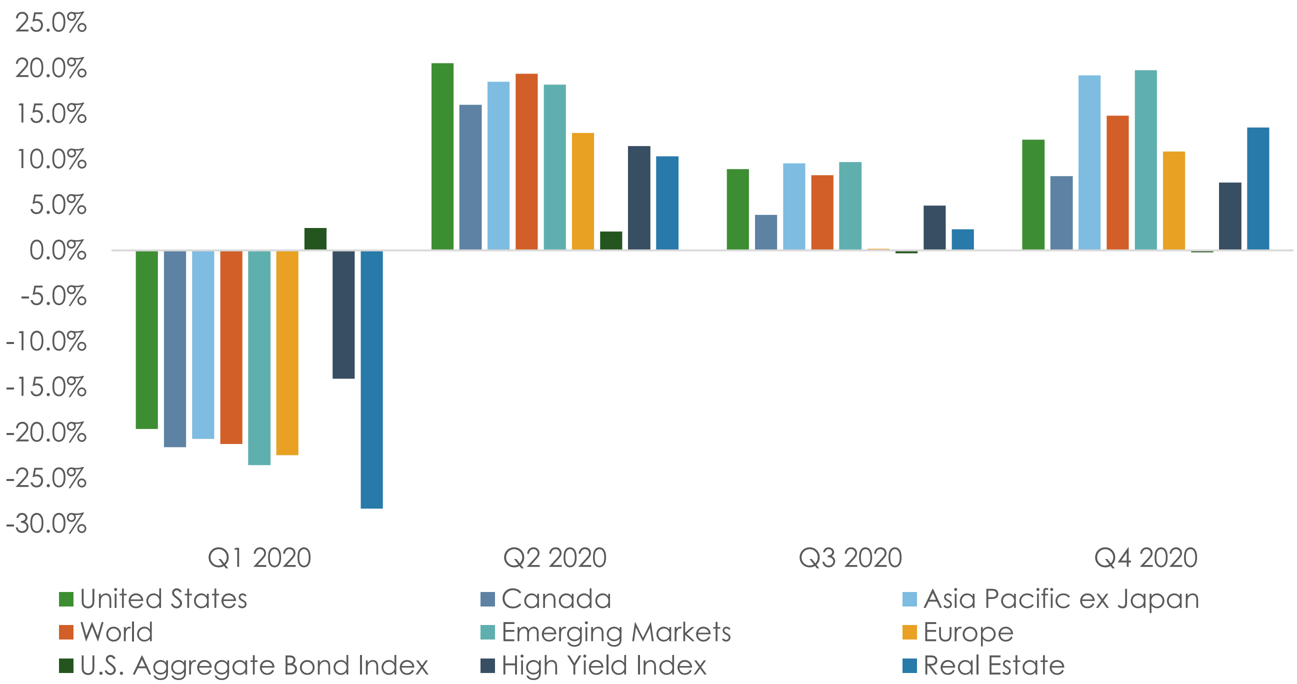
YEAR IN REVIEW

2020

In Focus

- Global equities corrected sharply in the first quarter of the year, after the COVID-19 outbreak in China and its spread to other countries resulted in authorities across the world announcing large-scale quarantines, shutdowns and travel restrictions.
- However, equities recovered sharply from the second quarter and onward as policy makers globally announced a series of extraordinary monetary and fiscal stimulus measures in an attempt to contain the negative economic impacts of the COVID-19 pandemic and the lockdown measures taken to slow its spread.
- Toward the end of the year, value and small-cap equities rallied after progress was made on multiple vaccines, economic data pointed to a recovery and the ratio of earnings revisions turned positive.
- Economic activity moved back into expansionary territory over the third quarter.
- Among policy measures, the U.S. Federal Reserve (the Fed) cut interest rates by 150 basis points in March. The Fed has also committed to unlimited purchases of government bonds, mortgage-backed securities and corporate debt. Simultaneously, governments in developed and emerging markets announced a series of targeted fiscal policy measures to sustain economic activity.

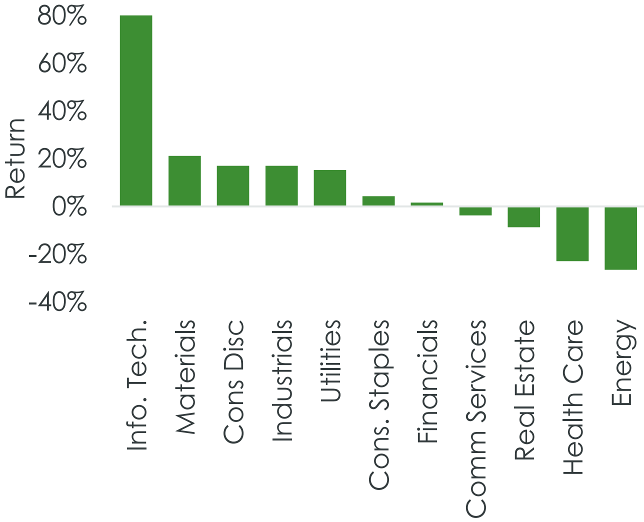
After a sharp correction, equities surged



Source: Refinitiv DataStream, as at December 31, 2020, MSCI Indices for all equity markets, except U.S. (S&P500 Index) and Canada (S&P/TSX Comp.). Returns in U.S. dollars, except Canada and Europe. All returns (except U.S. Agg. Debt) are total returns.

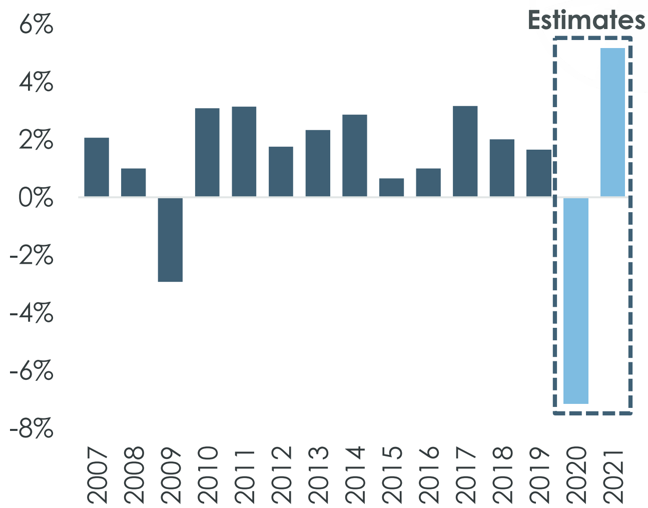
Fidelity INVESTMENTS

S&P/TSX Composite – Sector performance



Source: Refinitiv DataStream, S&P/TSX Composite, as at December 31, 2020.

Canadian GDP (%)



Source: IMF, World Economic Outlook, GDP growth data for 2019 to 2021 based on estimates, Sep 2020.

Canadian equities advanced

Policy support from both the central bank and the Canadian government supported investor sentiment, and Canadian equities advanced for the year. The rally accelerated toward the end of the year on confirmation of a successful vaccine, which could lead to a normalization of economic activity. Among support measures, the Bank of Canada reduced interest rates and unveiled a large-scale quantitative easing program. From a sector perspective, information technology stocks, including e-commerce names, surged, benefiting from lockdowns. Expectations of a normalization of economic activity, along with rising earnings expectations, contributed to some gains in beaten-down sectors such as industrials. Materials advanced, mainly due to a rise in gold prices, while energy was the worst-performing sector as oil prices fell.

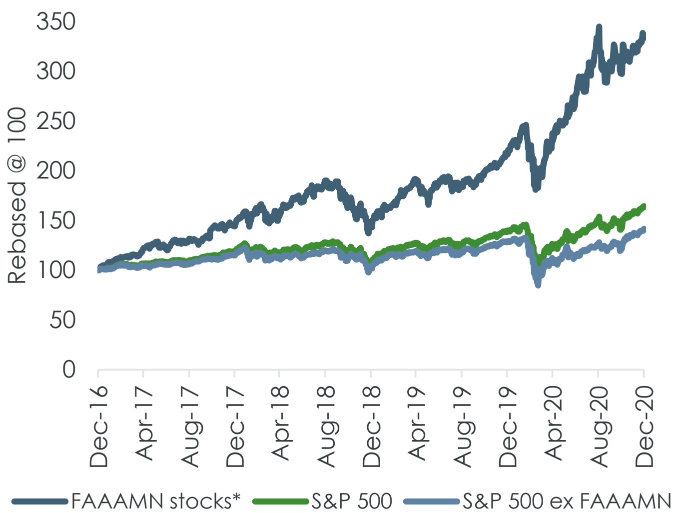
Risk aversion continued to support bonds

Pandemic fears and resulting risks to global economy supported the demand for perceived safe-haven assets such as Canadian government bonds, and contributed to gains for investment-grade bonds. Relatively lower-credit bonds, which provide higher yields, also advanced, with many investors seeking to compensate for the decline in investment-grade bond yields.

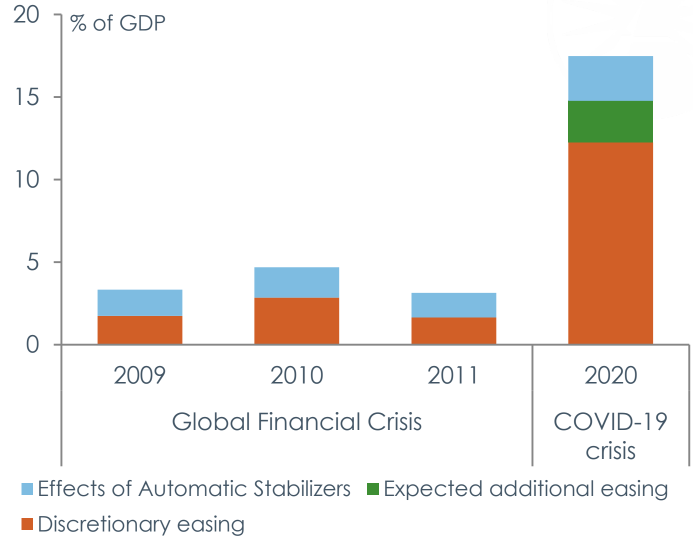
Canadian economy poised for growth

Despite setbacks, economic activity in Canada was supported by government programs that replaced incomes and subsidized wages. Household spending, goods consumption and housing activity rebounded, largely reflecting pent-up demand. Exports, business confidence and investment continued to improve, but remain below levels seen before the pandemic outbreak. GDP growth recovered sharply in the third quarter of 2020, reflecting the reopening of the economy. The unemployment rate rose to a record high of 13.7% in May, but improved to 8.9% in October as economic activity picked up.

FAAAMN* stocks explain most of U.S. returns



U.S. Fiscal Response to COVID-19 and GFC



Source: Refinitiv DataStream, as at Dec. 2020. *Facebook, Apple, Amazon, Alphabet, Microsoft, Netflix - based on growth in market value. Congressional Budget Office, IMF, Goldman Sachs Global Investment Research.

A tech-fueled rally

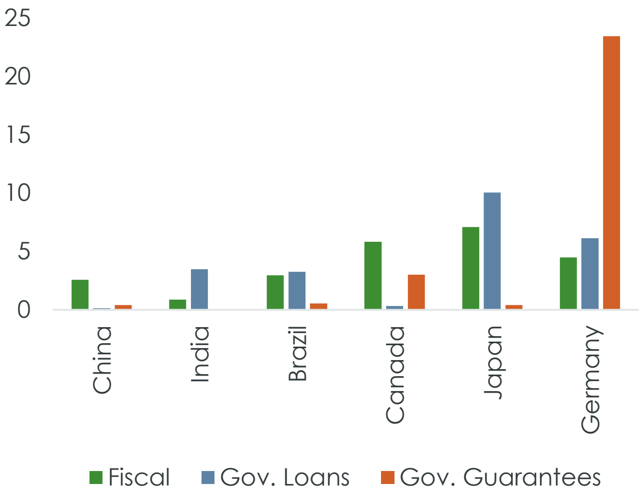
As investors recovered from the shock of widespread lockdowns that grounded airlines, shut retail stores and severely affected economic activity across sectors, accelerating digitization underpinned a rally in the information technology sector. From online games and streaming services providers to digital enablers of work-from-home requirements, companies across the sector benefited from the pandemic's impact on lifestyle preferences. Expectations of continued growth in electric vehicle adoption, the 5G rollout, industrial automation and the Internet of Things were among some other drivers of the sector's performance.

The technology adoption theme was among factors contributing to a rise in consumer discretionary and communication services sectors as well. Materials also advanced. Medical technology–related companies also rose. In contrast, energy was the worst-performing sector for the year. In April, West Texas Intermediate (WTI) oil futures for imminent delivery went negative: weak demand and difficulties in managing U.S. oil storage meant traders were briefly paid to take physical delivery of oil. Financials also struggled, declining amid falling interest rates and a rising risk of defaults.

Corporate bonds gained on policy support

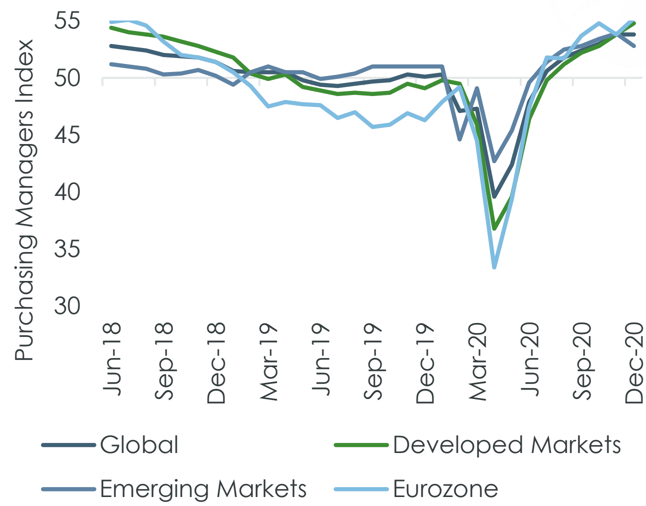
In fixed income, U.S. ten-year Treasury bond yields declined for the first half of the year, before turning upward, beginning in August 2020, on expectations of a resumption of growth. Meanwhile, investment-grade and high-yield corporate bonds performed well, despite concerns about a rising risk of defaults and a spate of downgrades. The decision by the Fed to expand its secondary market corporate facility, which allowed it to buy individual short-term corporate bonds of U.S. companies, along with corporate exchange-traded funds (ETFs) that included investment-grade and some high-yield corporate debt, supported gains.

Breakdown of fiscal measures in selected countries (percent of GDP)



Source: Fidelity International, BofA Global Investment Strategy, June 2020

Global trade and industrial activity pick up as lockdowns eased in the second quarter



Source: Purchasing Managers Index, Refinitiv DataStream, December 31, 2020

Policy support eased COVID-19 concerns

The year started on a positive note, but the global spread of COVID-19 and the ensuing shutdown of large parts of the global economy led to significant uncertainty, driving sharp market corrections in March. This prompted central banks across emerging and developed markets to reduce their benchmark interest rates to historic lows and to deploy unconventional policy tools to support markets. Among leading central banks, the Fed, the European Central Bank and the Bank of Japan expanded pandemic emergency purchase programs aimed at keeping borrowing costs low.
In Europe and Japan, governments used wage subsidies and job retention programs to limit the rise in the headline unemployment rate. Many governments also announced a reduction in corporate taxes and provided direct income support to households and businesses in an attempt to encourage production and consumption.

Value and small caps rose on vaccine news

Positive vaccine news in November contributed to gains in beaten-down sectors such as energy, banks and industrials, which were trading at a steep discount relative to their historical valuations. Small-cap companies, long out of favour as investors sought the relative safety of larger, higher-quality companies, also gained. Despite these gains, investors remain cautious: the sustainability of earnings and scalability of business models continue to dominate their longer-term view about these opportunities.

Emerging markets and Asia

Investors also appeared more optimistic about a recovery in corporate earnings and rising economic activity in emerging markets, and particularly Asia, where China emerged from the severe impact of COVID-19 at the start of the year. The country reported positive year-on-year GDP growth and a healthy rise in industrial production and corporate profits.

Appendix

Global Markets (returns in Canadian dollar terms)			
Indexes	**2020**	**2019**	**Return (%)**
S&P/TSX Composite	17,433.36	17,063.43	5.6%
S&P 500	3,756.07	3,230.78	16.3%
NASDAQ	12,888.28	8,972.60	42.4%
DJIA	30,606.48	28,538.44	7.8%
Russell 2000	1,974.86	1,668.47	18.0%
FTSE 100	6,460.52	7,542.44	-10.3%
Euro Stoxx 50	3,552.64	3,745.15	4.3%
Nikkei 225	27,444.17	23,656.62	22.3%
Hang Seng	27,231.13	28,189.75	-1.6%
Shanghai Comp.	3,473.07	3,050.12	19.5%
MSCI ACWI	646.27	565.24	14.8%
MSCI EM	1,291.26	1,114.66	16.6%
Fixed income	**2020**	**2019**	**Return (%)**
FTSE Canada Uni.	1,221.24	1,123.68	8.7%
BBG Global Agg.	558.73	511.67	7.0%
TSX Preference Shares	1,632.68	1,537.91	6.2%
Bond yields	**2020**	**2019**	**Change (bps)**
10 yr Canada Govt.	0.68%	1.70%	-103
10 yr U.S. Govt.	0.91%	1.92%	-100
30 yr Canada Govt.	1.21%	1.76%	-55
30 yr U.S. Govt.	1.64%	2.39%	-74
Commodities	**2020**	**2019**	**Return (%)**
Oil	48.52	61.06	-22.1%
Natural gas	2.54	2.19	13.7%
Gold	1,898.36	1,517.27	22.6%
Silver	26.40	17.85	45.0%
Copper	3.52	2.80	23.3%
Currencies	**2020**	**2019**	**Return (%)**
CAD/USD	0.79	0.77	2.0%
USD/EUR	0.82	0.89	-8.2%
CAD/EUR	0.64	0.69	-6.4%
USD/JPY	103.25	108.61	-4.9%
USD/CNY	6.53	6.96	-6.3%
USD/MXN	19.91	18.93	5.2%
GBP/CAD	1.74	1.72	1.1%
GBP/USD	1.37	1.33	3.1%

Source : Bloomberg, Refinitiv. Total returns.

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