

Monthly economic report



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Investments

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December 31, 2020

The goal of mutual funds

All mutual funds seek to earn positive returns for their investors.
However, we can distinguish between three primary types of mutual funds



Equity funds

- Primarily invests in stocks
- Typically purchased for high returns
- Higher volatility



Fixed Income funds

- Primarily invests in bonds and interest-paying instruments
- Typically purchased for income and consistency
- Lower volatility



Balanced funds

- Invests in a mix of equity and fixed income instruments
- Typically purchased as a centerpiece of a portfolio
- Volatility varies depending on allocation

Mutual fund categories

All Canadian mutual funds are sorted into categories based on the securities in which the fund can invest. There are 60 categories, some more nuanced and specific than others.

CIFSC CATEGORIES – EXAMPLES



Equity categories

- Canadian Equity
- US Equity
- Global Equity



Fixed Income categories

- Canadian Fixed Income
- Global Fixed Income



Balanced categories

- Canadian Neutral Balanced
- Global Neutral Balanced



Distinguishing mutual fund categories

CIFSC Sample Categories	Primary Exposures/Characteristics
Canadian Equity	Canadian domiciled stocks
US Equity	US domiciled stocks
Global Equity	Broad array of stocks worldwide
Canadian Fixed Income	Canadian investment-grade securities
Global Fixed Income	Broad array of investment-grade securities worldwide
Canadian Neutral Balanced	40-60% Canadian equity exposure
Global Neutral Balanced	40-60% Global equity exposure

+ How are mutual funds designed to perform?



When markets are thriving

- Equity funds are typically designed to outperform fixed income
- Fixed income funds are designed to deliver consistent, but generally lower returns over the long-run



When markets are struggling

- Equity funds will typically underperform fixed income, given their higher volatility
- Fixed income will typically outperform stocks, given their lower volatility

Balanced falls in between, depending on how much is in equity vs fixed income

Typically, the **higher the volatility**, the **higher the potential for returns** but **the greater the risk**



Mutual fund recent performance

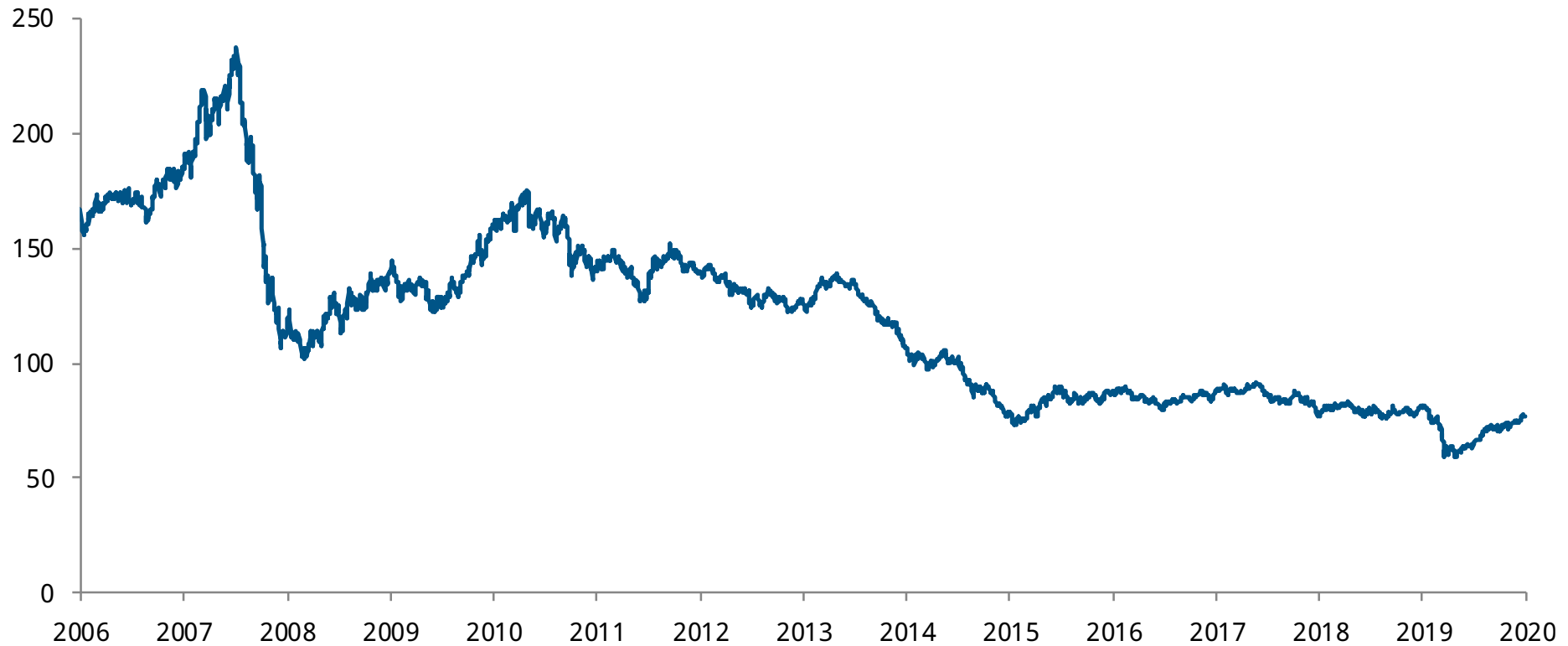
CIFSC Categories	1 Month	Year to Date	1 Year	3 Year	5 Year	10 Year	20 Year
Canadian Fixed Income	0.47	8.19	8.19	4.89	3.63	3.64	4.31
Global Fixed Income	0.27	5.55	5.55	3.76	2.90	3.93	3.36
Canadian Neutral Balanced	1.41	5.85	5.85	4.57	5.49	5.03	4.66
Global Neutral Balanced	1.48	7.18	7.18	5.35	5.56	6.04	4.42
Canadian Equity	1.89	2.67	2.67	3.62	7.04	5.12	5.27
US Equity	2.13	12.60	12.60	11.11	10.30	12.77	4.24
Global Equity	2.79	11.46	11.46	8.27	8.28	9.34	3.93

Source: Morningstar Direct, as of December 31, 2020



Commodity overview

Bloomberg Commodity Index – 15 Year Performance to December 31, 2020

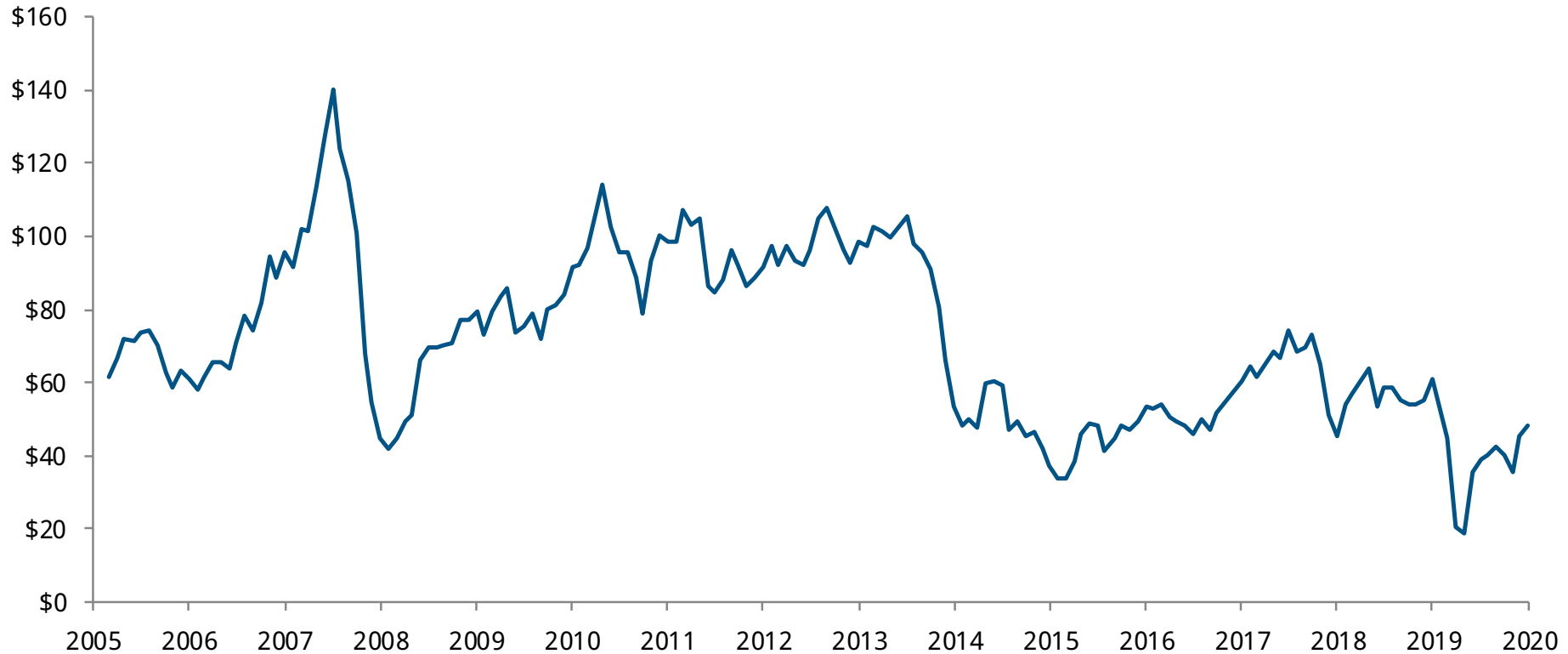


Source: Bloomberg (December 2020)



Crude reality: Price of oil

West Texas Intermediate (USD per barrel) – 15 Year Price to December 31, 2020

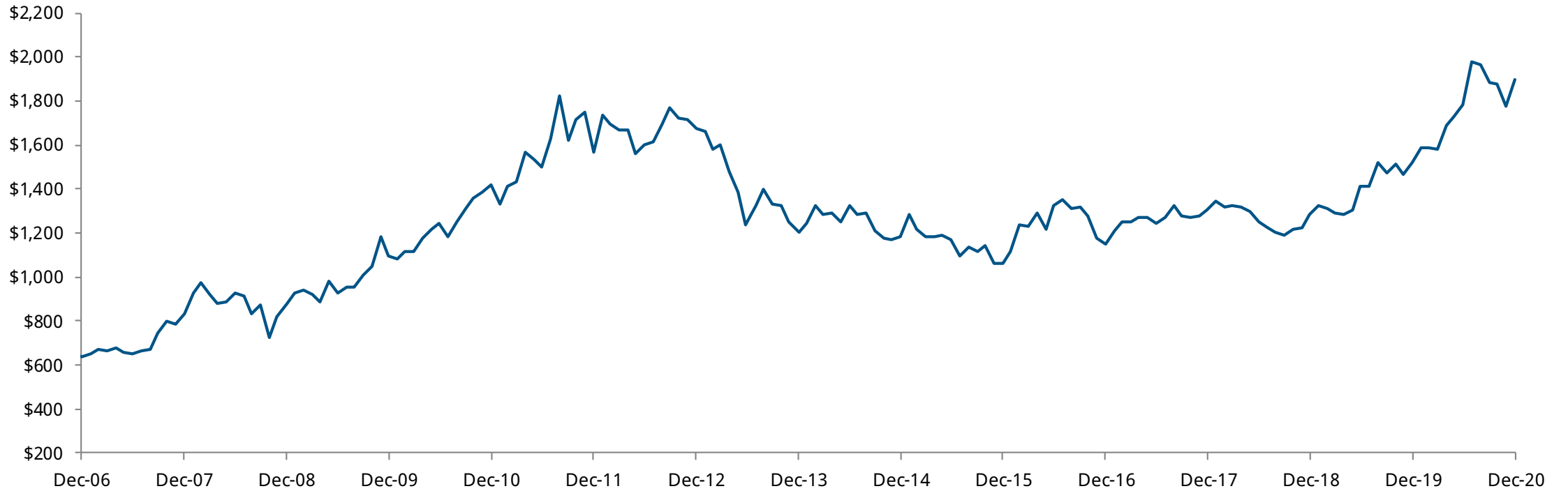


Source: Bloomberg (December 2020)



Gold bullion

Gold (USD/troy ounce) – 15 Year Price to December 31, 2020



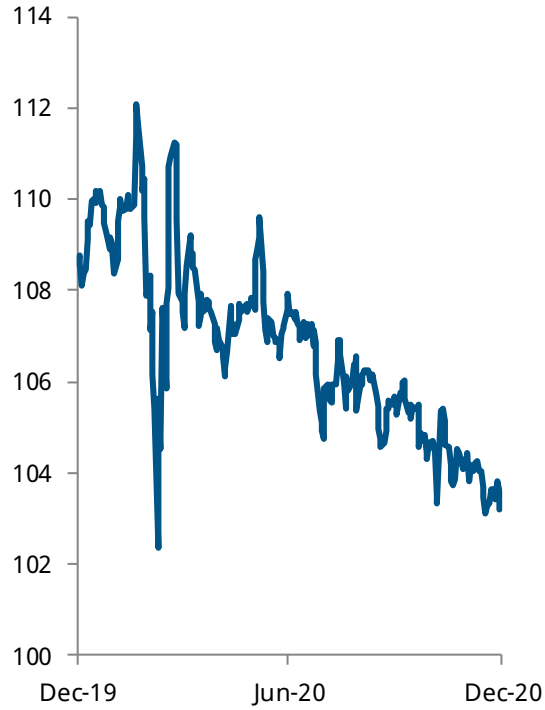
Source: Bloomberg (December 2020)



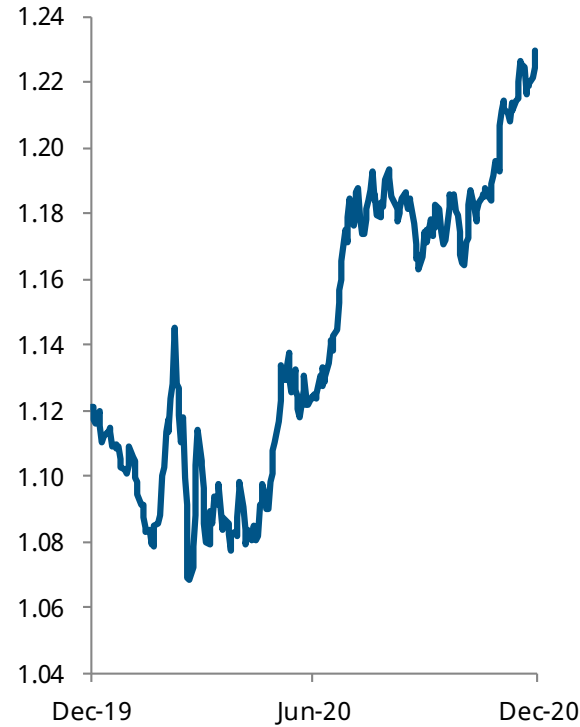
Foreign exchange rates

USD Comparisons – 1 Year Rates to December 31, 2020

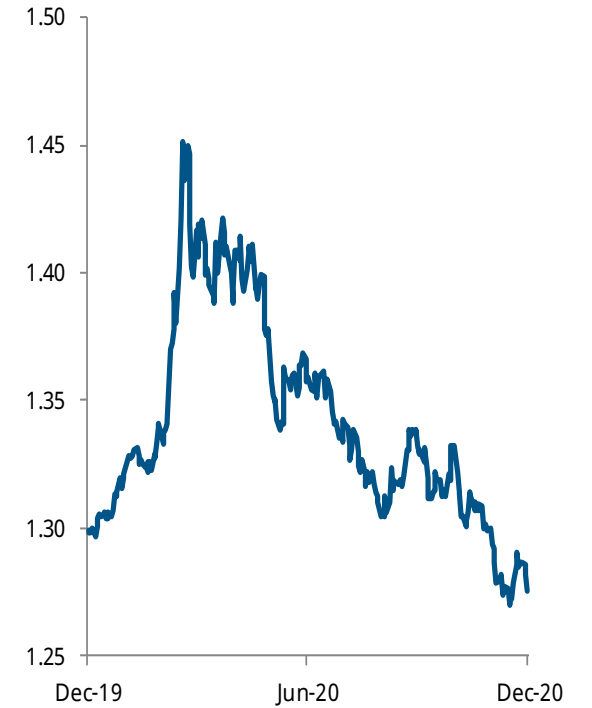
Yen vs. USD



Euro vs. USD



CDN vs. USD

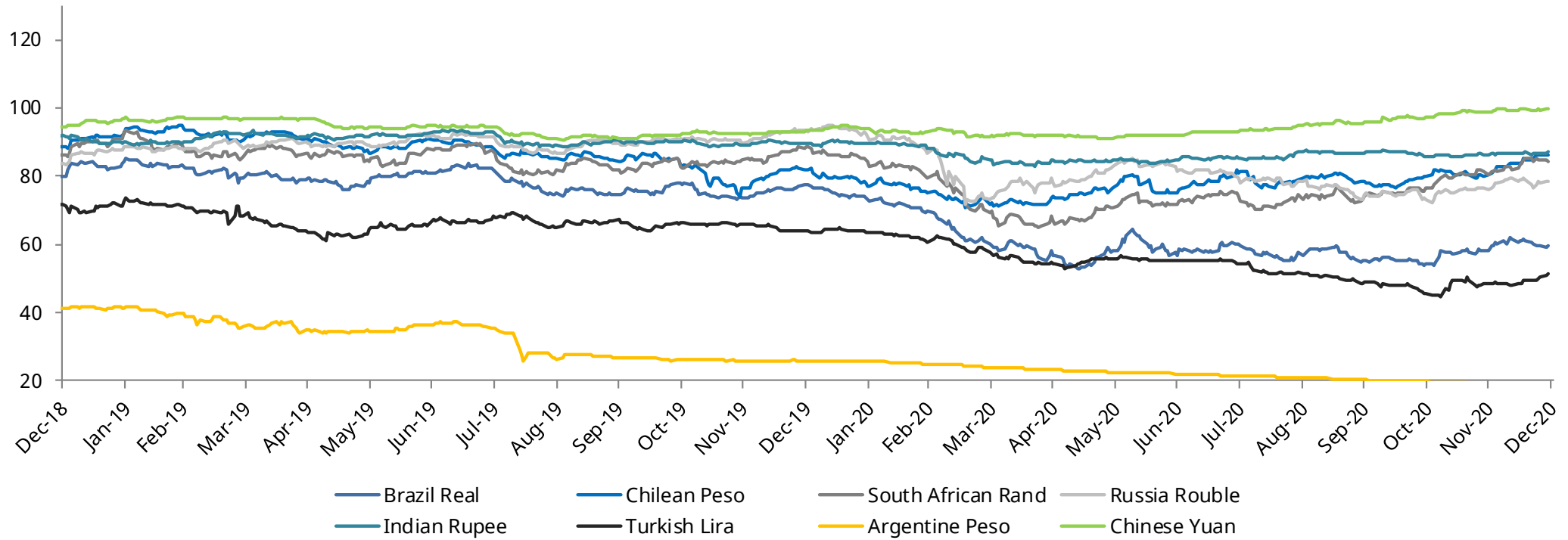


Source: Bloomberg (December 2020)

Emerging market currencies

Exchange rates against the U.S. Dollar – 3 Year Rates to December 31, 2020

(Indexed to 100 on December 31, 2017)

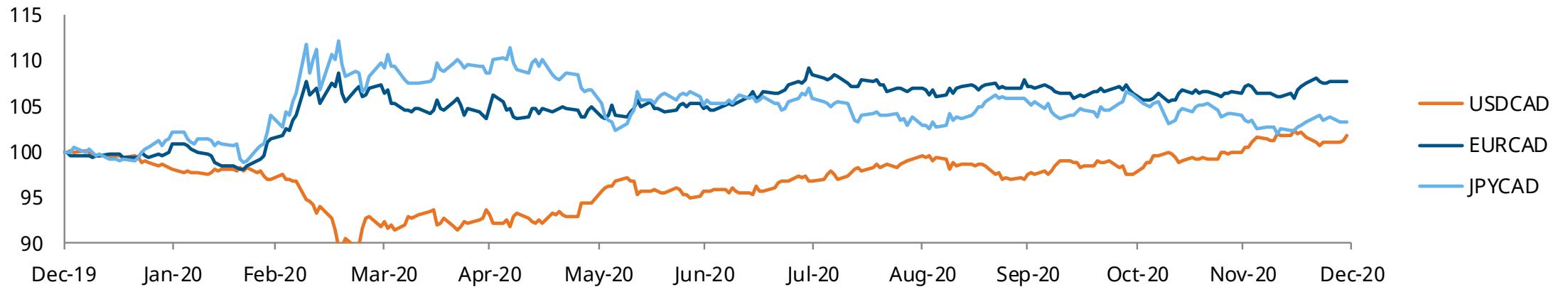


Source: Bloomberg (December 2020)

Currency – The hidden difference

Foreign currencies vs. Canadian Dollar – 1 Year Rates to December 31, 2020

(Indexed to 100 on December 31, 2019)



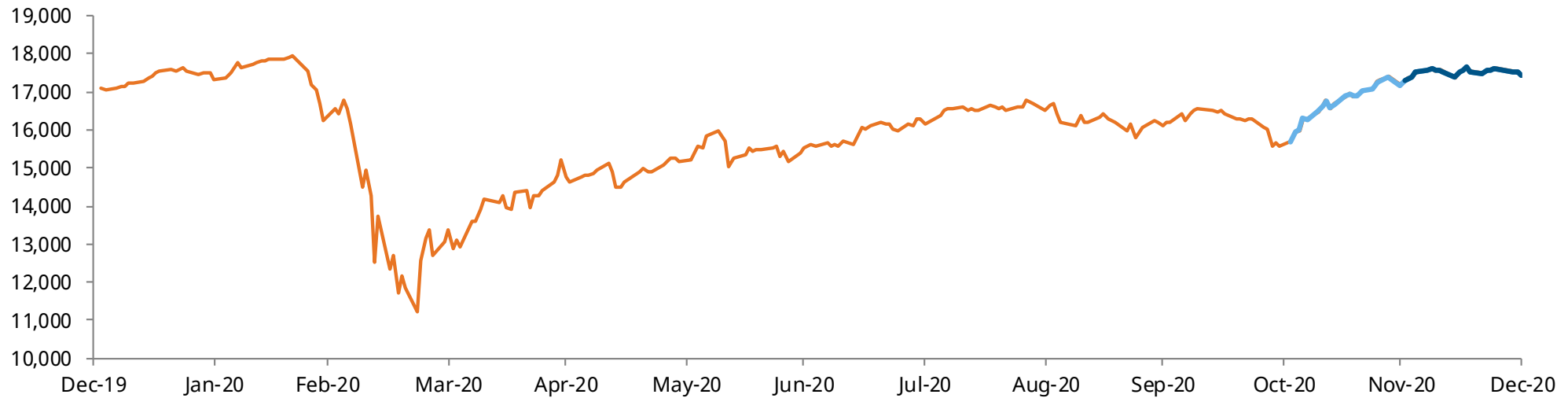
	Canada S&P/TSX	U.S. S&P500	Euro Area MSCI Europe NR	Japan MSCI Japan NR	Emerg. Markets MSCI EM NR	China MSCI China NR	World MSCI World
Local Currency Returns	5.6%	18.4%	(2.2%)	8.8%	19.1%	28.1%	13.5%
CDN\$-Based Returns	5.6%	16.5%	3.7%	12.6%	16.4%	27.4%	14.0%

Source: Bloomberg (December 2020)



A view of global market indices

S&P/TSX Composite Index Prices - 12 months ending December 31, 2020



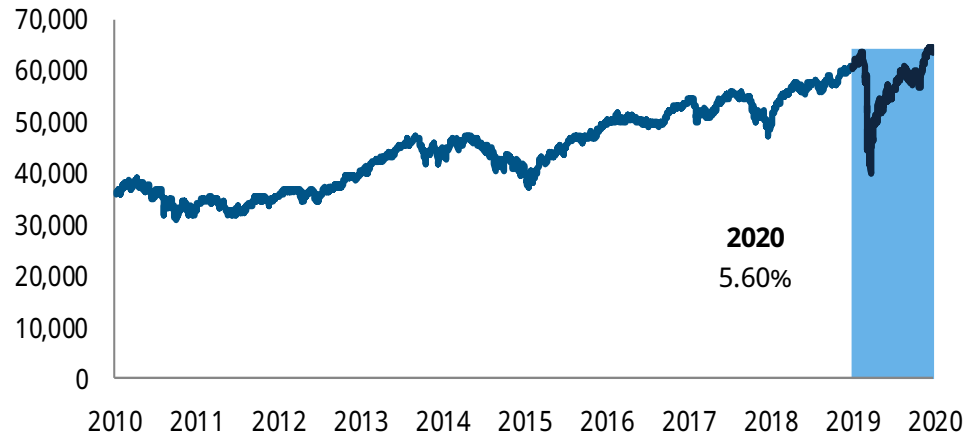
	S&P/TSX	S&P 500	Euro Area	Japan	Emerg. Mkts	China	World
1-Year returns to Dec 31:	5.6%	18.4%	(2.2%)	8.8%	19.1%	28.1%	13.5%
Year-to-Date:	5.6%	18.4%	(2.2%)	8.8%	19.1%	28.1%	13.5%
Quarter-to-Date:	8.5%	11.5%	9.9%	12.8%	15.9%	10.8%	11.7%
Month-to-Date:	1.1%	2.7%	1.4%	2.4%	4.7%	1.8%	2.5%

Source: Bloomberg (December 2020)

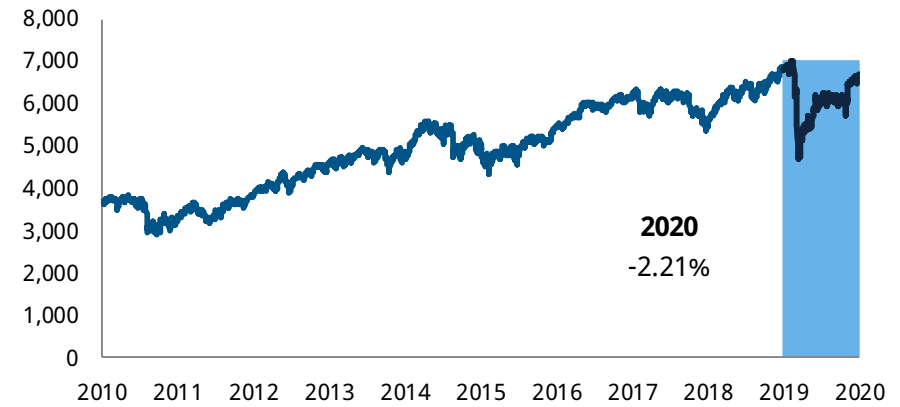


Global market results

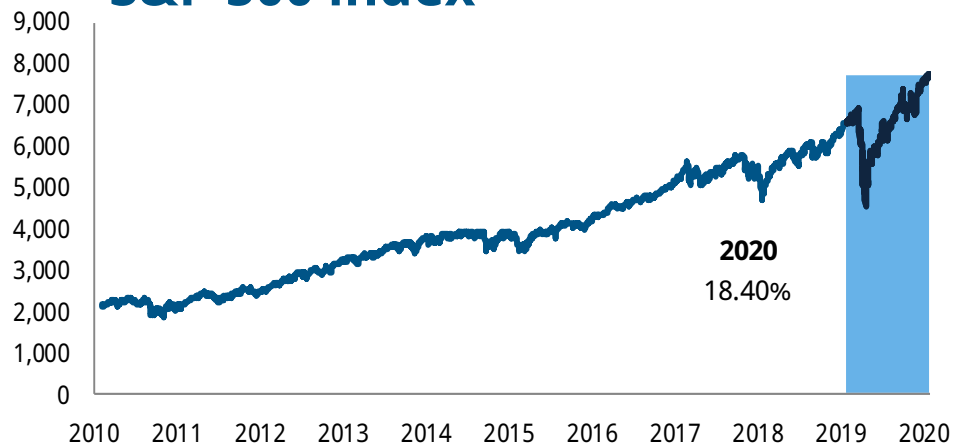
S&P/TSX composite index



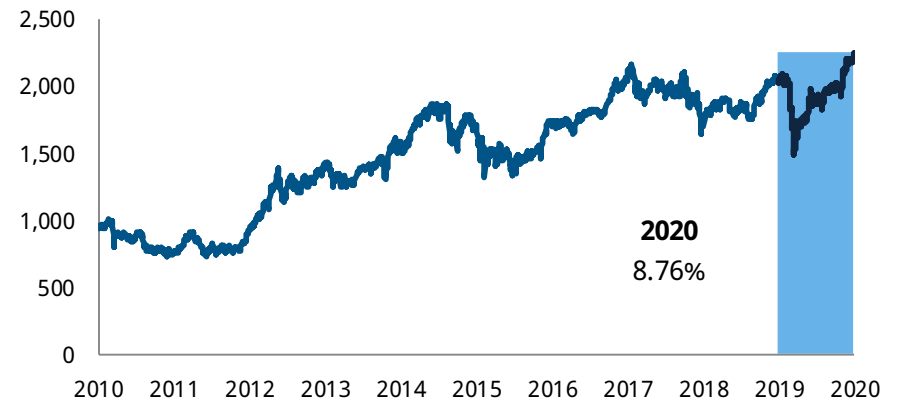
MSCI Europe index



S&P 500 index



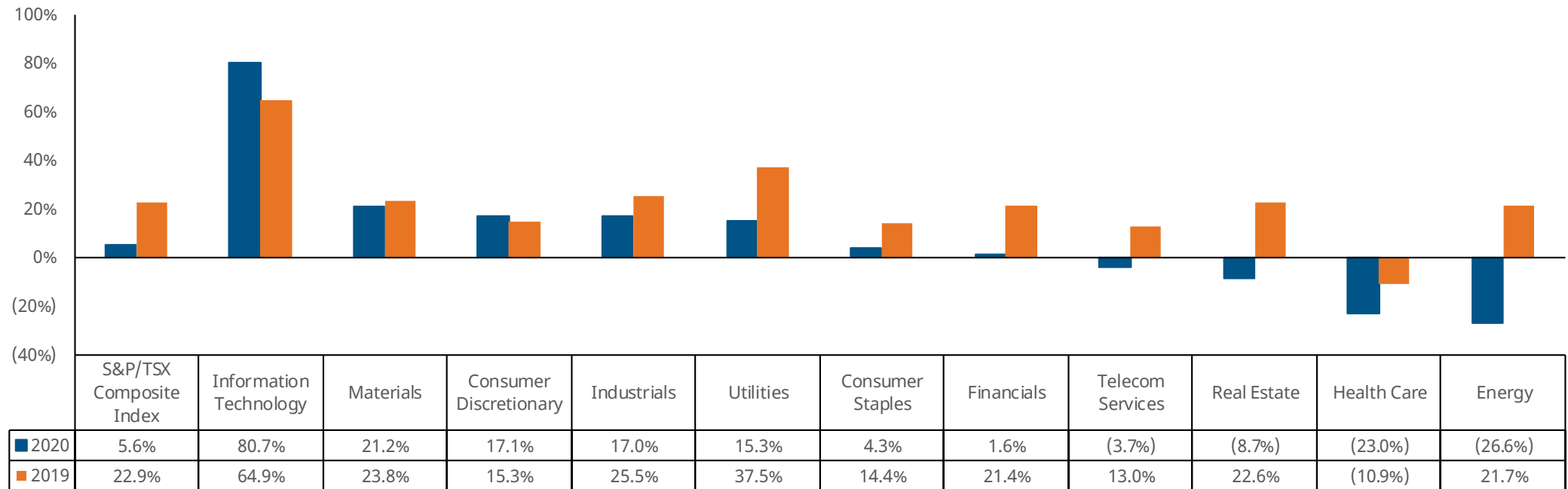
MSCI Japan index



Source: Bloomberg (December 2020)

S&P/TSX by sector

S&P/TSX returns for 2019 and 2020 YTD

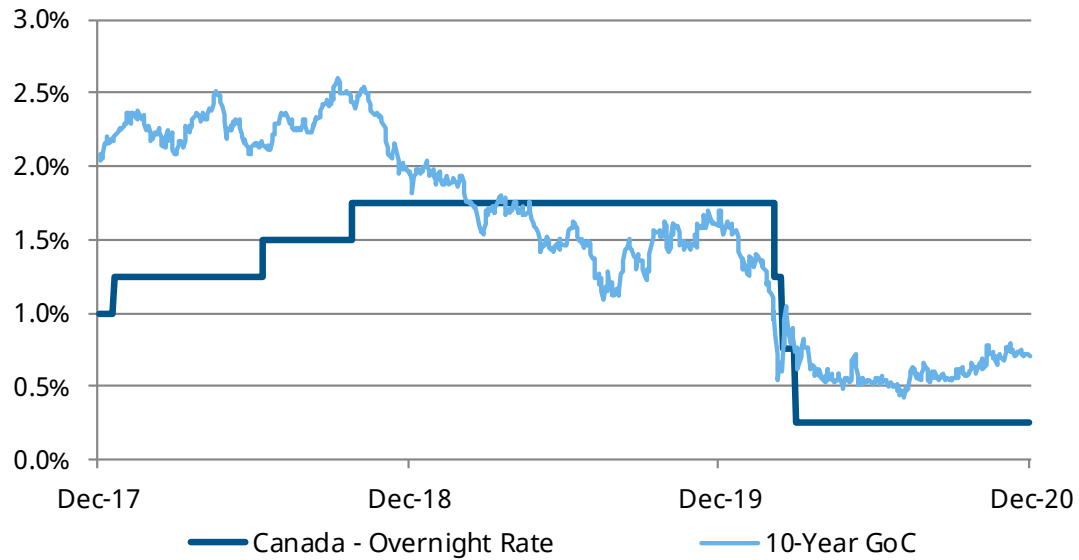


Source: Bloomberg (December 2020)

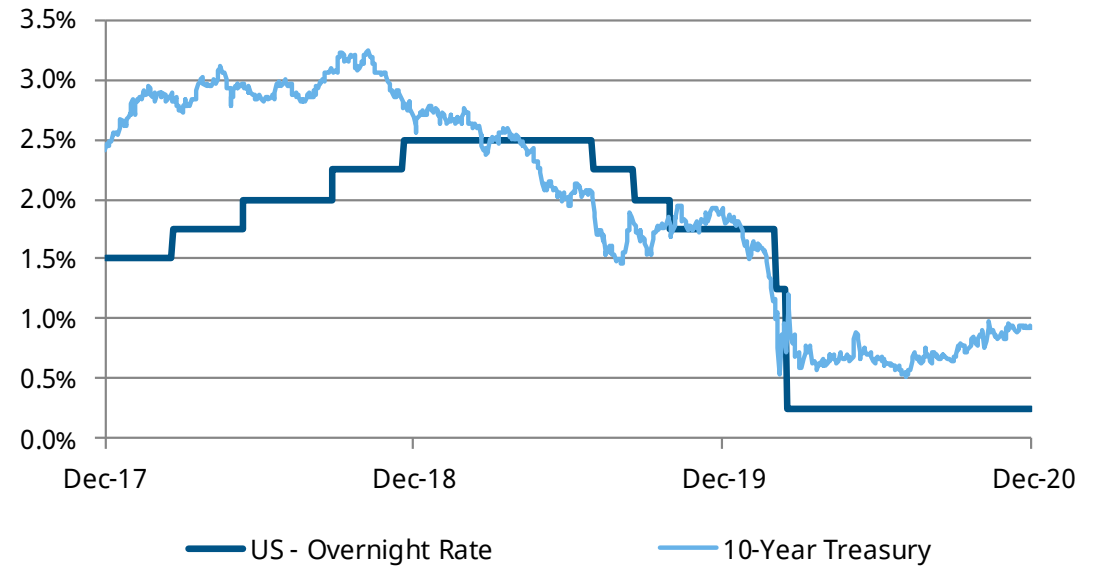
Central bank rates

Central Bank Rates and 10-Year Gov't Bond Yields - 3 Years to December 31, 2020

Canada



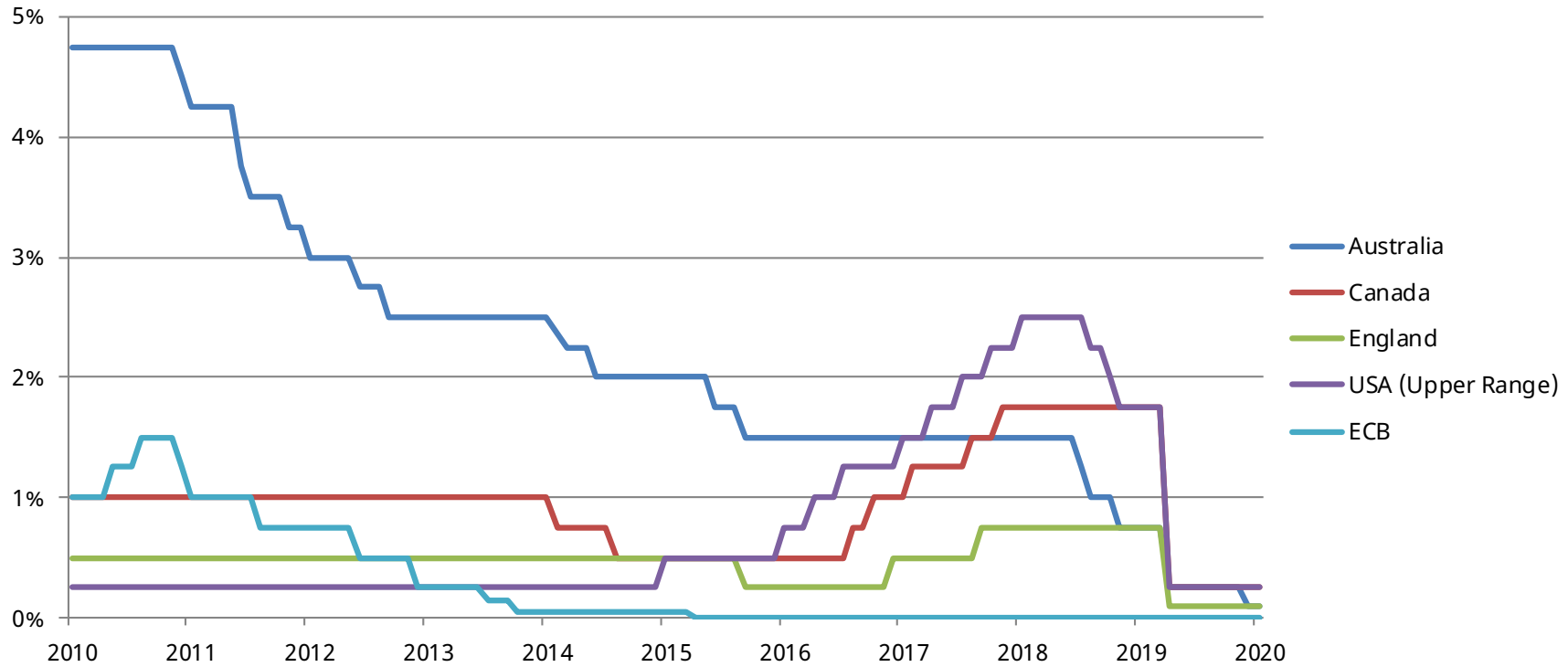
United States



Source: Bloomberg (December 2020)

Central bank rates around the globe

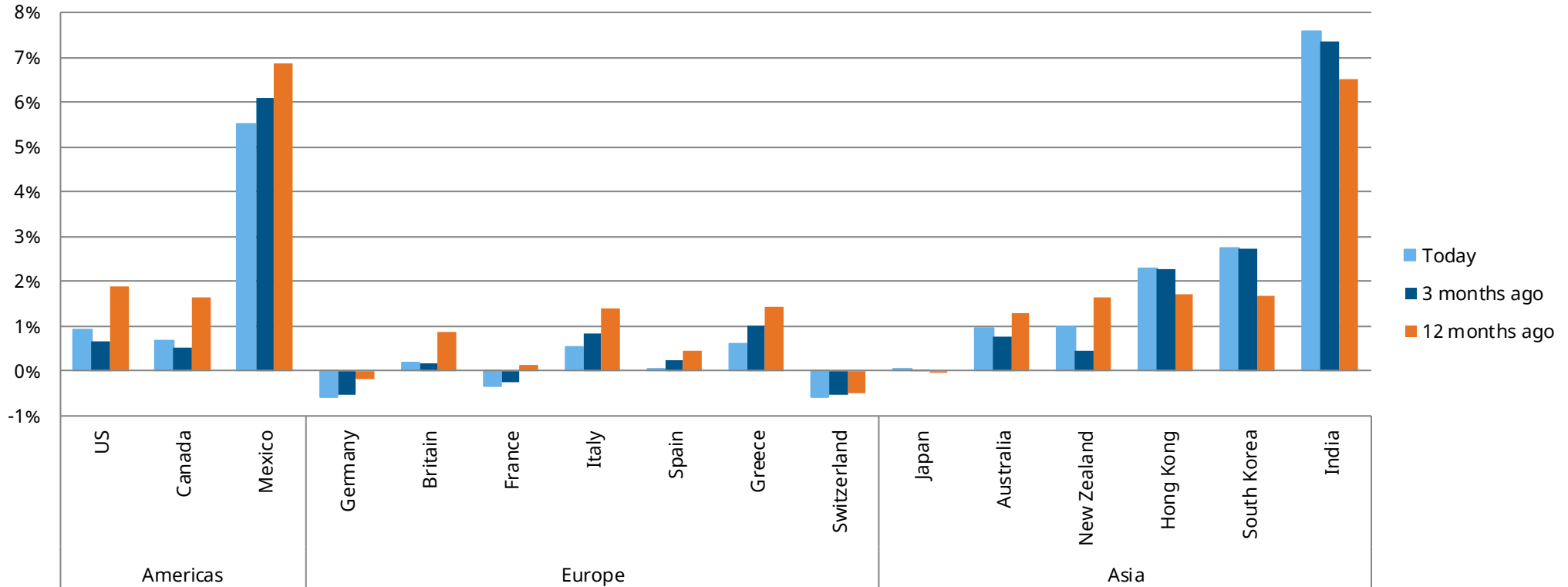
Central Bank Rates - 10 Years to December 31, 2020



Source: Bloomberg (December 2020)

10 year government bond yields

As of December 31, 2020, 3 months ago and 1 year ago (bps)



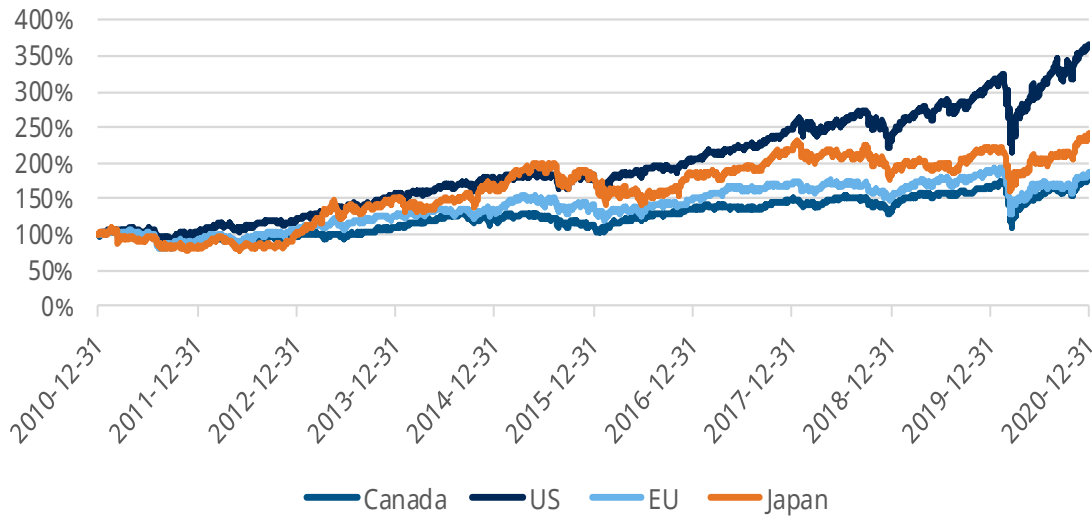
Source: Bloomberg (December 2020)



Global market results

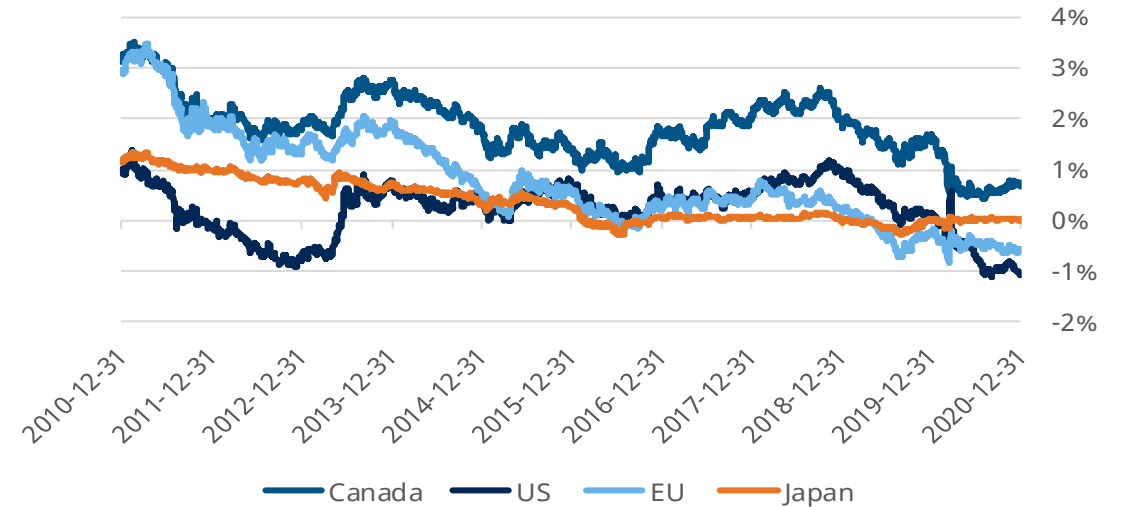
Equity Market Returns

up to December 31, 2020; total returns indexed to 100, local currency



Bond Market Returns

up to December 31, 2020; local currency

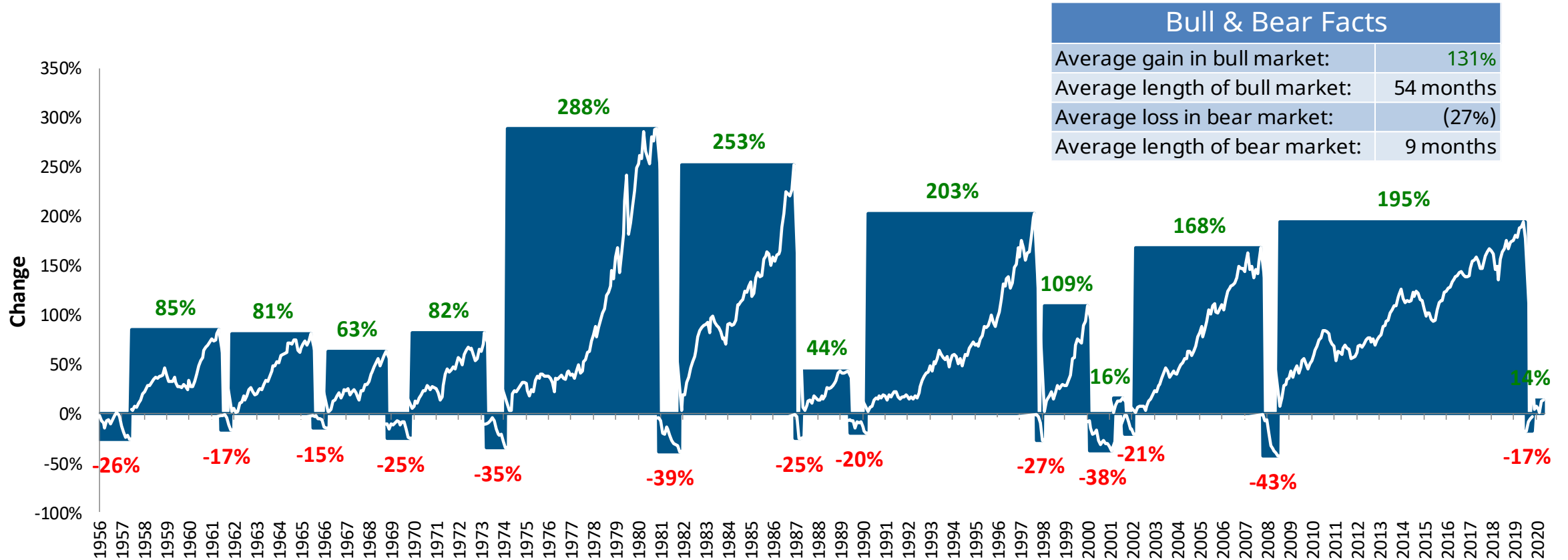


Source: Bloomberg (December 2020)



Bull & Bear markets

S&P/TSX Composite Index to December 31, 2020



Bull & Bear Facts	
Average gain in bull market:	131%
Average length of bull market:	54 months
Average loss in bear market:	(27%)
Average length of bear market:	9 months

Source: Bloomberg (December 2020)

+ Bull & Bear markets: S&P/TSX composite

The risks and rewards of investing



- This chart represents the bull and bear markets in the S&P/TSX Composite Total Return since 1956
All bars above the line are bull markets; all bars below are bear markets.
- For the purposes of this illustration, a bull (bear) market is defined as a positive (negative) move greater than 15% that lasts at least 3 months

Investor behaviour

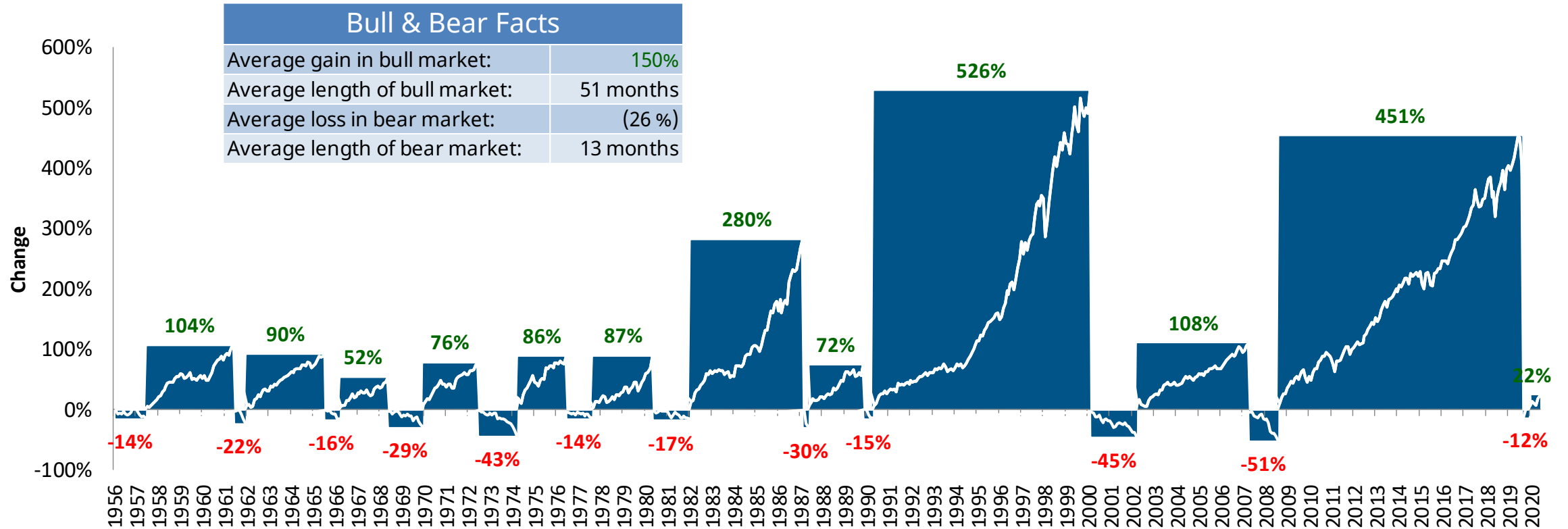


- According to the chart, markets spend more time in positive territory (bull) than negative (bear)
- Bull markets are, on average, longer and more intense, providing a more significant percentage change
- On average bear markets are more brief, and yet engender fear. It is during these periods that there are significant investment 'bargains' to be found.
- Investor discipline during bear markets is critical



Bull & Bear markets

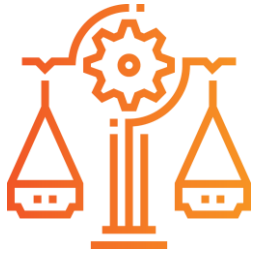
S&P 500 Index to December 31, 2020



Source: Bloomberg (December 2020)

Bull & Bear markets: S&P 500

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