Volume 18, Issue 1, January 2021

Declining US Dollar Lifts Risk Assets – The fourth quarter of 2020 may be an after thought for most people, but it produced gains that lifted indices back into positive territory and some to record highs. While government support and Central Bank stimulus started the recovery, the US dollar's decline provided further support for a risk asset rally. A lower US dollar is a reprieve for global markets as much of the world's debt is denominated in greenbacks as well as most global trade. The lower US dollar is particularly beneficial for Emerging Markets, but the S&P 500 also gains because most of the constituents are multi-national firms.

Similar to the fourth quarter of 2019, the US Treasury Yield Curve steepened in the fourth quarter. This time however it was from a much lower base as the 10-year Treasury yield ended the year at 0.96% versus 1.92% a year early. Still, the positive momentum from mid-year lows appears poised to carry into 2021.

INDEX TOTAL RETURN	4Q20	1-YEAR
MSCI All Country World Index (USD)	14.68%	16.26%
S&P 500 Index (USD)	12.15%	18.40%
S&P/TSX Compostie Index (CAD)	8.97%	5.60%
MSCI Emerging Markets (USD)	19.70%	18.31%
MSCI EAFE Index (USD)	16.05%	7.82%
Barclays Global Agg Bond Index (USD)	3.28%	9.20%
Barclays US Agg Bond Index (USD)	0.67%	7.51%

Source: Bloomberg

Trillion Here, A Trillion There – On 25-Mar-20, the US Senate passed the $2.2 trillion CARES Act, a stimulus package designed to speed up financial relief across the United States. Many developed markets followed suit; Canada rolled out an $82 billion economic stimulus package. However, the size and breadth of the relief package was a surprise, especially coming from a largely liberal and capitalistic society. Government spending for economic relief due to the COVID-19 pandemic has rivalled that of war time spending. The packages were not without reason, as financial aid was required for individuals whose ability to produce income was lost. But the consequences of this stimulus, both good and bad, are likely to play out through 2021.

Nearly $1 trillion of the capital was set aside for small businesses that were impacted by the virus lockdowns. While this helped to pay the bills, much of the capital was a loan and only "kicked the can down the road". Similarly, forbearance programs for mortgages and student loan forgiveness continue to receive this same delay tactic that eventually will come home to roost. For now, the leniency on rents, mortgages and other loans will continue to support risk assets.

In late December, lawmakers passed a $900 billion pandemic relief bill, just before several of the CARES Act aid programs were set to expire. The bill was highlighted by direct stimulus payments of $600, half the amount provided by the first round of cheques. After firmly taking control of Congress, it did not take long for Joe Biden and the Democrats to pump money into the economy and to increase spending to contain the coronavirus pandemic. The American Rescue Plan, announced on 14-Jan-21, is valued at $1.9 trillion and it includes more direct payment to households, a $15 per hour minimum wage and an expansion of jobless benefits.

When the Economic Impact Payment stimulus cheques were sent in spring 2020, apparently 36% of recipients used it for savings and investing. It is anticipated that much of the recent government income will find its way into brokerage accounts again. Therefore, the influence of retail traders should remain a theme for 2021. Adding this to the current market structure which encompasses high valuations and a market dominated by passive investing means that volatility will remain high. The passive management effect causes equities to trade as though they are a lot less liquid. In turn, movements to the upside or downside will be amplified.

Two of our long-term equity themes are materializing. First, cannabis stocks are soaring as the Democrats are poised to follow through on inter-state legalization. Second, commodities are reaping the benefits from a lower US dollar and the additional stimulus will likely pressure the greenback further. However, we remain cognizant of the "dollar smile" theory (the currency increases when the economy is very strong or very weak) and we will adjust exposure accordingly.

Global economic data is poised for a rebound in the first half of 2021. With interest rates climbing, our short-duration call is once again protecting our portfolios. We expect rates to gradually rise although, but volatility will be rampant when at extremes. Should rates collapse again we turn to both gold and alternative investments for support as we are not mandated to hold negative yielding securities. Rest assured that we will remain nimble during volatile markets.