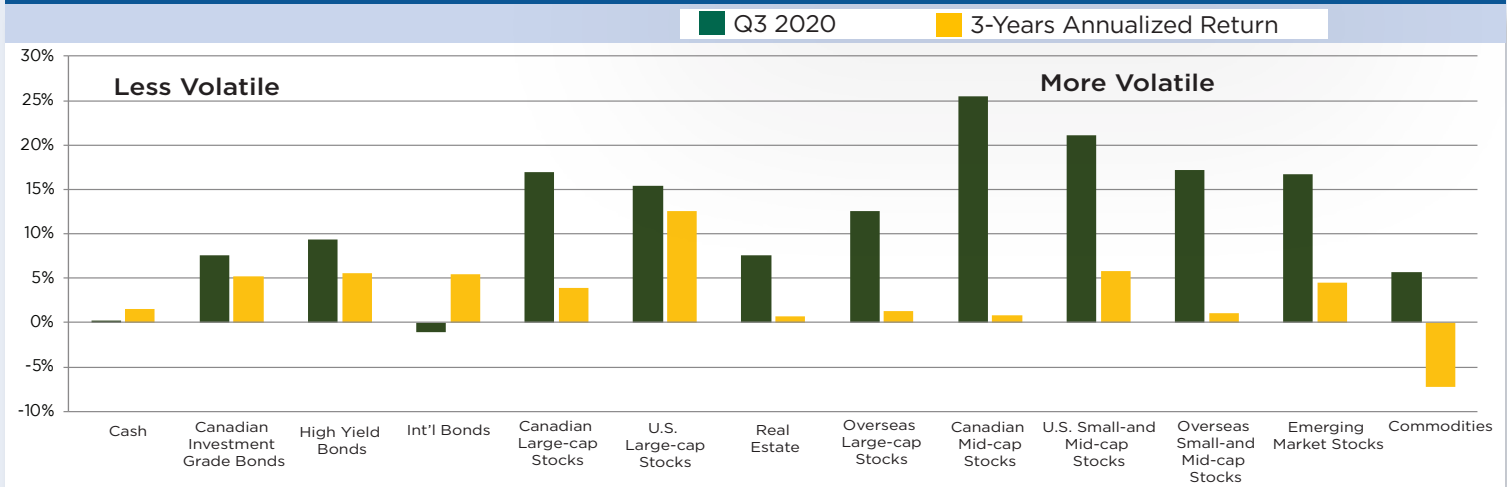


# Asset class performance



Source: Morningstar Direct, 09/30/20 Representative indexes are: Real Estate: S&P Canada REIT Index, High Yield Bonds: Barclays High Yield Canadians Index, Canada Large-cap Stocks: S&P/TSX Composite Index, U.S. Small- and Mid-cap Stocks: Russell 2500 Index, International Bonds: Barclays Global Aggregate Bond Index, Canada Bonds: FTSE TMX Canada Universe Bond Index, U.S. Large-cap Stocks: S&P 500 Index, Emerging Market Stocks: MSCI EM Index, Overseas Large-cap Stocks: MSCI EAFE Index, Canadian Mid-cap Stocks: S&P/TSX Completion, Commodities: S&P GSCI, Cash: FTSE TMX Canada Cdn Trsy Bill 91 Day. Past performance is not a guarantee of how the market will perform in the future. Indexes are unmanaged and are not available for direct investment. All returns expressed in local currency and include reinvested dividends. All returns in Canadian Dollars.

## QUARTERLY MARKET OUTLOOK: FOURTH QUARTER 2020

# Third Quarter in Review

Equities in the third quarter continued their strong rebound from their March lows, despite a turbulent September. We think a strong bounce in economic activity in Q3 sets a solid backdrop of support for a new bull market. However, elevated uncertainty tied to the unpredictable pandemic and presidential election is likely to trigger periodic downswings in equities for the remainder of 2020

- Equity rally continued in Q3, despite late quarter turbulence** - Strong performance in Asian equities also led emerging market stocks to return 9.6% over the quarter. China, which composes roughly a third of the MSCI emerging market index, was early in containing the virus and sharply increased fiscal spending to stimulate its economy, leading its domestic GDP to accelerate in recent months, after a historic 6.8% decline in the first three months of the year. China is one of the few economies expected to have positive GDP growth in 2020 according to the International Monetary Fund. Canadian mid-cap and overseas small and mid-cap returns edged past 6% for the quarter. Despite falling 4% in September, US large cap stocks continued their rally too - up 6.8% over the quarter and 5.6% for the year.
- Highly accommodative monetary policy keeps a lid on bond returns** - Cash returns were mostly flat, and investment-grade fixed income returns were up just 0.4% for the quarter, as the Bank of Canada (BoC) kept the benchmark policy near zero in order to help the economy weather the economic downturn caused by COVID-19. As a result, the 10-year yield on the Canadian government bond hovered around 0.55% for most of the quarter—far lower than 1.5% at the beginning of the year. The BoC pledged to keep rates at the current low levels through 2022.
- Elevated volatility likely to continue for the remainder of 2020** - We think a combination of positive but slower growth, the unpredictable path of the pandemic in major economies and the upcoming U.S. presidential election, will make markets vulnerable to occasional downward swings. That being said, with the recovery in corporate earnings likely already underway, we expect the newly established bull market to continue, aided by accommodative monetary policy and fiscal stimulus spending.

### ► Action for Investors

Given elevated uncertainty tied to the pandemic, we recommend broadly diversifying across asset classes to help buffer your portfolio from downward market swings in the year ahead. Specifically, diversifying across fixed-income sectors and maturities, as appropriate, may help enhance bond returns in a macroenvironment where rates are likely to stay at current low levels for the next few years.

Rebalancing and diversification do not ensure a profit or protect against loss.

Before investing in bonds, you should understand the risks involved, including credit risk and market risk. Bond investments are also subject to interest rate risk such that when interest rates rise, the prices of bonds can decrease, and the investor can lose principal value if the investment is sold prior to maturity.

## A strong rebound but still a lot of ground to cover

### Canada Monthly GDP



Source: FactSet, Statistics Canada, 9/30/20

## QUARTERLY MARKET OUTLOOK: FOURTH QUARTER 2020

# Economic Outlook

We believe the economy has formed a durable bottom, but the pace of growth will slow and the return to pre-pandemic levels will take time. A gradual improvement in the labour market, along with low interest rates and fiscal stimulus, should help sustain the economic recovery into 2021.

- **Recovery likely entering a slower phase** – Following a record GDP decline in April, the economy experienced an initial V-shaped recovery. We believe this strong rebound will give way to slower but sustained growth as fiscal relief is gradually phased out and the initial reopening boost fades. The most recent monthly GDP reading in Canada and timely U.S. economic activity indicators such as tax collection data, employment and electricity consumption suggest that as of Q3, both economies have recovered almost two-thirds of their pandemic-induced losses. That's a good first step, but there is still a lot of ground to cover, and the next leg of the rebound will likely take longer.
- **Labour market holds the key** – Provided that medical solutions for the virus continue to progress, we think a gradual improvement in the labour market will drive a durable and self-sustaining recovery heading into 2021. Unemployment remains high, and further employment gains are needed to support the handoff from stimulus to growth and help drive consumer spending, which makes up the lion's share of the economy. Personal savings in Canada reached an all-time high in Q2 as consumption fell and government aid programs helped bolster incomes. However, household debt levels remain elevated which could slow the recovery. In the U.S., consumers are in better shape compared to past recessions, with personal savings elevated and debt ratios low.

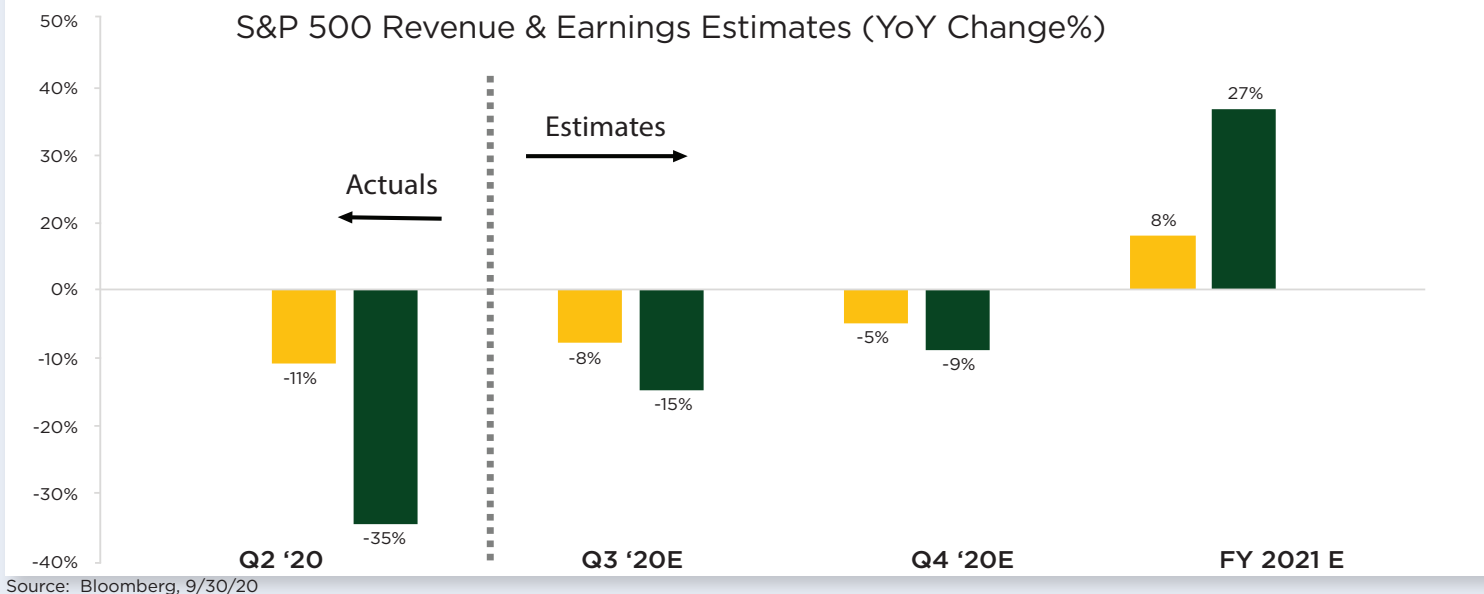
- **A two-track economy until a vaccine arrives** – Major industries in Canada and the U.S. remain capacity-constrained or experience weak demand, which is preventing the economies from reaching their full potential. This uneven recovery is evident in the shifting demand patterns from services to goods. For example, as of August, U.S. consumer spending in goods was 5% above the February peak, but spending on the far bigger category of services (e.g. restaurants, hotels) remained 7% below peak.

### ► Action for Investors

We expect gradually improving economic fundamentals and low rates to support rising equities. While the range of economic outcomes remains wide, in our view it's narrower than in the early stages of the pandemic. This is why we believe an allocation in the middle of the equity/fixed-income range is generally appropriate.

Rebalancing and diversification do not ensure a profit or protect against loss.

## Earnings on path to inflect higher and support budding bull market



### QUARTERLY MARKET OUTLOOK: FOURTH QUARTER 2020

## Equity Outlook

The longer-term outlook for stocks is positive in our view, with support from economic growth, corporate earnings and interest rates. In the near term, we expect volatility to remain elevated and markets to consolidate recent gains. We don't believe the gains experienced since March will be matched in the months ahead, but we do think a solid economic expansion will give legs to the new bull market.

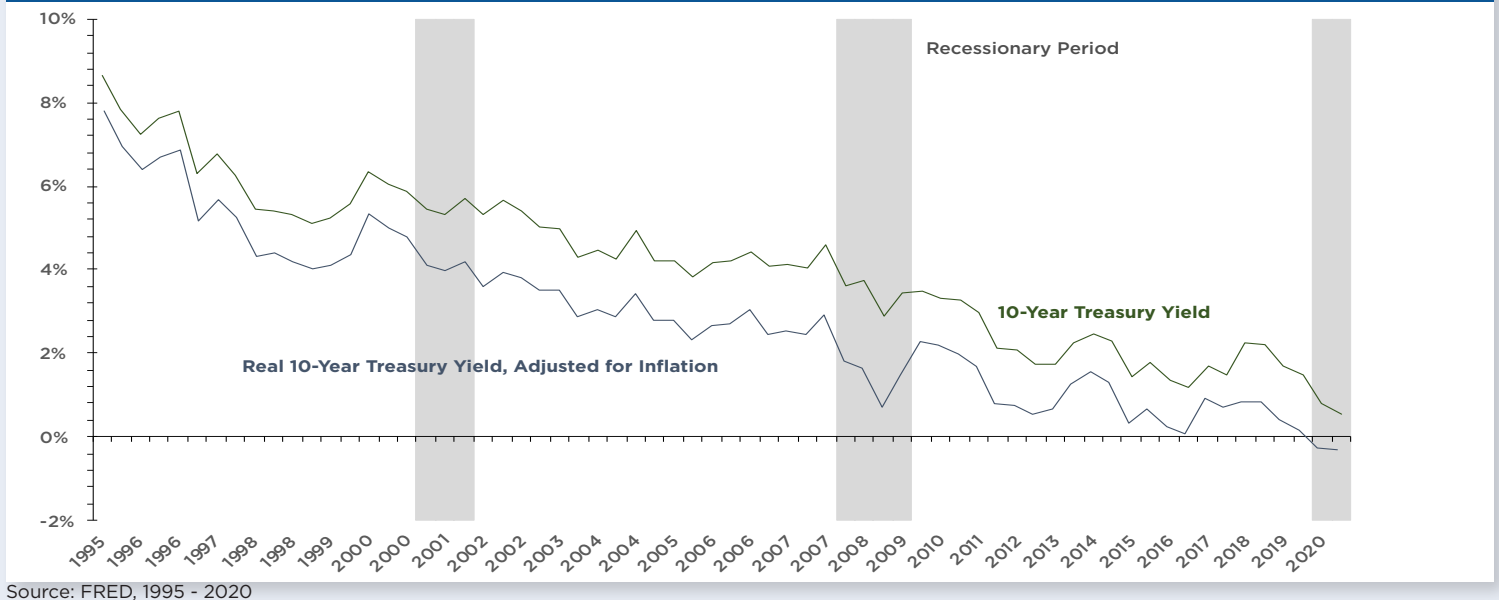
- A new bull market emerges** – Following a powerful six-month rally, the TSX has risen 45% from the March bottom and the S&P 500 eclipsed February's high, marking the second-fastest bear-market recovery in the last 50 years. We expect a gradual economic recovery, accommodative central bank policies and improving corporate earnings to support this new bull market. Stocks are looking across the valley in economic activity, which likely explains the disconnect between the stock market and the economy. While the path of the virus and progress on the medical front will largely dictate market outcomes, if history is any guide, gains are not exhausted. In past recoveries, stocks have advanced at a solid pace in the year following a return to new highs.
- Earnings on track to inflect higher** – Corporate earnings have taken a sizeable hit, declining 35% for the S&P 500 and more than 50% for the TSX companies in Q2. Q3 likely marked an inflection point, with earnings expected to improve in the latter part of 2020 and then rebound strongly in 2021. Even though the recession was severe in magnitude, it was likely short in duration, which helped corporate profitability hold up better than expected. In addition, earnings for the two sectors most heavily weighted in major U.S. indexes – technology and health care – remained resilient and partly benefited from the pandemic. As the economic recovery plays out, we expect the equity rally to broaden, potentially driving a rebound in asset classes and sectors that have lagged.
- Markets may take a breather** – The quarter ahead looks increasingly challenging amid uncertainty around the path of the virus, waning fiscal support and rising geopolitical tensions between the U.S. and China. At the same time, full valuations leave little margin for error and are likely to drive more moderate gains. We think the new bull market has legs, but we expect periodic setbacks to produce episodes of volatility.

### ► Action for Investors

Stay balanced and diversified but also opportunistic, deploying available cash toward your long-term goals, if appropriate. We think diversification across a broad mix of asset classes and sectors can best position you for the longer-term bull market while also helping defend against volatility.

Investing in equities involves risks. The value of your shares may fluctuate, and you may lose principal. Diversification does not ensure a profit or protect against loss in a declining market.

## Lower for longer interest rates



## QUARTERLY MARKET OUTLOOK: FOURTH QUARTER 2020

# Fixed-income Outlook

Through a combination of near-zero rates, bond purchases, and newly enacted credit facilities, the BoC and Federal Reserve (the Fed) have gone to extraordinary measures to provide ample liquidity to the fixed income market. We expect that monetary policy will remain highly accommodative in North America for several years to come to support the economic recovery.

- **Heavy-handed central bank policy continues-** The BoC has pledged to continue its aggressive stimulus measures throughout the Canadian economic recovery. Meanwhile, the Fed is likely to keep the benchmark federal funds rate, which provides an anchor for short-term rates, near zero through 2023. Additionally, both central banks have committed to continued purchases of bonds (treasuries, corporate and mortgage securities) to keep borrowing costs low for consumers and firms in order to support economic growth by encouraging household spending and business investment.
- **New Fed inflation policy could keep benchmark rates low for years-** In September the Fed announced that it would no longer preemptively raise interest rates as inflation crept above its 2% target. Instead, higher levels of inflation would be tolerated “for some time” before the Fed hiked interest rates to cool an economy on the verge of overheating. The COVID-19 pandemic has been deflationary in the short term. In Canada the inflation rate fell from 2.2% in February to 0.2% by the end of the third quarter. Even though we expect inflation to rise modestly as the economy improves, still moderate levels of price increases give central banks the latitude to keep rates low in order to stimulate the economy and by doing so, help drive down the unemployment rate back closer to pre-pandemic levels.

- **With yields this low, why own bonds-** There is still a diversification benefit with fixed-income securities because even at low rates, bonds tend to move in opposite direction to equities. That means when stocks decline, bonds either rise, or fall less. Moreover, real yields (nominal rates adjusted for inflation) are below zero as shown in the chart. That means cash, and other short-term debt instruments are unlikely to hold their value in the current macro environment. Owning bonds across a range of maturities allows an investor to reinvest maturing securities at higher yields as the economy recovers. Additionally, to enhance fixed-income returns we recommend investors own across investment-grade and high-yield corporate debt and emerging market debt securities, as appropriate.

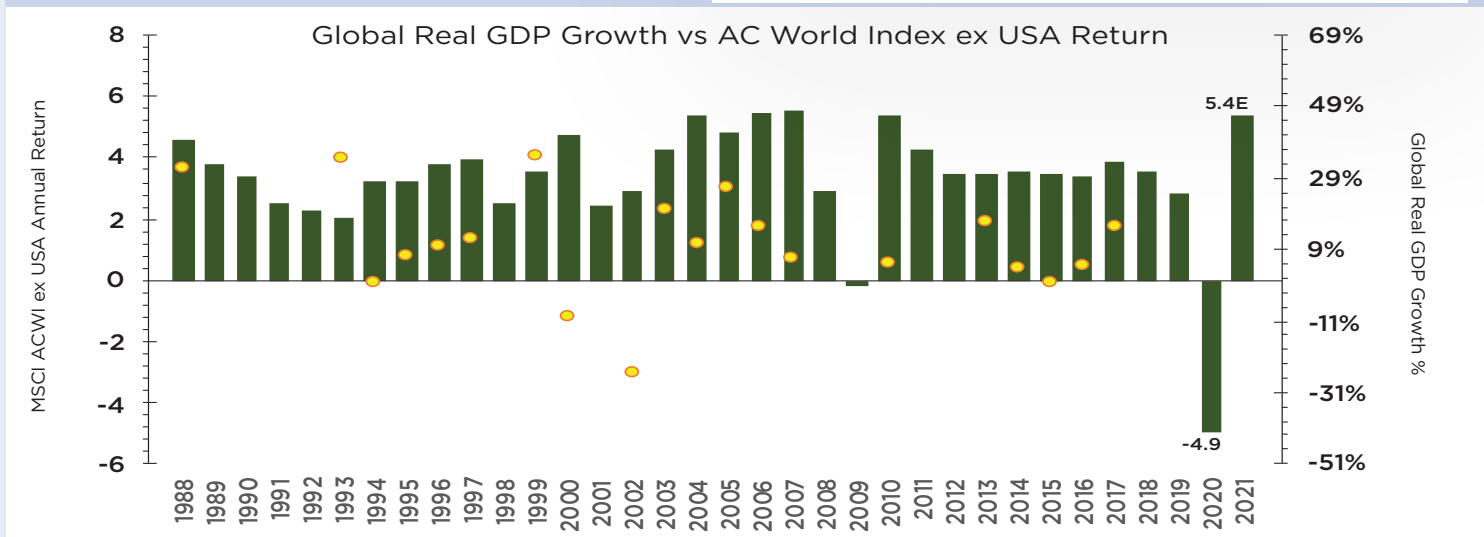
### ► *Action for Investors*

Though bonds can play an important role in reducing risk even when rates are low, investors should revisit their expectations for a fixed-income portfolio's ability to generate the income needed to help achieve financial goals and to determine if other financial planning strategies may be warranted.

Before investing in bonds, you should understand the risks involved, including credit risk and market risk. Bond investments are also subject to interest rate risk such that when interest rates rise, the prices of bonds can decrease, and the investor can lose principal value if the investment is sold prior to maturity.

You must evaluate whether a bond ladder and the securities held within it are consistent with your investment objectives, risk tolerance and financial circumstances.

■ Global GDP Growth (%)    ● MSCI ACWI ex USA Annual Return



Source: Morningstar, MSCI All-Country World Index ex. U.S. returns. Past performance is not a guaranteed of future performance.

## QUARTERLY MARKET OUTLOOK: FOURTH QUARTER 2020

# International Outlook

The global economy is in the early stages of a rebound, though disparate conditions between major economic regions along with resurfacing pandemic challenges will likely make for a protracted recovery. Similar to North American conditions, we think monetary and fiscal policies will remain highly supportive, helping bridge the chasm created by the health care crisis. An enduring, though modest, expansion should, in turn, support positive global equity market performance ahead.

- Uneven global recovery** – The overseas rebound is underway, but won't proceed in rapid or steady fashion. Resurgent COVID-19 cases in Europe pose a threat of renewed lockdowns while China's recovery is more advanced – as demonstrated by its potential to be the only major economy to post outright growth for 2020. In spite of reopening setbacks, threats to global trade activity and political instability, we think global growth will improve next year, aided significantly by continued sizable monetary and fiscal stimulus abroad. Coordination by EU policymakers to launch the euro recovery fund, aggressive stimulus from the world's major central banks and accommodative policies from Chinese authorities signal to us that global policymakers are committed to fostering a sustained recovery, though varying regional factors may produce a more uneven economic path than we experience in Canada or the U.S.
- Currency help** – The loonie has been fairly rangebound against the greenback for the past several years. The C\$ has gained some strength this year as oil prices rebounded and the Fed lowered rates, but we expect the loonie to remain in its recent range as we advance. South of the border, the U.S. dollar appreciated steadily in recent years as the American economy improved relative to the tepid European expansion and slowing rate of growth in China, along with the Fed's slow move away from extreme monetary policy settings. The pandemic-driven global recession has reset the deck and

we think the strength of the U.S. dollar could abate. Improving global growth tends to be a tailwind for the loonie and a headwind for the greenback (the dollar is more of a safe-haven currency). Periods of global economic improvement and an accompanying flat-or-weaker U.S. dollar (early-to-mid-2000s, 2009, 2017) have been favorable for overseas market performance.

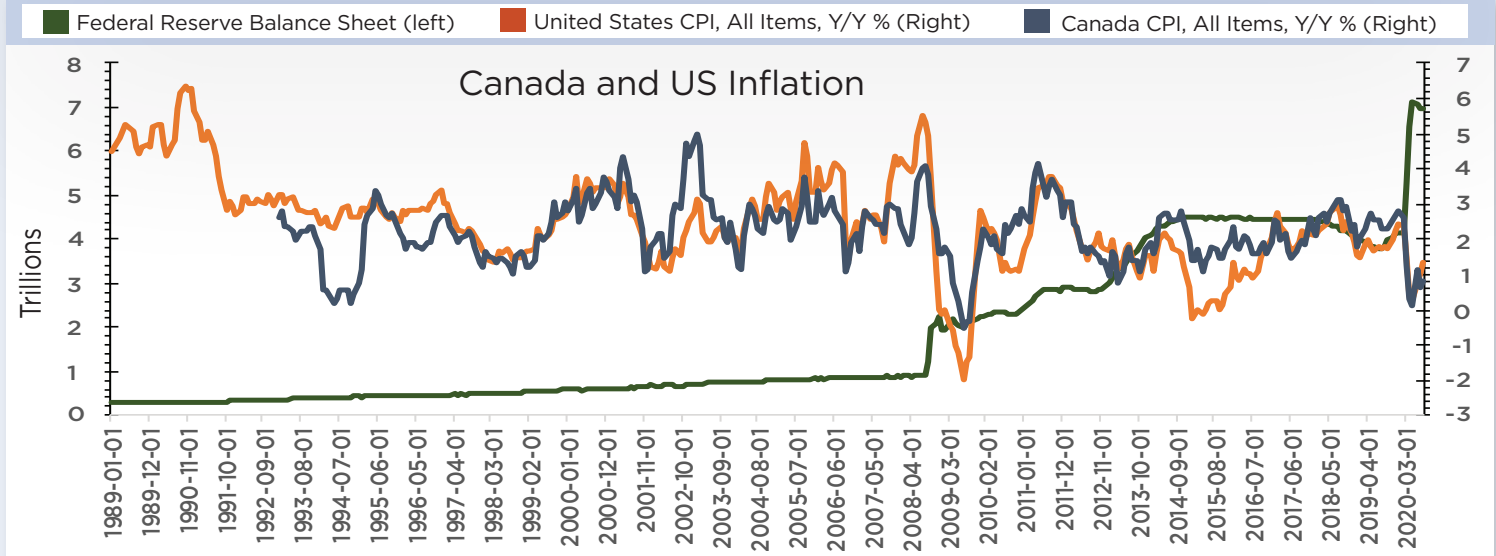
- International performance following global slowdowns** – Global equities traditionally benefit from an improving global economy, posting an average annual gain of 9.5% in years in which world GDP accelerated from the prior year. As the global expansion gains footing over time, we think investment performance will broaden beyond the leadership so far in this rally. We think this warrants exposure to lagging areas such as global equities and cyclical assets/sectors, which have higher representation in foreign equity markets.

### ► Action for Investors

We recommend an overweight allocation to international equities, with a larger exposures to U.S. large-caps and overseas developed markets (Europe, Japan) versus emerging markets.

Special risks are inherent to international investing, including those related to currency fluctuations and foreign political and economic events. Diversification does not ensure a profit or protect against loss in a declining market.





Source: Factset, 1989-2020.

QUARTERLY MARKET OUTLOOK: **FOURTH QUARTER 2020**

# Inflation Outlook

After more than a decade of subdued inflation, the economic shutdown put even more downward pressure on consumer prices. The Fed has upped the stakes with extraordinary stimulus and its new approach aimed at allowing inflation to run above its long-term target. We think domestic and U.S. inflation will remain contained in the near run, but we expect it to move higher as the recovery gains traction and over the longer term.

- **Stimulus rekindles inflation concerns** – The U.S. Fed has expanded its balance sheet to a record \$7 trillion this year (from \$4 trillion), stoking fears that this unprecedented “money printing” will inevitably lead to runaway inflation. We don’t share this view. If the Fed stays on the sidelines for too long, inflation could overheat, but we think the underlying drivers of inflation, supply-demand dynamics and the Fed’s policy approach have changed from the last time we experienced runaway consumer price increases (mid-70s to early 80s). It’s worth noting that following the ‘08 financial crisis, the Fed grew its balance sheet fourfold (\$800 billion to \$4 trillion) to a chorus of worries, yet inflation has remained below trend since.
- **The Fed takes a new approach** – The Fed has introduced a new policy strategy aimed at raising inflation toward a more desirable long-term level of 2%, more closely resembling the BoC’s policy approach. Whereas the Fed’s 2% target was historically viewed as a destination, U.S. central bankers will now allow prices to run above that level for a period in an effort to hit an average of 2% over time. We think this signals the Fed’s—along with the BoC and other major central banks’—commitment to keeping highly-accommodative monetary policy in place for the next several years, which should be helpful to the economic recovery and equity markets. We think this can be somewhat effective in raising inflation expectations, though we believe inflation will remain largely contained for the next few years. We do expect a new element of market anxiety down the road in that if the Fed is successful in getting inflation above its 2% target, financial markets are then likely to fixate on

“how far above and for how long?” Similar Fed policy worries in 2013 and 2018 spurred market volatility and temporary pullbacks in equity markets as investors recalibrated expectations for ongoing Fed stimulus.

- **Higher inflation down the road** – We think domestic inflation will be modest in coming years, but should gain a bit of steam as the economic rebound gains traction. Recent consumer price readings have shown an uptick in core inflation from the pandemic lows, offering a somewhat encouraging signal that household demand is returning. In coming years, firming aggregate demand should apply some upward lift to consumer prices, and we’re watching to see if supply-chain disruptions from the pandemic downturn create a more lasting mismatch in supply and demand that could persistently lift inflation. Over the long term, rising government debt and deficits could also exert some upward pressure, though we think Canada is in a more favourable fiscal position than many other developed countries. While we don’t anticipate an excessive spike in prices, persistent inflation does have an impact on consumers and investors. At 3% inflation, prices double in less than 25 years, highlighting the importance of a portfolio and income strategy that can account for inflation over the long term.

### ► Action for Investors

An appropriate allocation to equities can help protect your portfolio against the impacts of inflation over time. Consider equities with rising dividend potential, not simply high yields. Ladder your fixed income portfolio across a spectrum of maturities, which can help position for higher rates in the future.

## Target guidance by investment category

START HERE	Investment Category	Asset Class	Target Guidance in Range
Equity Investments	Aggressive <sup>1</sup>	Commodities & Emerging Markets	Middle
	Growth	Small- and Mid-cap Stocks (Canadian, U.S. and Overseas)	Middle
	Growth & Income	Canadian Large-cap Stocks, <sup>2</sup> U.S. Large-cap Stocks, Overseas Large-cap Stocks & Real Estate	Middle
Fixed-income Investments	Income	Canadian Investment-grade Bonds, GICs, International Bonds, High-yield Bonds & International High-yield Bonds	Middle
	Cash	Cash & Money Market	Middle

<sup>1</sup> Alternative Investments and Stocks trading less than \$4 align with the aggressive investment category, but they are not recommended.

<sup>2</sup> Large-cap stocks that do not pay a dividend are in the Growth investment category.

Asset classes we don't recommend separately include alternative investments and micro-cap equities.

## QUARTERLY MARKET OUTLOOK: FOURTH QUARTER 2020

# Asset Class Outlook

We believe well-diversified portfolios should be built by first identifying a targeted mix of equity and fixed-income investments based on your goals and comfort with risk, and then gaining exposure to a broad mix of the asset classes highlighted below.

**Equity Versus Fixed Income (Equity target = Middle)** - We recommend a neutral allocation between equity and fixed income. While we think it'll take some time for the economy to fully recover, we expect the path forward to be positive, but choppy, and supported by renewed earnings growth. Interest rates may be low for a while longer, but an appropriate amount of fixed income and cash can enhance stability during periods of volatility.

**Domestic Versus International (International target = High)** - We expect a sustained economic rebound in Canada, but elevated consumer debt and reliance on an extended housing market boom represent headwinds relative to other developed markets. International equities can provide diversification to relatively high sector concentration in Canada, which includes sectors with sensitivity to commodity prices.

### Asset Class Diversification

**Aggressive (Target = Middle):** We recommend a focus on emerging-market equities, which we think offer diversification benefits and exposure to secular tailwinds, such as favourable demographics. We remain cautious on commodity investments and don't think investors need additional exposure than that gained through Canadian equities.

**Growth (Target = Middle):** We recommend overweighting U.S. small- and mid-cap stocks and underweighting Canadian small- and mid-cap stocks, which we also believe can help diversify sector concentration within the Canadian economy.

**Growth & Income (Target = Middle):** We recommend overweighting overseas and U.S. large-cap equities based on the additional diversification value they can provide and the domestic economic recovery challenges stemming from elevated household debt levels. We expect the global recovery to broaden, supported by meaningful governmental policy actions, though pockets of coronavirus outbreaks may cause short-term setbacks along the way.

**Income (Target = Middle):** We recommend laddering bond portfolios as interest rates are likely to stay low for longer than previously expected while central banks provide monetary support. The aggressive-income target is high because we recommend overweighting Canadian and International high-yield bonds as interest rate spreads have risen to levels that have historically corresponded to positive forward relative returns versus investment-grade bonds. International high-yield bonds offer additional diversification benefits and stand to benefit from aggressive central bank support.

**Cash (Target = Middle):** Real cash returns are negative as the BoC provides extremely accommodative monetary policy, and it will likely do so for some time to continue to support the recovery. Cash can help provide stability, cover short-term expenses and provide a source for investment during pullbacks.

Investors should understand the risks involved in owning investments, including interest rate risk, credit risk and market risk. The value of investments fluctuates, and investors can lose some or all of their principal. The prices of small-cap, mid-cap and emerging-market stocks are generally more volatile than those of large company stocks. Special risks are inherent to international investing, including those related to currency fluctuations and foreign political and economic events.

# Investment Performance Benchmarks

It's natural to compare your portfolio's performance to market performance benchmarks, but it's important to put this information in the right context and understand the mix of investments you own. Talk with your advisor about any next steps for your portfolio to help you stay on track toward your long-term goals.

As of September 30, 2020

Benchmarks for Investment Categories				
Total Return	YTD	1-Year	3-Year	5-Year
Cash	1.0%	1.8%	1.5%	1.1%
Canadian Bonds	7.4%	7.7%	5.2%	4.0%
High-yield Bonds	0.3%	4.0%	5.5%	8.1%
International Bonds	8.2%	8.6%	5.5%	5.4%
Canadian Large-cap Stocks	-7.5%	-2.2%	3.9%	4.5%
U.S. Large-cap Stocks	1.8%	12.1%	12.5%	12.7%
Real Estate	-22.9%	-17.5%	0.7%	3.0%
Overseas Large-cap Stocks	-10.5%	-4.2%	1.3%	2.6%
Canadian Mid-cap Stocks	-11.8%	-5.1%	0.9%	2.0%
U.S. Small- and Mid-cap Stocks	-6.6%	-0.7%	5.7%	7.3%
Overseas Small-cap Stocks	-12.0%	-2.4%	1.0%	4.2%
Emerging-market Stocks	-5.5%	1.4%	4.5%	5.1%
Commodities	-33.1%	-31.1%	-7.3%	-11.0%

Canadian Equity Sector Performance				
Total Return	YTD	1-Year	3-Year	5-Year
Basic Materials	15.4%	24.9%	12.0%	9.1%
Communication Services	-9.0%	-6.3%	2.9%	6.3%
Consumer Discretionary	-10.8%	-10.5%	-1.9%	1.4%
Consumer Staples	1.3%	3.0%	6.9%	8.3%
Energy	-30.4%	-24.6%	-9.4%	-6.6%
Financials	-16.2%	-11.0%	0.6%	5.0%
Health Care	-30.9%	-54.5%	-12.0%	-39.7%
Industrials	-3.8%	-0.3%	8.1%	10.9%
Technology	62.0%	85.6%	47.7%	33.3%
Utilities	-1.7%	10.4%	7.4%	10.2%
<b>TSX Index</b>	<b>-7.5%</b>	<b>-2.2%</b>	<b>3.9%</b>	<b>4.5%</b>

Source: Morningstar Direct, 09/30/2020. All returns expressed in local currency and include reinvested dividends. Performance represented by: Emerging Market Stocks: MSCI EM Index, Canadian Mid-cap Stocks: S&P/TSX Completion Index, U.S. Small- and Mid-cap Stocks: Russell 2500 Index, Overseas Small- and Mid-cap Stocks: MSCI EAFE Small Cap Index, Canadian Large-cap Stocks: S&P/TSX Composite Index, Real Estate: S&P Canada REIT Index, U.S. Large-cap Stocks: S&P 500 Index, Overseas Large-cap Stocks: MSCI EAFE Index, High Yield Bonds: Barclays HY Canadians Index, Canadian Bonds: FTSE TMX Canada Universe Bond Index, International Bonds: Barclays Global Aggregate Index. Past performance is not a guarantee of how the market will perform in the future. Indexes are unmanaged and are not available for direct investment. All returns in Canadian Dollar