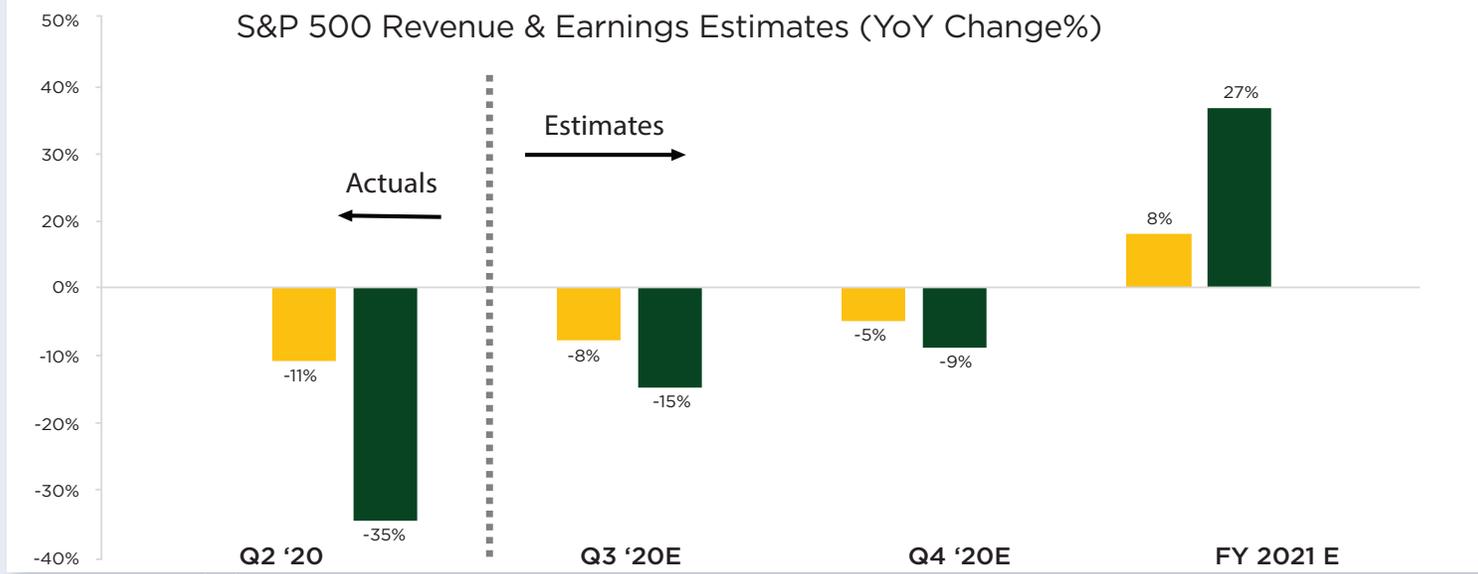


# Earnings on path to inflect higher and support budding bull market



Source: Bloomberg, 9/30/20

## 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.