eastport FINANCIAL GROUP

MARKET & ECONOMIC SUMMARY

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MARKET SUMMARY

Fourth Quarter 2020

S&P/TSX Composite TR

Q4	YTD	1 year
↑9.0%	↑5.6%	↑5.6%

S&P 500 TR (USD)

Q4	YTD	1 year
↑12.2%	↑18.4%	↑18.4%

MSCI EAFE GR (C$)

Q4	YTD	1 year
↑10.7%	↑6.4%	↑6.4%

ICE BofAML Canada Brd Mkt TR

Q4	YTD	1 year
↑0.4%	↑8.6%	↑8.6%

FOURTH QUARTER HIGHLIGHTS

- S&P/TSX Composite hits 9-month high of 17,684.1 on December 17th
- S&P 500 hits record high of 3,760.2 on December 31st
- Canadian dollar hits 32-month high of $0.7880 USD on December 17th
- WTI Oil hits 10-month high on December 18th closing at $49.24 USD
- Bank of Canada maintains overnight rate at 0.25% in Q4

SUMMARY

Despite a resurgence of COVID-19 cases and renewed lockdowns in many regions, markets trended upward during the fourth quarter of 2020, boosted by growing clarity around the outcome of the U.S. presidential election and significant COVID-19 vaccine progress. With the rollout of approved vaccines across many developed countries including Canada, the U.S. and the U.K., the global outlook for an economic recovery is improving, although there will undoubtedly be some volatility along the way.

The S&P 500 Index experienced a pullback due to uncertainty in the days leading up to the U.S. election but soared in the weeks that followed, driven by the energy and financials sectors, to end the year at a new all-time high. The U.S. index was up 7.0% for the fourth quarter and 16.3% for the year in Canadian-dollar terms. The MSCI EAFE Index, which captures performance for large and mid-cap companies in 21 developed markets across Europe and Asia, followed a similar path and was up 10.7% for the quarter 6.4% in Canadian-dollar terms for the year.

The Canadian economy was boosted by stronger demand for energy and higher oil prices in the fourth quarter, along with the approval of Pfizer's COVID-19 vaccine. While the S&P/TSX Composite Index has moved upward since its pandemic-induced low in March, the Canadian benchmark has yet to return to the record level reached in February. The index posted a gain of 9.0% for the quarter and 5.6% for the year.

Interest rates remained unchanged in Canada, the U.S. and Europe during the final three-month period of the year. In December, the Bank of Canada held its benchmark interest rate steady at 0.25% after cutting rates in March in response to the COVID-19 pandemic. The Bank of Canada reiterated it will continue to buy Government of Canada bonds at a rate of about $4 billion per week to keep downward pressure on interest rates, and restated that it would keep the benchmark lending rate near zero until sometime in 2023. The U.S. Federal Reserve maintained its target for the federal

funds rate at a range of 0% to 0.25%. The European Central Bank held interest rates on its main refinancing operations, marginal lending facility and key deposit rate at 0.00%, 0.25% and -0.50%, respectively and also expanded its monetary stimulus program.

The events of 2020 have shown us how unpredictable markets, and life in general, can be. At the beginning of the year, no one could have predicted a global pandemic unfolding, or that markets would plummet only to recover in record time, or even that the best-performing stocks would be those that enabled work-from-home and e-commerce.

Looking ahead, the pandemic will continue to impact markets in the coming months as vaccine distribution gets underway. Accommodative fiscal and monetary policies from central banks around the world are also expected to continue for some time.

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STRATEGIC NOTES

We generally identify 2 valid reasons for holding cash within your investment portfolio.

1. Short-term capital needs (typically required within a 12-month period)
2. Drawing systematic income from the portfolio (a cash wedge of 12-14 months' worth of income can substantially reduce negative return variance to help portfolio sustainability).

However, too many investors continue to hold cash in their portfolio for neither of those reasons, but rather because they are too unsure about when to start investing their assets.

An investor may consider holding cash a defensive strategy, but we would suggest it is quite the opposite. Two of the biggest risks from a financial planning perspective are insufficient portfolio growth and loss of purchasing power due to inflation. Cash is the least effective asset class for mitigating either of these risks.

We'll state a fact that you inherently already know but may not want to believe – even a well-designed portfolio will lose money at some point (and on several occasions) during your investment horizon. The good news is that a properly built portfolio will experience gains at a far greater frequency than it will experience losses and your assets will grow over time.

It is quite rare that we have seen a financial plan fail because an investor participated in both the portfolio gains and losses, but unfortunately, we have seen many instances where a financial plan developed a shortfall because the investor failed to participate in sufficient market gains as a result of attempting to avoid the losses.

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