



Wealth Management
Dominion Securities

2020 Q4 commentary



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The hopeful light at the end of the COVID-19 tunnel – now what?

Jon Mitchell, Portfolio Manager

From a distance the world looks blue and green, and the snow-capped mountains white.
From a distance the ocean meets the stream, and the eagle takes to flight.

From a distance, there is harmony, and it echoes through the land.

From a distance we all have enough, and no one is in need.
And there are no guns, no bombs, and no disease, no hungry mouths to feed.

From a distance we are instruments marching in a common band.
Playing songs of hope, playing songs of peace, they're the songs of every man.

From a distance you look like my friend, even though we are at war.
From a distance I just cannot comprehend what all this fighting is for.

From a distance there is harmony, and it echoes through the land.
And it's the hope of hopes, it's the love of loves, it's the heart of every man.

And God is watching us, God is watching us,
God is watching us from a distance.

— Written by American singer/ songwriter Julie Gold in 1985.
Best-known recording by Bette Midler in 1990.

A common thing to read is as follows: what if an alien species landed on earth this week after observing this beautiful sphere of blue seas, green fields and snow-capped mountains, then saw the massive lineups for COVID-19 testing, witnessed the over-crowded intensive care units in our hospitals, drove by all the businesses, offices and colleges that were shuttered or on the brink of closing, and then witnessed the mob storming the U.S. Capitol? One might surmise that the aliens would get in their spaceship and get out of our orbit as soon as possible, bringing back a report of utter calamity to their superiors.

How are we handling these events ourselves? Are we getting tired of the restrictions, unable to visit our friends and family? Do you notice that your emotions are getting a bit ragged and short these days? I know I am noticing this in many of the interactions I am having. I suppose some of this is part of the winter season – a time of surviving the harshest of climates, a time of enduring and waiting, a time that eventually starts to show some green shoots, as we long for spring to arrive.

For now, let's review some of our current challenges.

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Medical: COVID-19

Vaccines are here! Canada now has two approved (Pfizer / BioNTech and Moderna). The U.K. has approved the Oxford / AstraZeneca vaccine. We are still waiting for Johnson & Johnson and GlaxoSmithKline / Sanofi to complete their phase 3 trials. Other countries are using vaccines developed in China and Russia. As of this writing, approximately 0.5% of Canadians had received their first shot, so we are just getting started. This is the single largest global vaccination program in history, so there will be some fits and starts along the way. I am sure we all will be relieved when it is announced that residents and staff in long-term care and retirement residences have been vaccinated.

Most nations are experiencing a second wave of COVID-19 infections, putting tremendous stress on health care systems, local and federal governments and a swath of businesses and services that have been significantly impacted by restrictions, with no end in sight in most places. I expect more research and books will be written about the pandemic in the coming years that will evaluate various countries' handling of the crisis. We look at Taiwan, a country of 23 million residents, which has only 852 cases and 7 deaths, compared to Canada, a country of 39 million with over 652,000 cases and nearly 17,000 deaths as of this writing. There are marked differences between the two societies and their approach to virus preparedness, social compliance and their relationship to China, where the virus originated.

It is evident that nations the ability to manufacture vaccines are at a distinct advantage for vaccinating their citizens. It is interesting to see Florida freely vaccinating Canadian snowbirds over the age of 65 (who have property or long-term rentals in the state) along with similarly-aged Floridians. I can see this as another point of exasperation if the roll-out to seniors in Canada runs for a lengthy period of time. Again, with both Moderna and Pfizer having manufacturing capability in the U.S., their production of vaccines is to be rolled out locally as a priority.

Social behaviour

I think phrases like "frayed around the edges," "patience wearing thin," "building frustration" and "ignoring the protocols" are just a few of those currently

affecting us. I am getting weary of the restrictions, the inability to even meet or talk to friends, the way the lockdowns are impacting my friends' businesses that have been doing everything according to the health protocols, and the fear of even questioning some of what has been implemented in our society. I hope things are different after the vaccines have been rolled out.

I think for now, all we can do is do our best to keep in touch with our friends and loved ones under the circumstances and reach out and support those in our community as much as we can. Make a list of 10 people that you want to check in on to see how they are doing. Order a meal from a local restaurant once a week. Buy a bag of coffee from your local coffee shop. Drop some items in the food bank box when you do your grocery shopping – I think we all need to try to make positive gestures. Watching the news can sometimes seem like a litany of what various governments are doing wrong or falling short of these days. But we can show appreciation for our health care workers, who are courageously manning the barricades against COVID-19 and doing all they can to get their patients through it. Anyone you may know on the front lines should be on your list of people to connect with and to offer a word of thanks and sincere appreciation.

There will be a lot of issues for governments to work through as vaccines roll out. When will the restrictions on flying be eased? Will you need a vaccine card to fly, attend a concert or even a wedding? Will we need to be vaccinated every year? The list goes on.

Financial: Personal and societal (government)

As I stated in my last commentary, there remains a major divide between those who have relatively stable jobs who have been able to adapt to the environment and those whose jobs are severely impacted by the virus. This second wave and its accompanying lockdowns and restrictions is causing serious issues for many businesses and even entire industries. One of my friends closed both of his restaurants in December, after over 20 years operating in Edmonton and more recently, in Sherwood Park, where I live. Until the pandemic, he had an absolutely thriving business, employed and trained many young people, supported the community and had a ton of loyal

customers. You multiply that across the thousands of restaurants, gyms, salons and countless other types of businesses, and you get a picture of how the next year or two is likely to look, despite the vaccines.

We will likely get a federal budget in 2021 that gives us an idea of the amount of debt we have accumulated in the COVID-19 era, and the longer-term ramifications of how the country will face this financial burden. When I talk to clients, I think the most apt description of what to expect is one of resignation – that one way or the other, we are going to have to pay for the costs that have been incurred. All are bracing for higher taxes and different types of taxation to be brought in.

I hope that some of our finest writers and journalists will take a detailed look into what our collective governments' response was, what we did and did not do and how we can better prepare for the next pandemic if / when it arises.

Investment observations

Should I stick my neck out and actually state that there was a change in leadership in the 4th quarter, away from large cap technology? Does one quarter make a change in trend? Well, the Nasdaq Composite only gained 15% in USD terms in the 4th quarter, while the Russell 2000 (an index of the smallest 2,000 publicly-traded companies) gained 31%, the Emerging Markets Index gained 19% and the TSX Exploration & Production sub-index was higher by 41%. The strong performance by these downtrodden segments of the market was fueled by the vaccine news and year-end approvals of their use.

Our Canadian equity index had a 5.6% gain for the year, which was dreadful compared to the mighty Nasdaq return of 40.8%, but does that mean that 2021 will be the same? One thing is clear, commodity prices were higher last year, despite or perhaps due to COVID-19. Corn prices were up 25%, copper 26%, nickel 19%, gold 24%, silver 47%, iron ore 69% and even natural gas by 16%. Part of the gain in the commodity complex was attributable to the weakness in USD, which declined by over 6% against a basket of global currencies. As we reviewed in our last commentary, the significant increase in the money supply is a serious issue in terms of every good that is priced in USD. There are far more investment commentators who

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are concerned about the trend in the USD, which if it continues, will act as a headwind for anyone outside of the U.S. who is investing in USD-denominated investments.

In general, we have a situation in which many of the developed nations are increasing their money supply at WWII-levels, as they battle the economic carnage brought on by the virus. While central banks state that they will keep short-term interest rates at zero for years, commodity prices are soaring, the U.S. dollar seems to be steadily weakening and market momentum has been focused on a dozen or so large U.S. technology companies that are collectively trading at 33 times their earnings.

A friend of mine, Adnan Brkic of Invesco, sent me his outlook for 2021 this week, and I thought I would share an interesting chart and an excerpt of his comments with you:

“The U.S. has been the place to be invested over the last decade, but that may change going forward. Outperformance cycles between the U.S. and international markets tend to move in 7-year cycles, with the previous cycle being one of the longer ones on record (Chart 1).

“A strong early indicator of international equity and emerging market equity outperformance vs. the U.S. is a

Chart 1: U.S. Equity vs. International Equity 5-Year Monthly Rolling Returns (1/1/1920 - 9/30/2020)



Source: Hartford Funds

depreciating U.S. dollar, which we’re beginning to see. China is continuing to grow at a healthy pace, and should surpass the U.S. as the largest market in the world midway through this decade; obtaining exposure there is prudent, as I believe many are vastly underweight in this growing market. The same tech companies that we’re all very familiar with and are leaders in the U.S. market have counterparts listed in China; they are growth leaders in that market, are growing at a quicker pace, and are trading at lower valuations. There is, of course, political risk here, but with [Joe] Biden in office and the amount of growth available there today, I believe that this risk/return tradeoff is definitely worth it. Additionally,

the vaccine will disproportionately impact emerging markets, as they have been ravaged by the virus much more so than developed markets; this should lead to a great recovery opportunity in 2021 once they begin to immunize their populations.”
– Adnan Brkic, Invesco

Does it make sense to shift some of your equity exposure to international, emerging markets, commodities or even precious metals? These are all areas I have been doing a lot of research in during the second half of the year, and are some of the issues we will be following closely in the months ahead.

Notable quotes

“I skate to where the puck is going, not where it has been.”

– Wayne Gretzky (“The Great One”)

“When the facts change, I change my mind. What do you do, sir?”

– Economist John Maynard Keynes

“Courage taught me no matter how bad a crisis gets ... any sound investment will eventually pay off.”

– Carlos Slim Helu

“Sooner or later, everyone sits down to a banquet of consequences.”

– Robert Louis Stevenson

Books I’ve read recently

On the Clock: What Low-Wage Work Did to Me and How it Drives America Insane, by Emily Guendelsberger.

Devil Takes the Hindmost: A History of Financial Speculations, by Edward Chancellor

John Law: A Scottish Adventurer of the Eighteenth Century, by James Buchan

The Deficit Myth: Modern Monetary Theory and the Birth of the People’s Economy, by Stephanie Kelton

Kleptopia: How Dirty Money is Conquering the World, by Tom Burgis



Team updates

- Tina, Jon and Pauline are all working from home (again), subject to restrictions here in Alberta.
- We continue to use Webex for our client meetings, which is a secure system run by Cisco. If you are interested in meeting with Jon over Webex, please let one of us know. Both our team and our clients have been getting better at troubleshooting any potential technical issues, and we are greatly enjoying the virtual meetings.
- Pauline is doing really well recovering from her knee surgery, and we are glad to have her back!
- Tina and her small vocal ensemble performed some socially-distanced outdoor Christmas concerts in December.
- Jon joined the local Strathcona County ski area and has been out quite a few times after work on the weekdays, getting some ski runs in. Marley the dog is getting lots of walks around the neighbourhood every day, as well.
- As always, we are open to speaking to any of your friends that may benefit from a second opinion on their investments.
- Finally, we would recommend that you circle back to our website from time to time, as we are using that as one of our points of contact to post salient articles on our firm's views, along with details of the government programs and announcements. You can access it here: ca.rbcwealthmanagement.com/jon.mitchell/

Again, stay safe and take care. We have a lot to be thankful for, living in Canada. Enjoy each day and please support your local businesses whenever you can.

Below is a table of the performance of various sectors of the market in the 4th quarter of 2020, and for the 2020 results / 3-year rolling periods.

Investment index	Q4 2020 return	2020 YTD return	3-year compound return
S&P/ TSX composite index	9.0 %	5.6 %	5.7%
S&P 500 (C\$)	7.2 %	16.1 %	14.6 %
NASDAQ comp (C\$)	10.3 %	40.8 %	23.6 %
Short-term comp bond index	0.5 %	5.3 %	3.4 %
iShares U.S. High Yield Bond Index ETF (XHY, C\$ Hedged)	4.9 %	3.2 %	4.1 %
US\$ / C\$	-4.4 %	-2.0 %	3.4 %
Gold bullion (C\$)	-4.4 %	23.9 %	13.6 %
Global gold mining index (XGD – C\$)	-13.5 %	20.7 %	17.1 %



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