

RBC Dominion Securities

## A Look Back/A Look Forward

December 2020

**RBC Dominion Securities, Inc.**  
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This report is priced as of market close December 8, 2020  
All values in Canadian dollars unless otherwise noted.

**For Required Non-U.S. Analyst and Conflicts Disclosures, please see page 33**



**Wealth Management**  
**Dominion Securities**

# Agenda

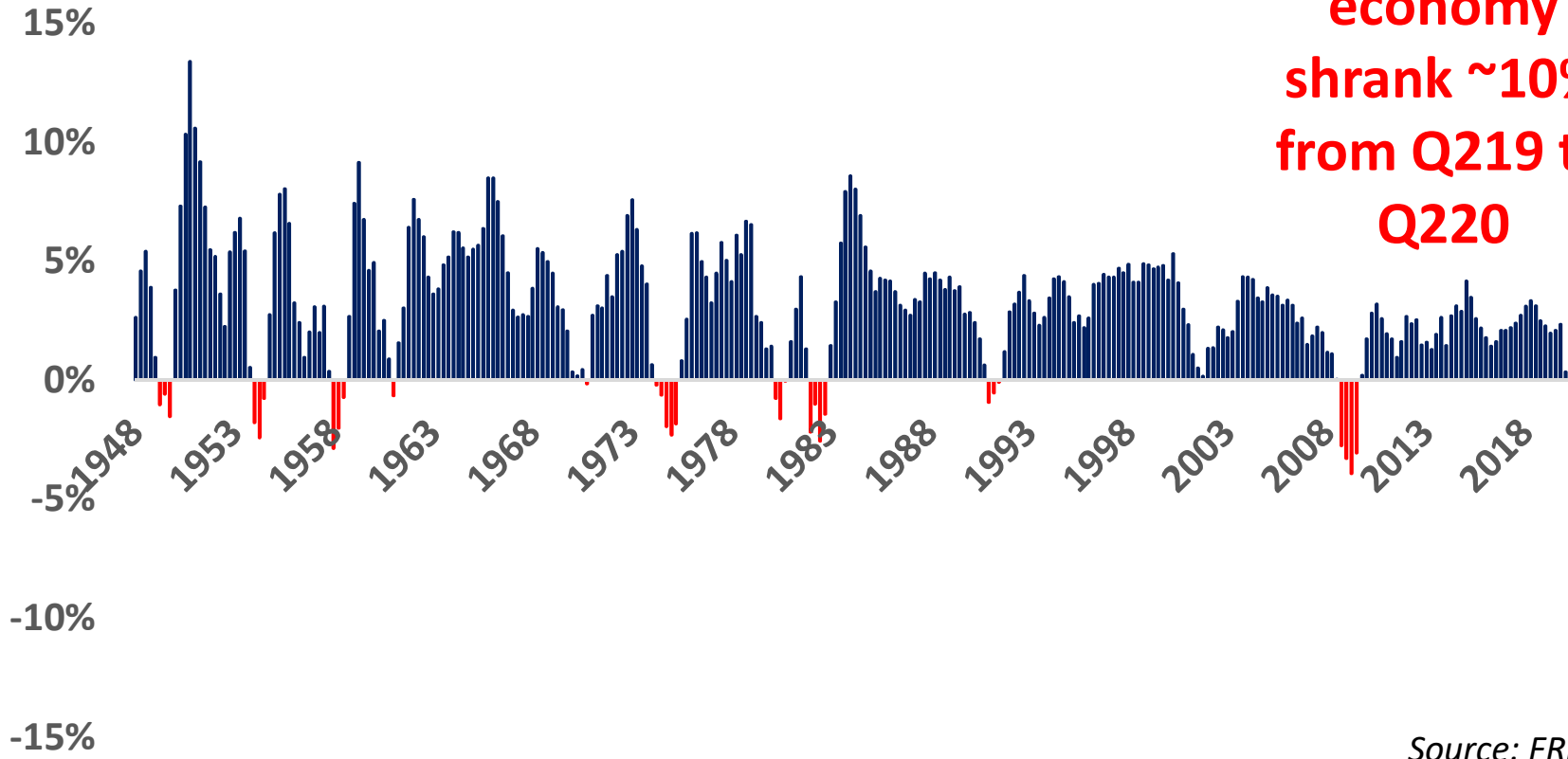
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- **A look back at 2020**
- **The Current Situation**
- **2021 Outlook**
  - **The Economy**
  - **The Stock Market**
  - **Interest Rates**
  - **The Dollar**
  - **Housing**
- **Final Thoughts**

# ■ A Look Back at 2020

## U.S. Real GDP Growth (Y-O-Y % Change)

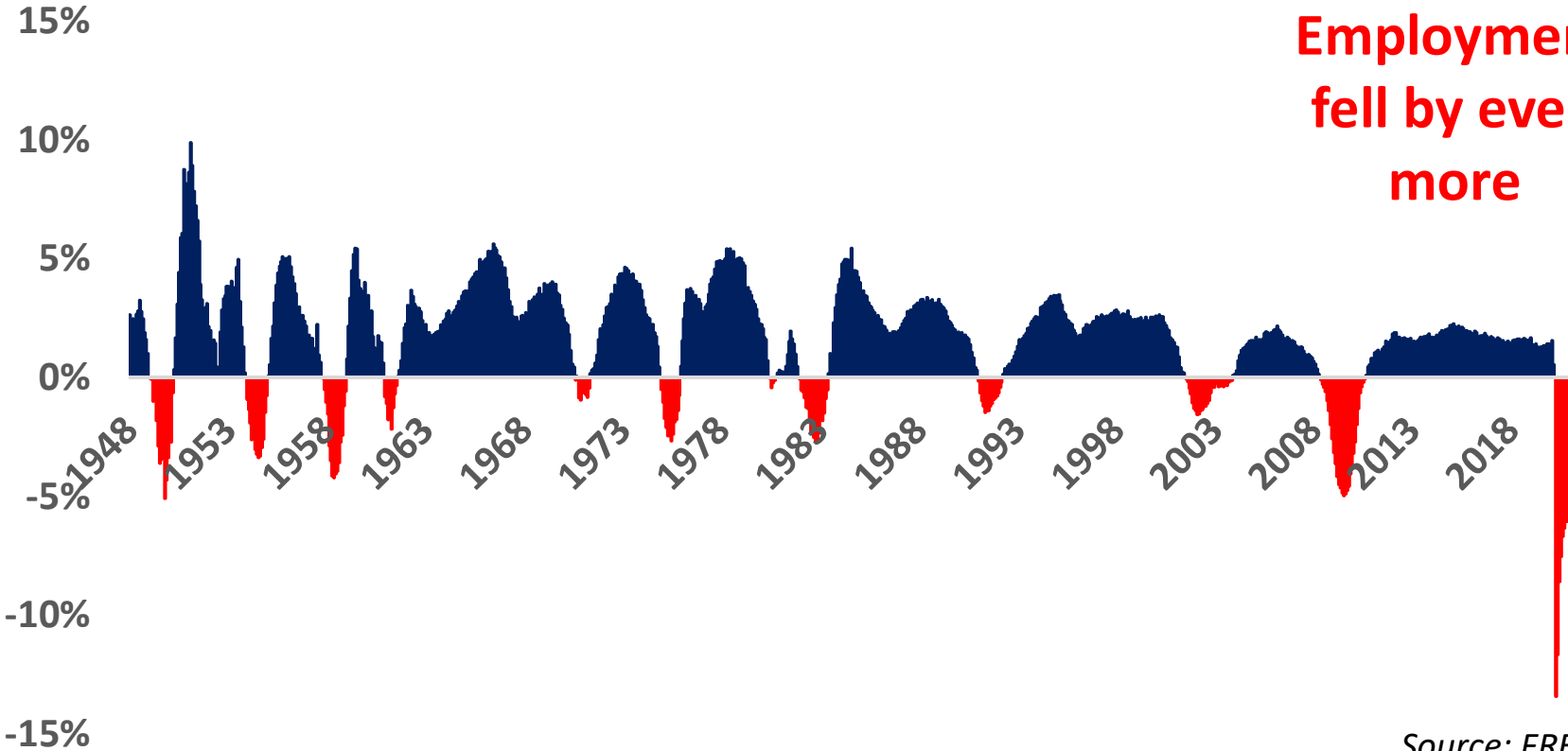
**The U.S.  
economy  
shrank ~10%  
from Q2'19 to  
Q2'20**



Source: FRED

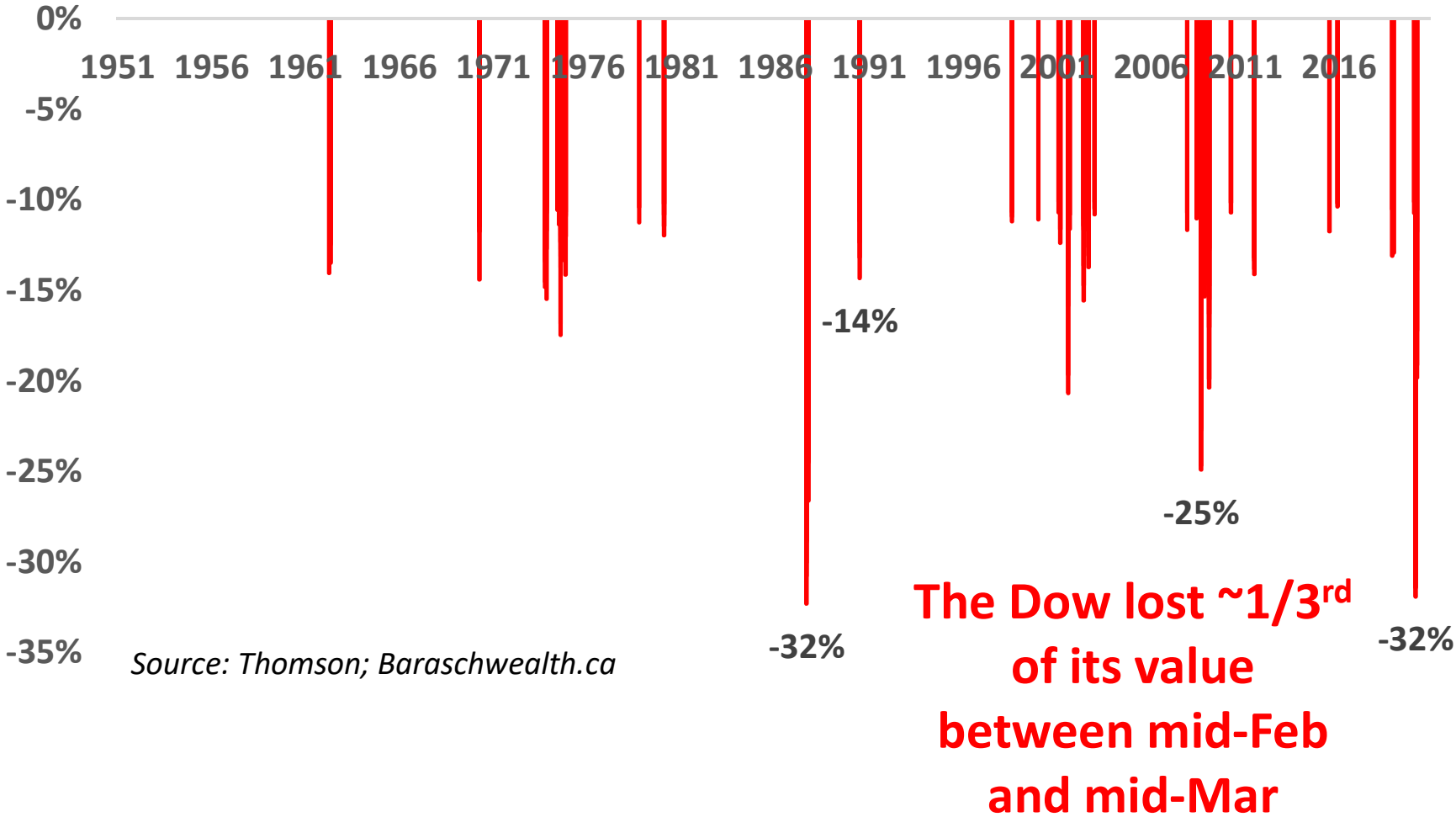
# U.S. Employment (Y-O-Y % Change)

**Employment  
fell by even  
more**



Accompanied by the largest one-month drop in the stock market in 70-years

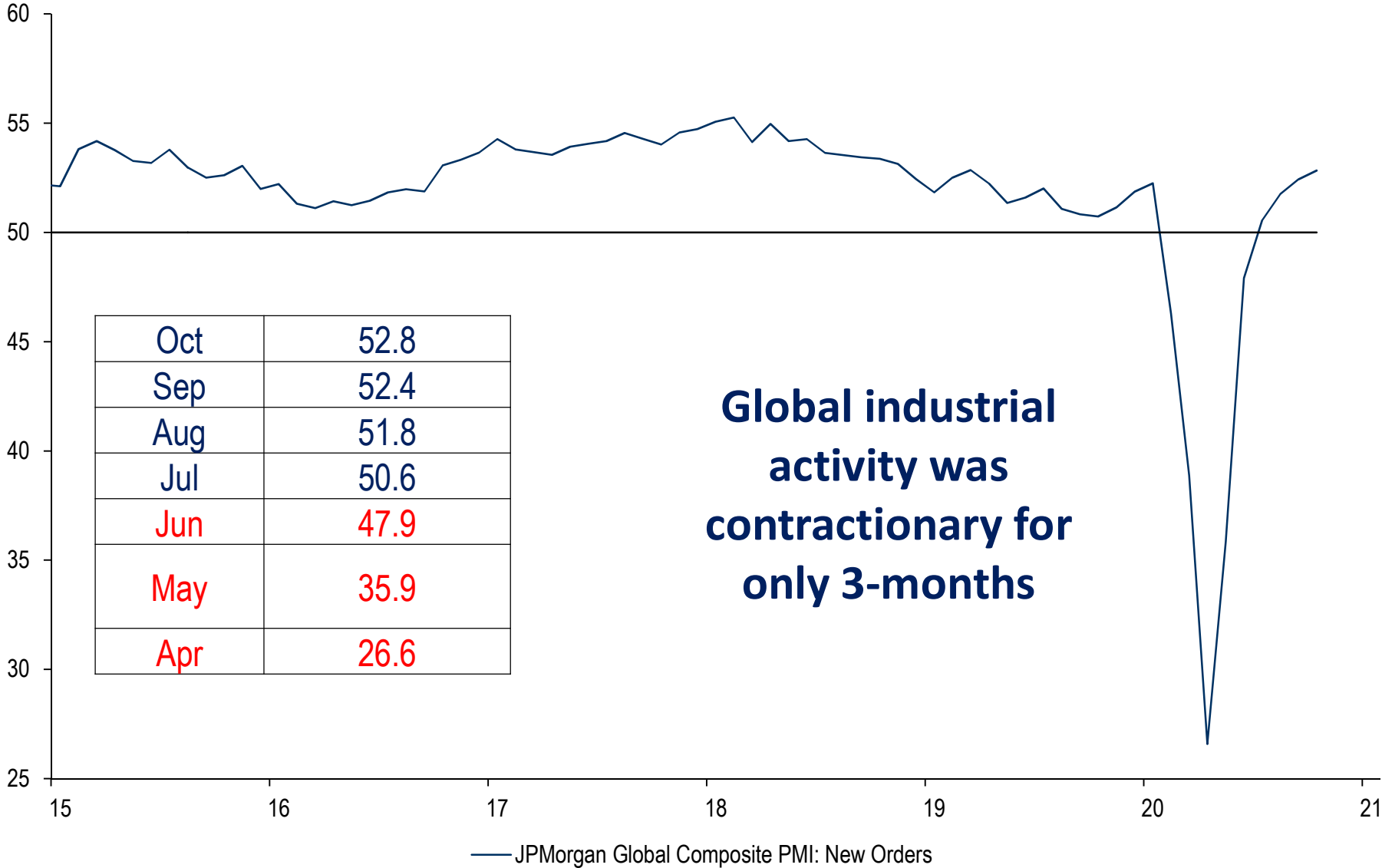
## Dow Jones Industrial Average (4-Week % Change < -10%)



Source: Thomson; Baraschwealth.ca

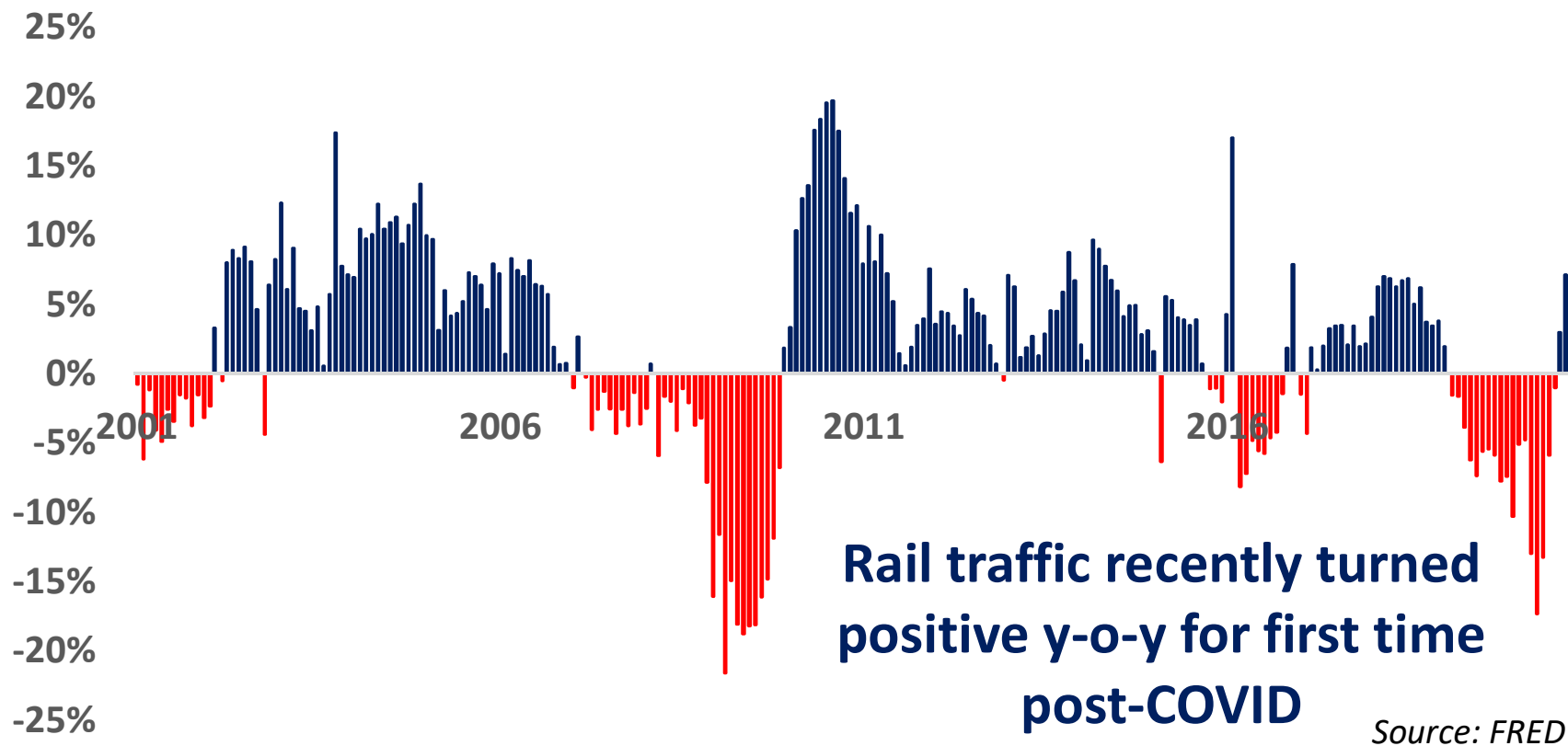
# ■ The Current Situation

Followed by an unprecedented rebound

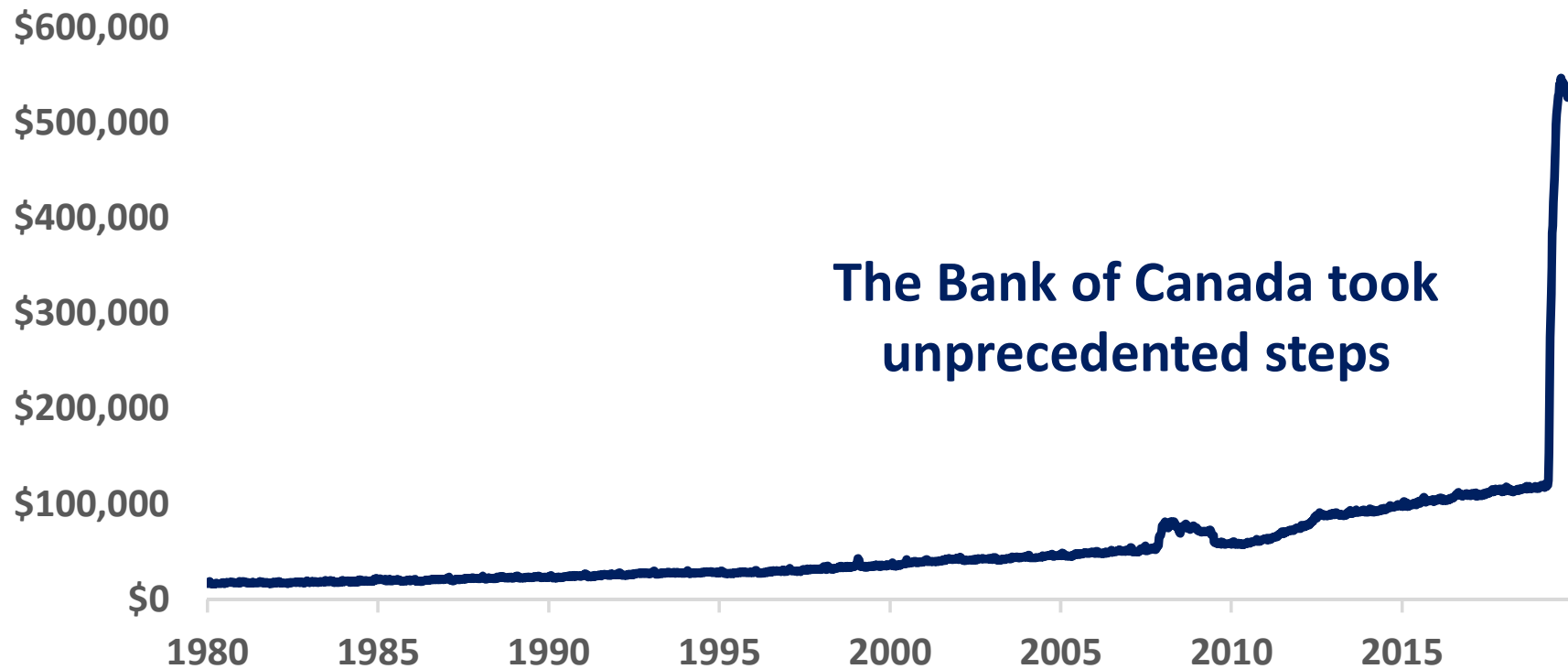




## Rail Traffic (Y-O-Y % Change)



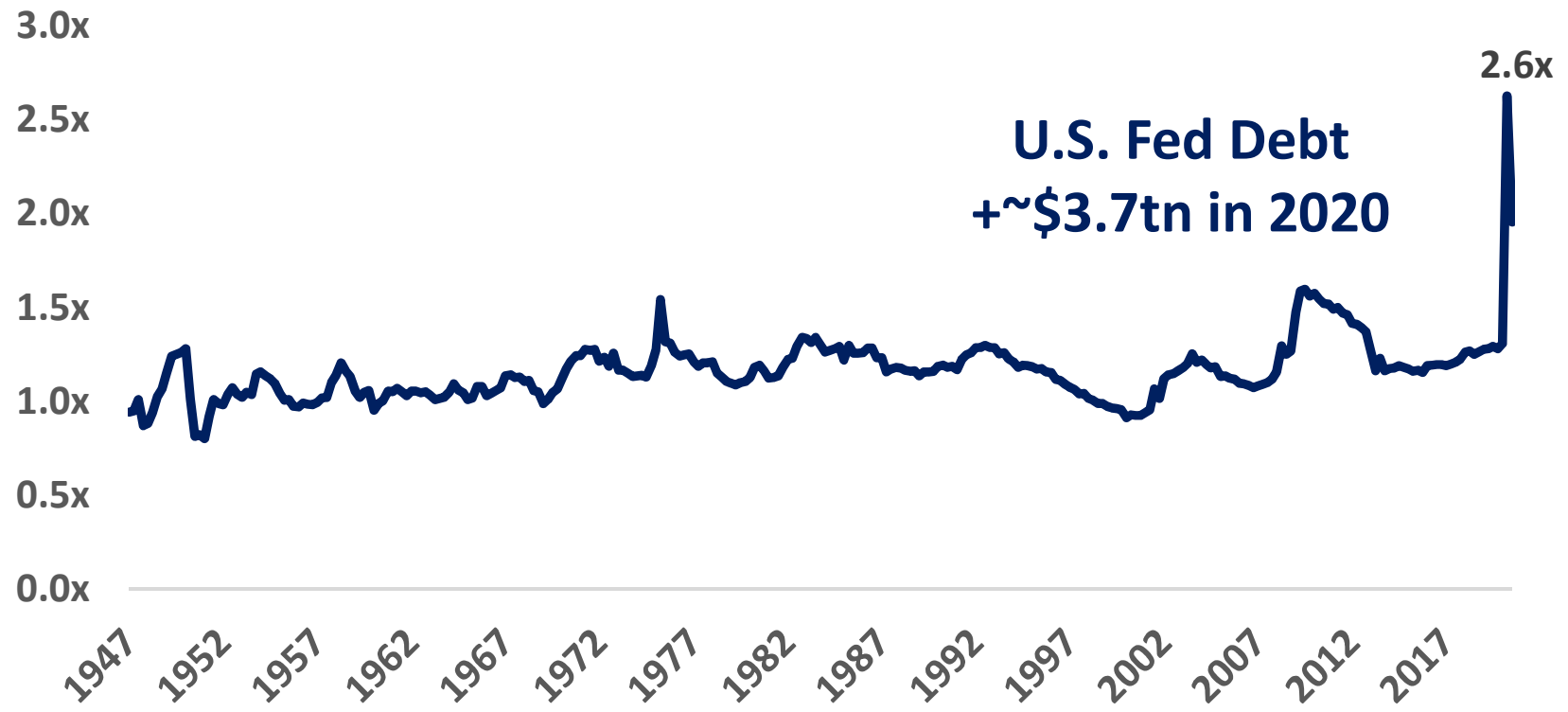
## Bank of Canada Balance Sheet (in billions of CAD)



**The Bank of Canada took  
unprecedented steps**

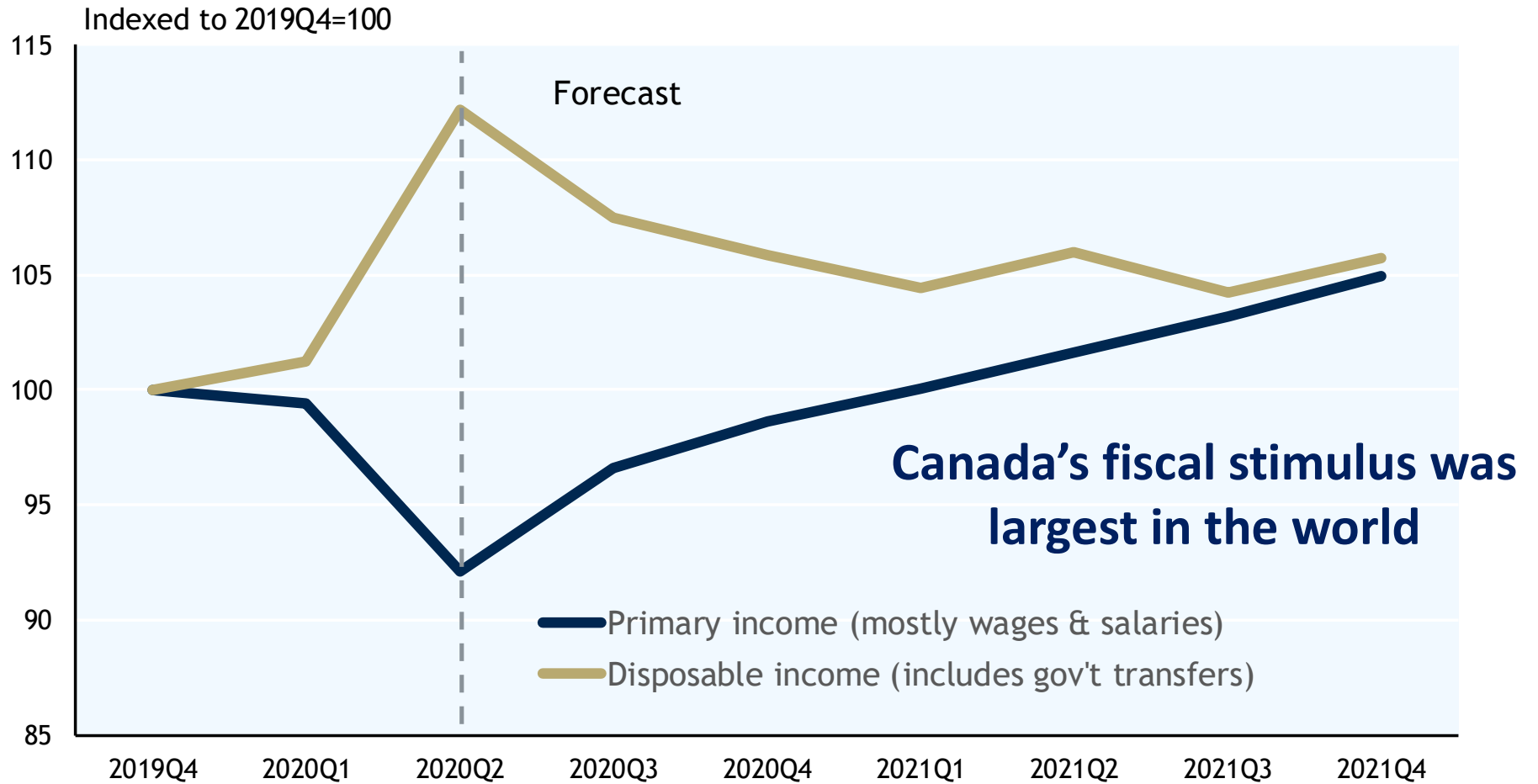
*Source: Bank of Canada*

## U.S. Federal Deficit Ratio Spending/Receipts



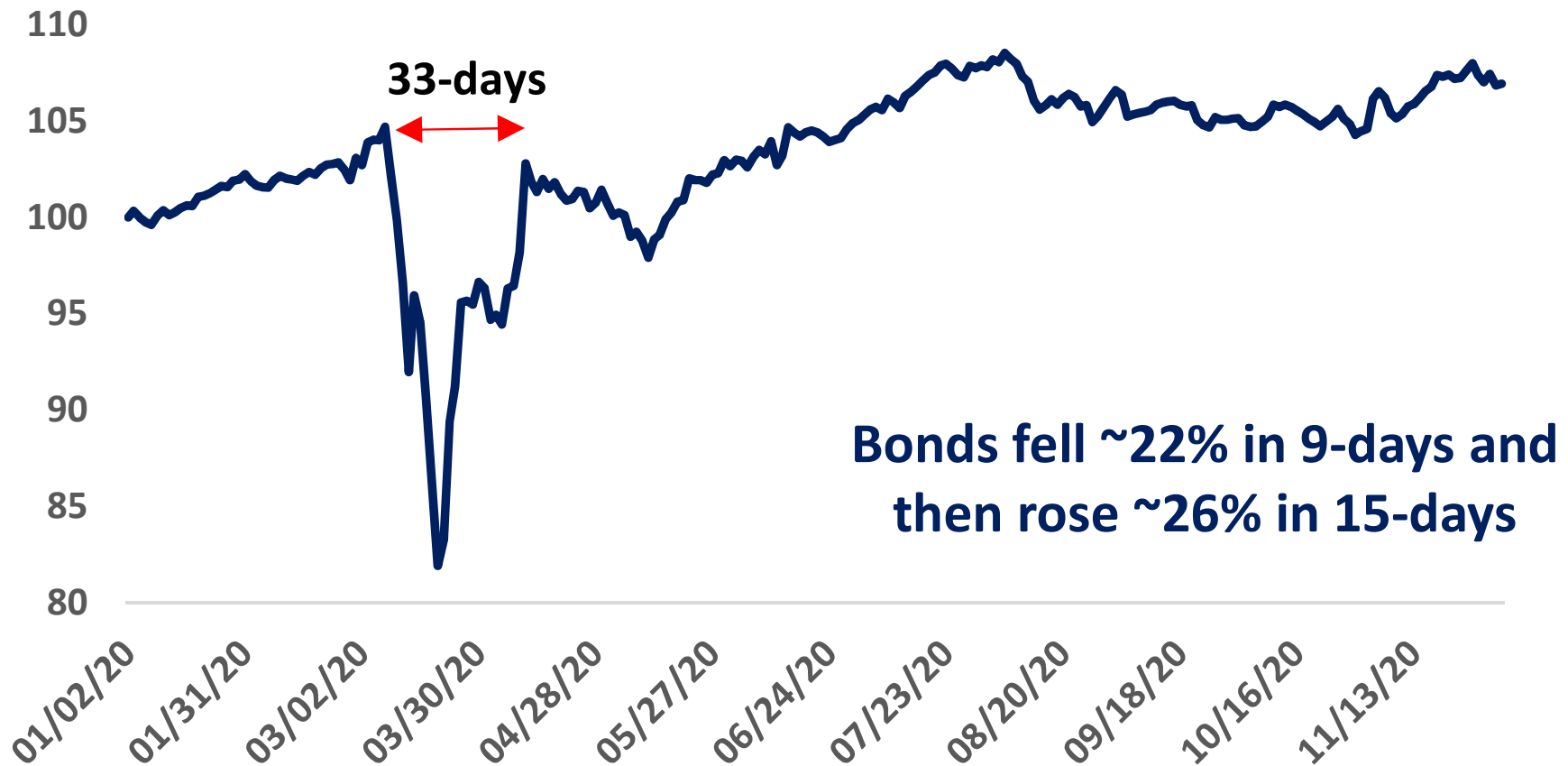
Source: FRED

## Canada Primary vs Disposable Household Income



Source: Statistics Canada, RBC Economics

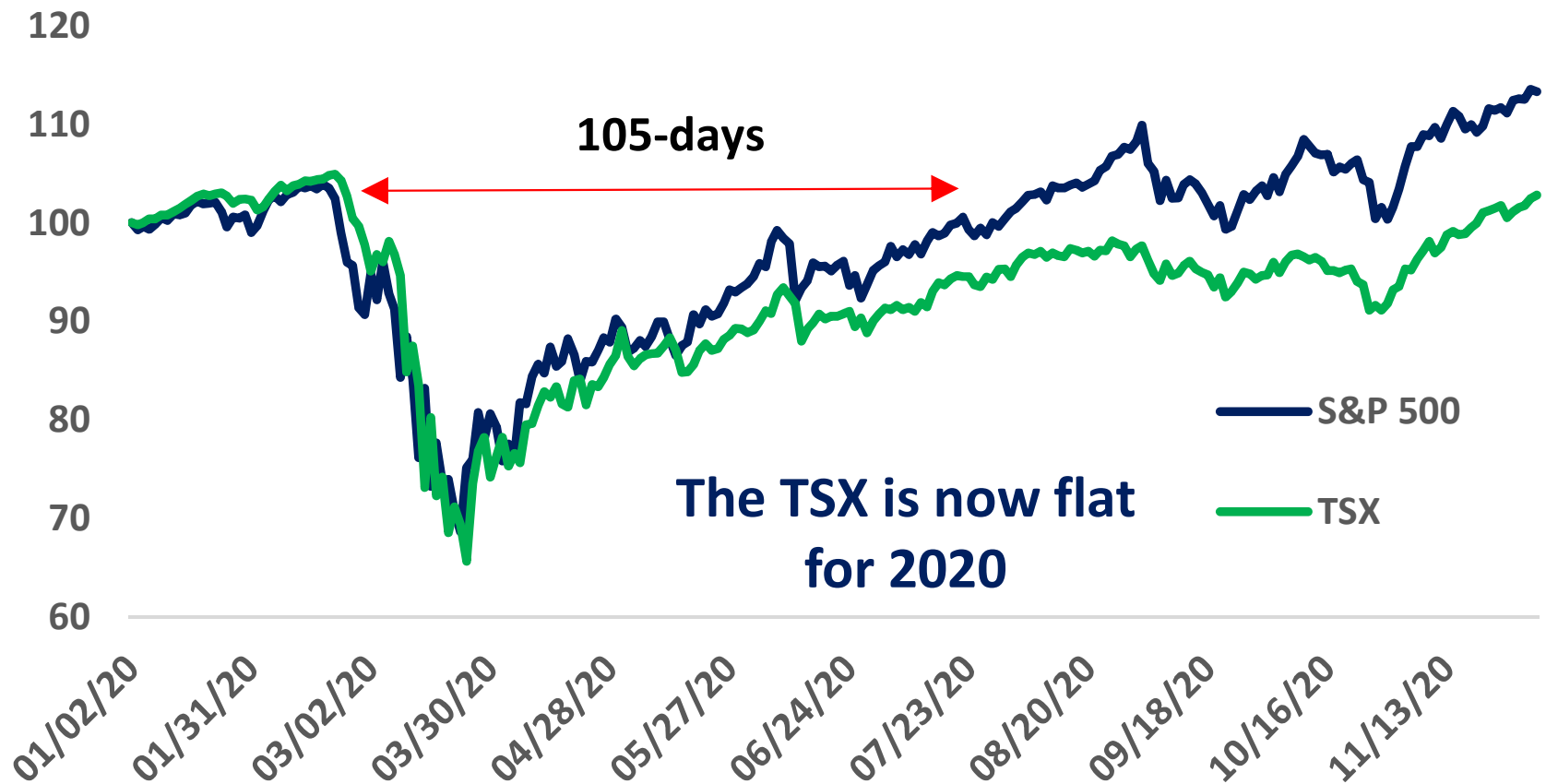
## Investment Grade Bonds



**Bonds fell ~22% in 9-days and then rose ~26% in 15-days**

Source: Thomson; Baraschwealth.ca

## 2020 Performance

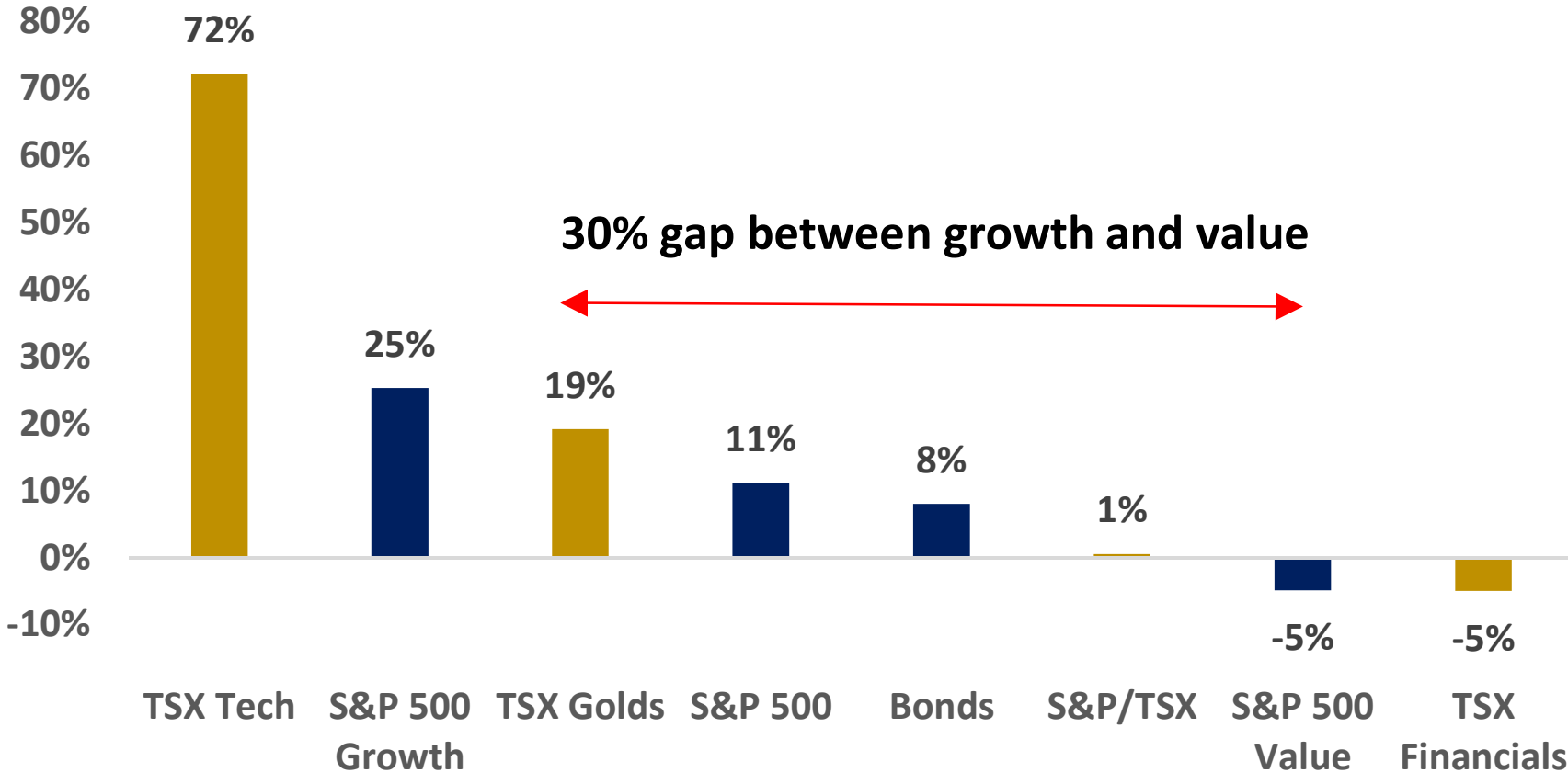


**The TSX is now flat  
for 2020**

Source: Thomson; Baraschwealth.ca

With a notable dichotomy between winners and losers

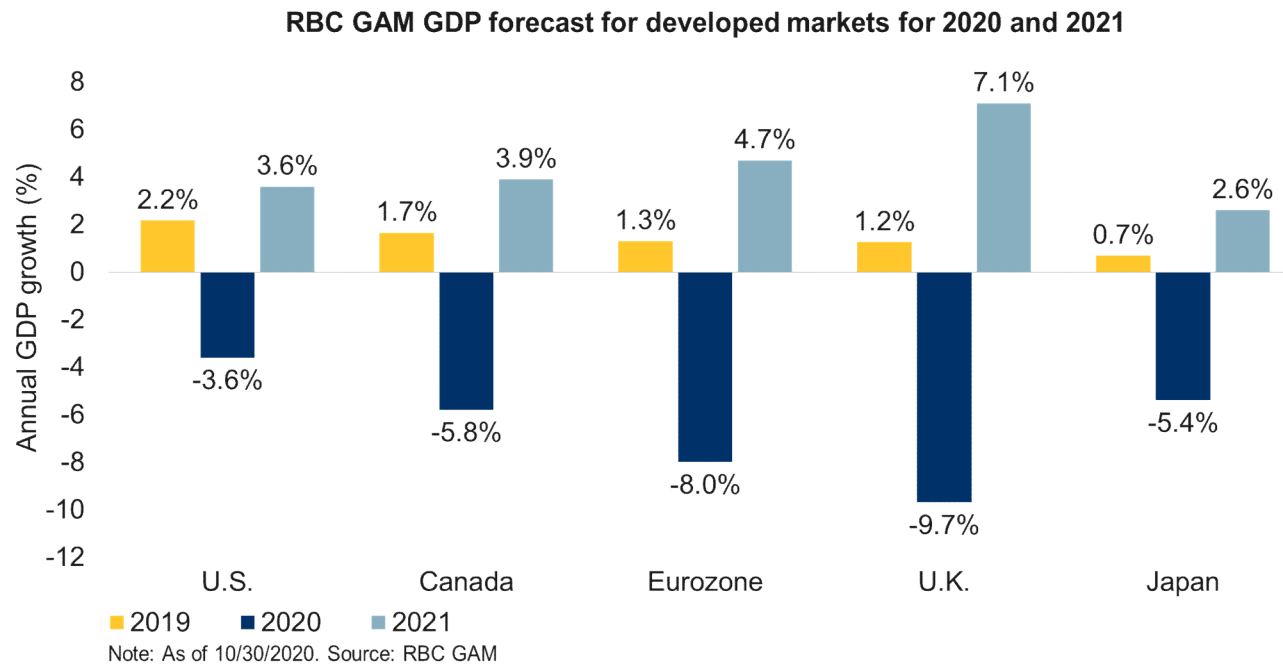
## 2020 Performance



Source: Thomson; Baraschwealth.ca

# ■ The 2021 Outlook

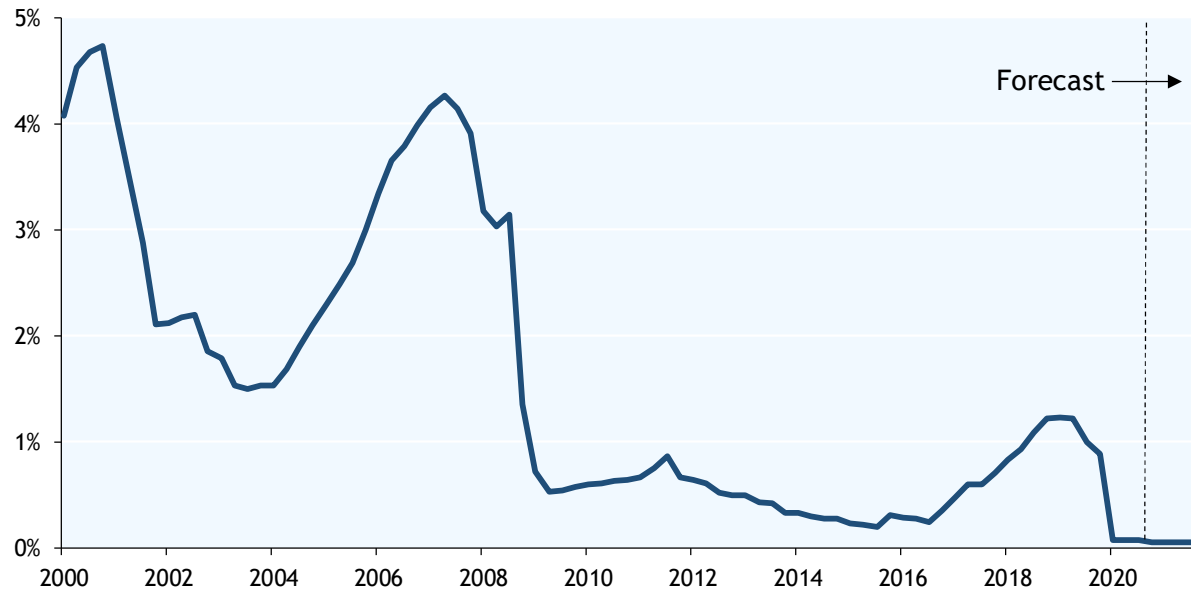




- Global economy likely to enjoy best growth year in a decade
- Growth likely to be back-end loaded with some risks of Q1 “double-dip”
- Canada growth a little harder to predict because of oil wildcard
  - We still see ~4% growth

### Advanced economies policy rate

end of period

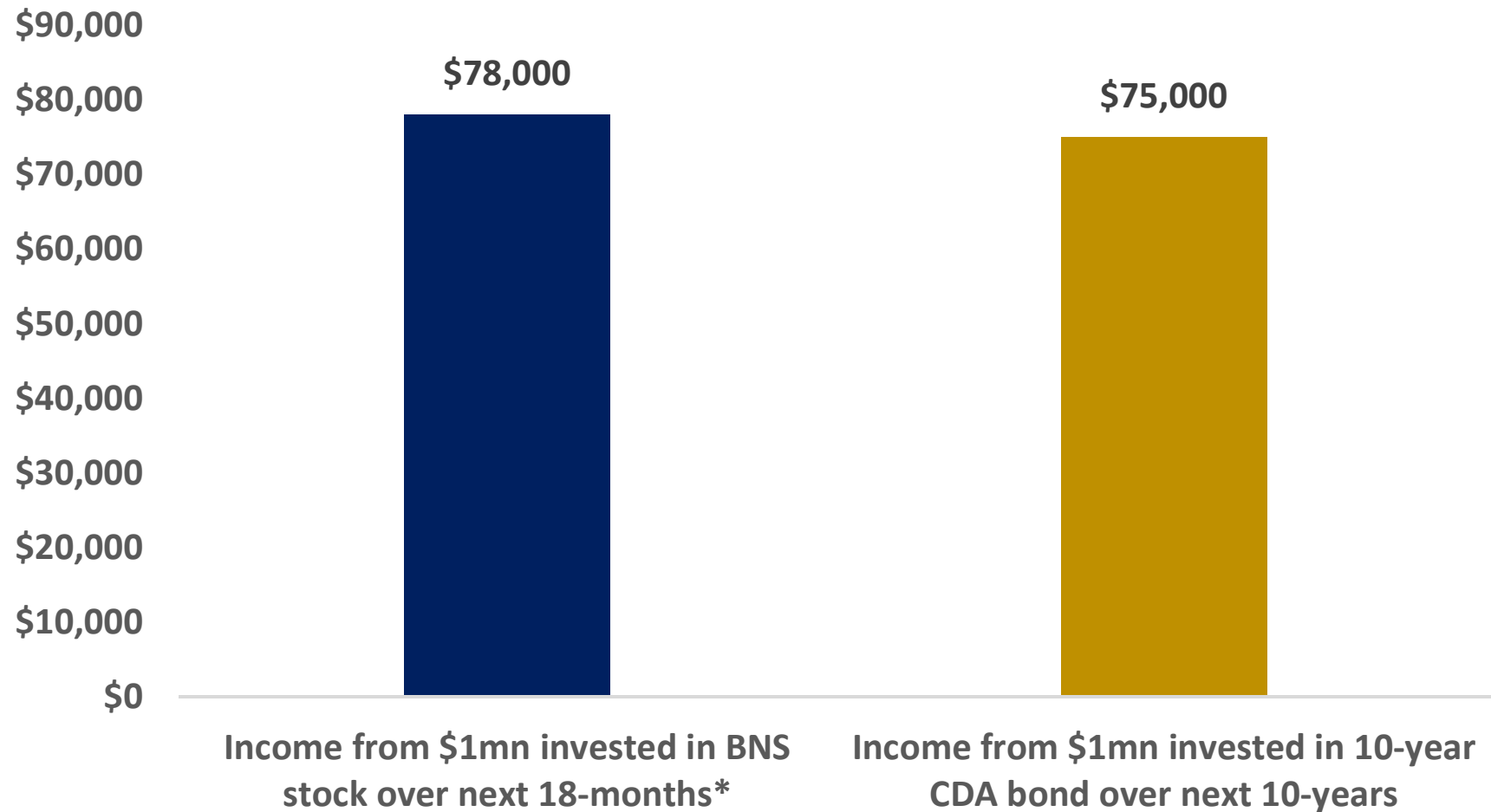


Source: Haver, RBC Economics

- Monetary policy certain to remain very stimulative
- Stocks generally perform well in periods of monetary stimulus
- Short-term interest rates likely to remain at or near zero
- Long-term rates likely anchored at 2% or below for government and investment grade bonds

## Low level of interest rates sets up a fascinating divide

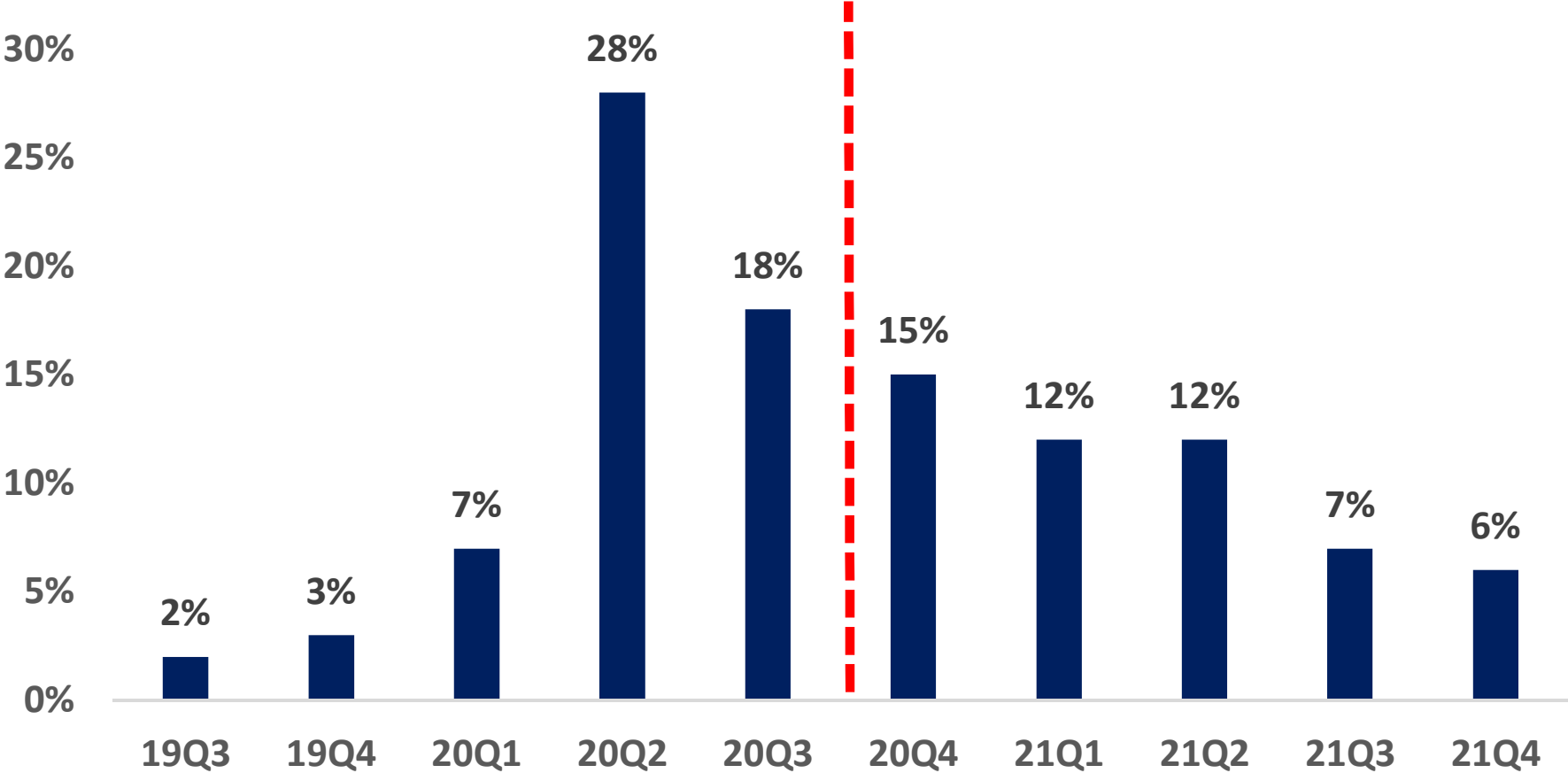
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*\*Assumes no dividend cut or increase*

*Source: Thomson; Baraschwealth.ca*

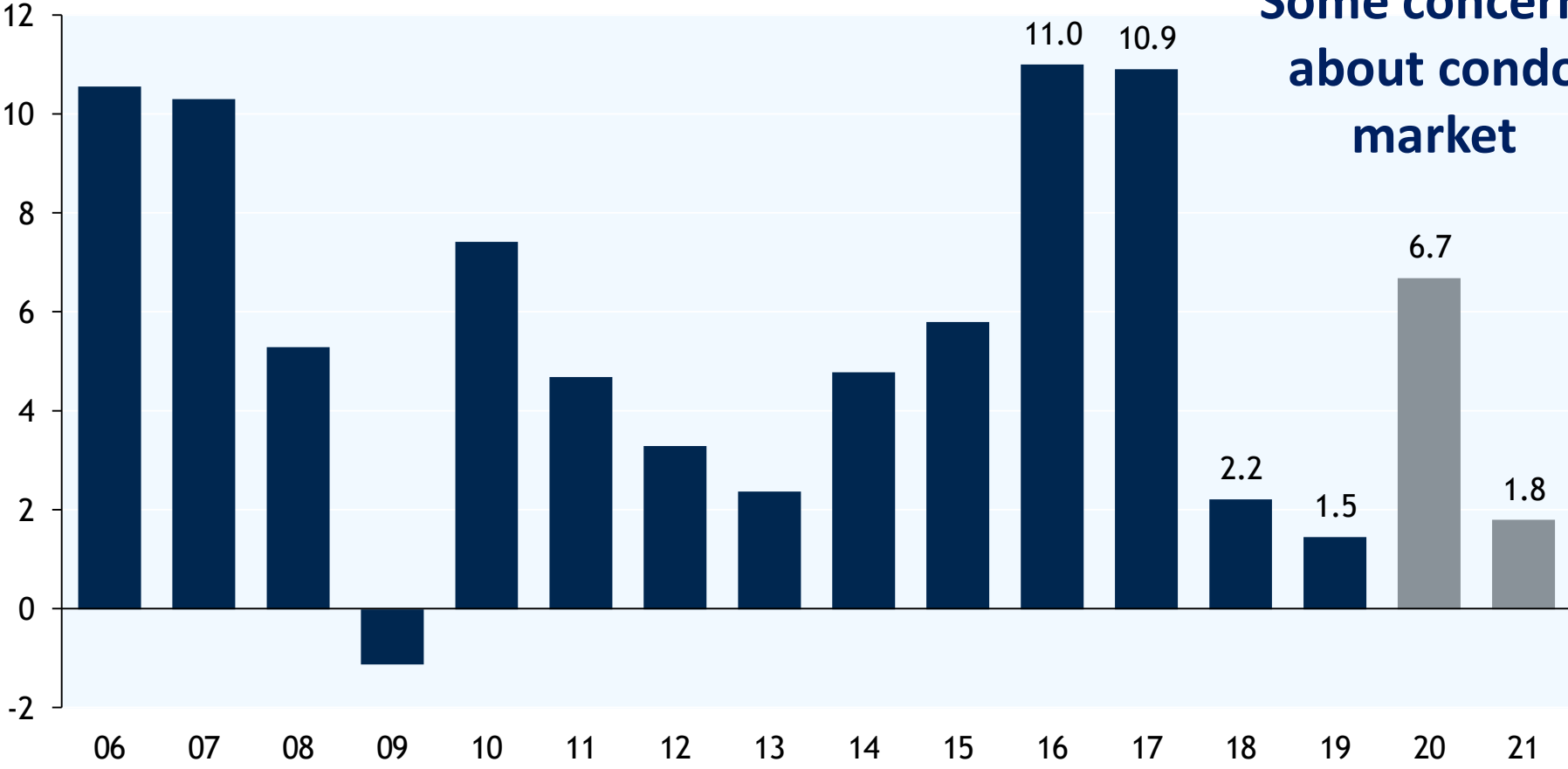
### Canada - Savings Rate



Source: StatsCan; RBC Economics

# Home prices in Canada

Annual % change, composite



**Some concerns about condo market**

Source: RPS, RBC Economics

Forecast: 

## Canadian Dollar



Source: Thomson; Baraschwealth.ca

# 2021 Outlook Summary

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- **2021 has a favourable set-up both from an economic and investment perspective**
  - **Growth likely to approach or even exceed 4% with a bias to the upside**
  - **Earnings growth likely to exceed 20%**
  - **Stocks tend to like stimulus and earnings growth and 2021 is likely to deliver a heavy dose of both**
- **Vaccine likely to contribute both to economic growth and overall “animal spirits”**

# 2021 Outlook Summary

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- **Interest rates likely to remain very low**
  - **Will make fixed income a challenge as GICs and bonds mature**
- **CAD likely range bound between \$0.72 and \$0.80; although, for first time in a decade, bias may be to the high end of range**
- **Wildcards will be pace of vaccination and longer term concerns around government debt**



# ■ Final Thoughts

# Final Thoughts

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- **2020 was an extremely challenging year psychologically, socially and from an investment perspective**
  - **We expect 2021 to be better**
- **We worry longer-term about “paying the bills” from 2020, but that will likely not be an issue in 2021 (or even 22 or 23)**
- **Some 2020 changes will be more permanent:**
  - **Shopping from home**
  - **Meetings from home**
  - **The meshing of science and technology**
- **Unlikely to see things such as unemployment return to pre-COVID levels until 2022 or 2023**

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<b>As of 31-Mar-2016</b>				
<b>Rating</b>	<b>Count</b>	<b>Percent</b>	<b>Investment Banking</b>	
			<b>Count</b>	<b>Percent</b>
<b>BUY [Top Pick &amp; Outperform]</b>	<b>887</b>	<b>51.78</b>	<b>258</b>	<b>29.09</b>
<b>HOLD [Sector Perform]</b>	<b>722</b>	<b>42.15</b>	<b>115</b>	<b>15.93</b>
<b>SELL [Underperform]</b>	<b>104</b>	<b>6.07</b>	<b>8</b>	<b>7.69</b>

## Required Disclosures

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