



# The Rapid Reopen

Capital Markets Strategy

# Corrections are normal

# There is always a reason to sell



The China Bubble



Stagnant market



Corporate fraud



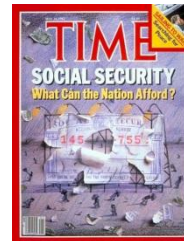
Middle East violence



Personal debt



Housing bubble



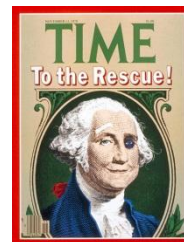
Social Security



Federal deficit



The new economy



Weak U.S. dollar



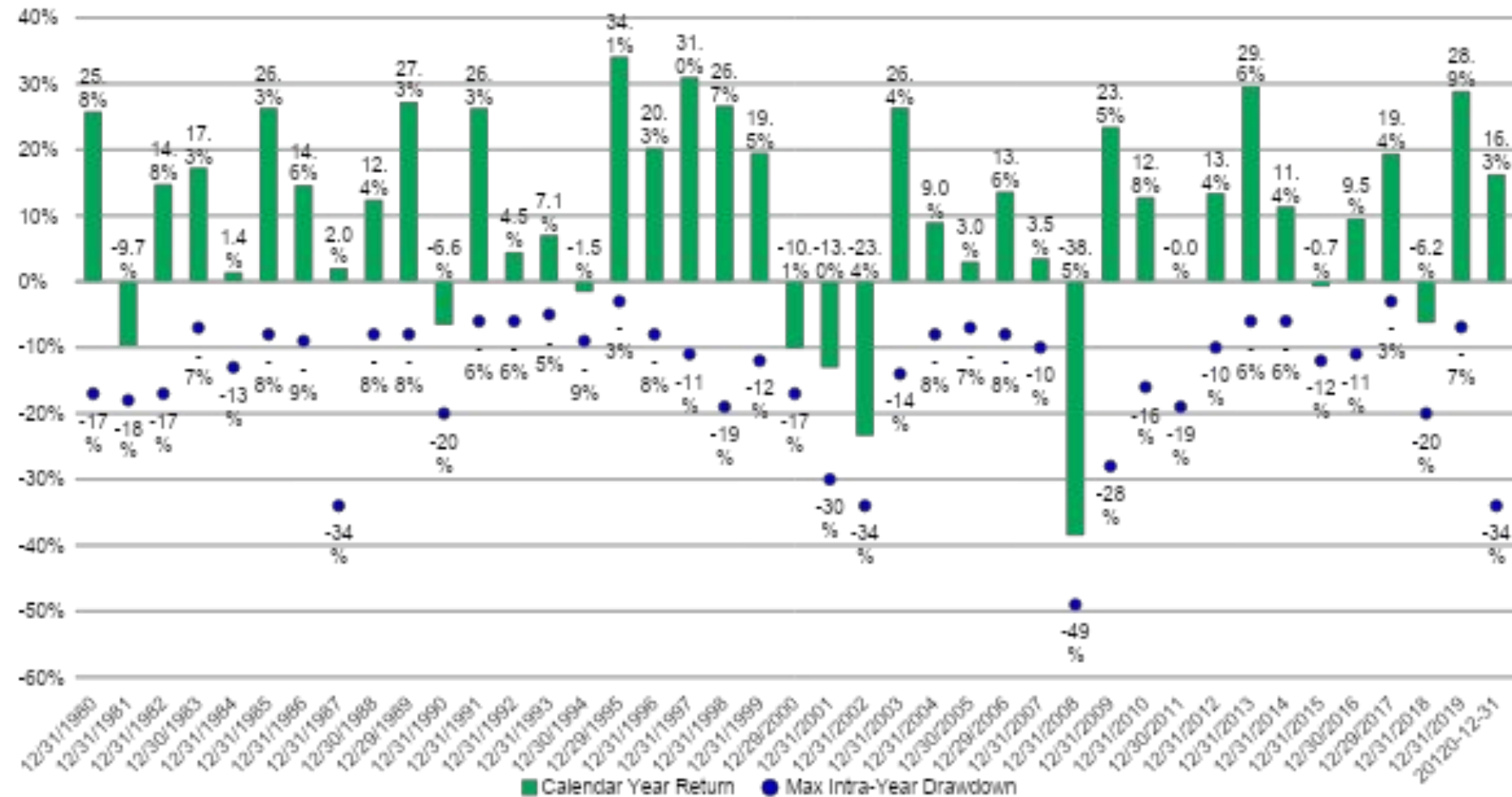
China emerges



Donald Trump

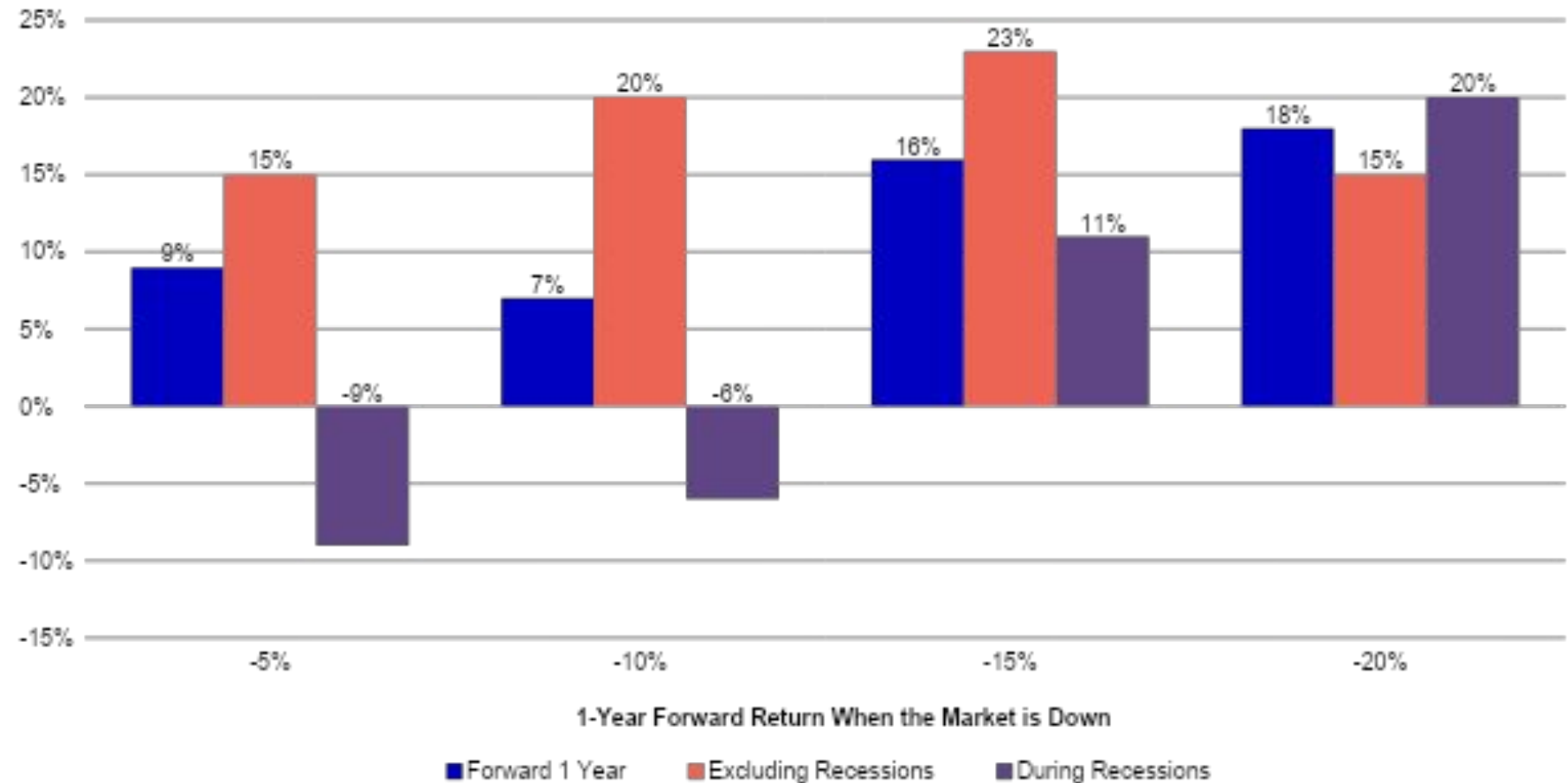
# Corrections are normal

## S&P 500 Calendar Year and Max Intra Year Returns (1980 – current)



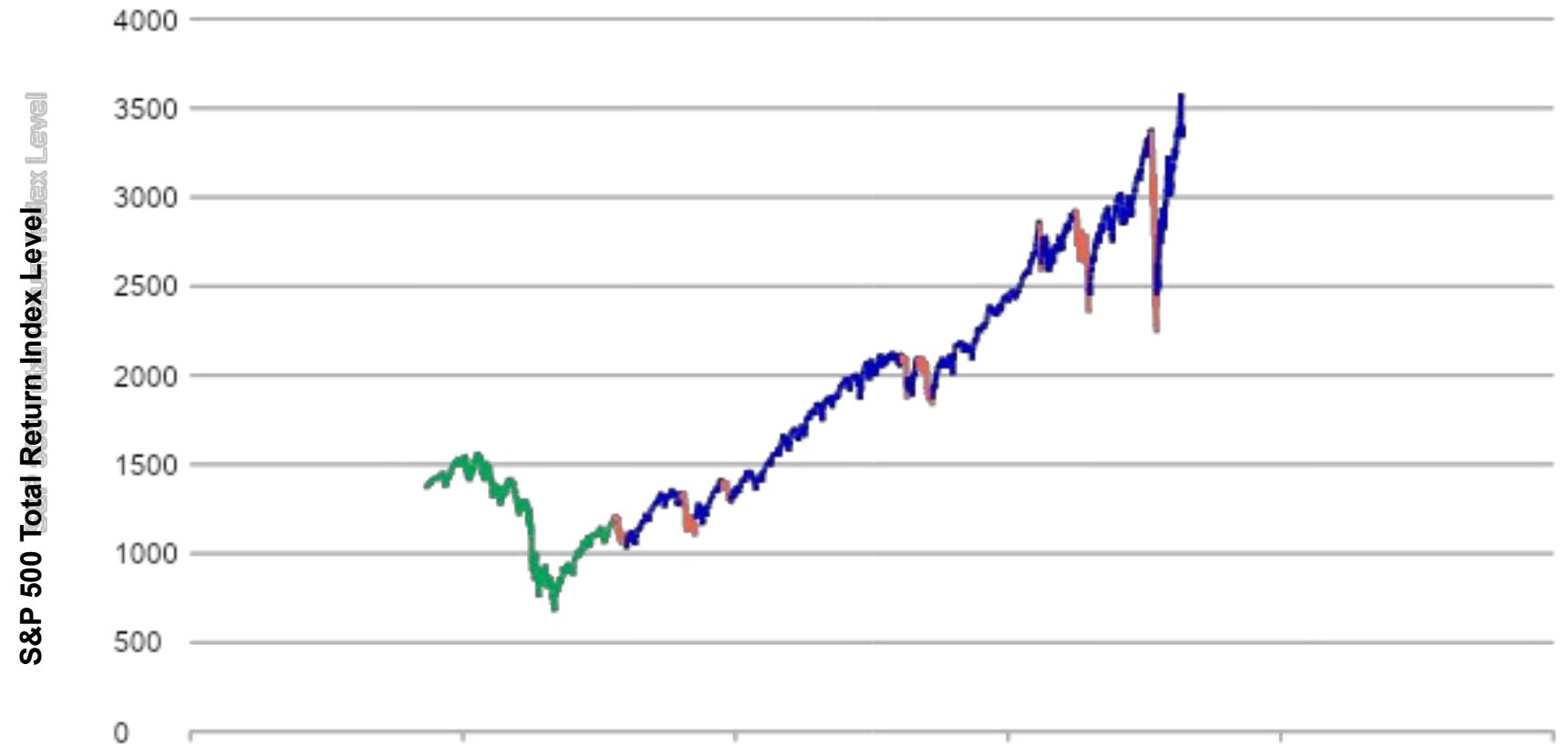
**History would suggest investors can profit from the dip but pay attention to recession risk**

Average 1 year forward returns following a sell-off (1987 – current)



**The biggest hurdle to making money in the markets is the ability to stomach the rollercoaster ride**

If you bought at the peak of the financial crisis on October 9<sup>th</sup>, 2007, your investment would be up as of the end of December 2020, ~ 217% or 9.1% annually when factoring in dividends despite 3 elections, 2 recessions, 2 bear markets and 6 corrections



# What to expect in 2021?

# The Global Fiscal and Monetary Response to COVID as of December 2020



## Massive Fiscal and Monetary Stimulus

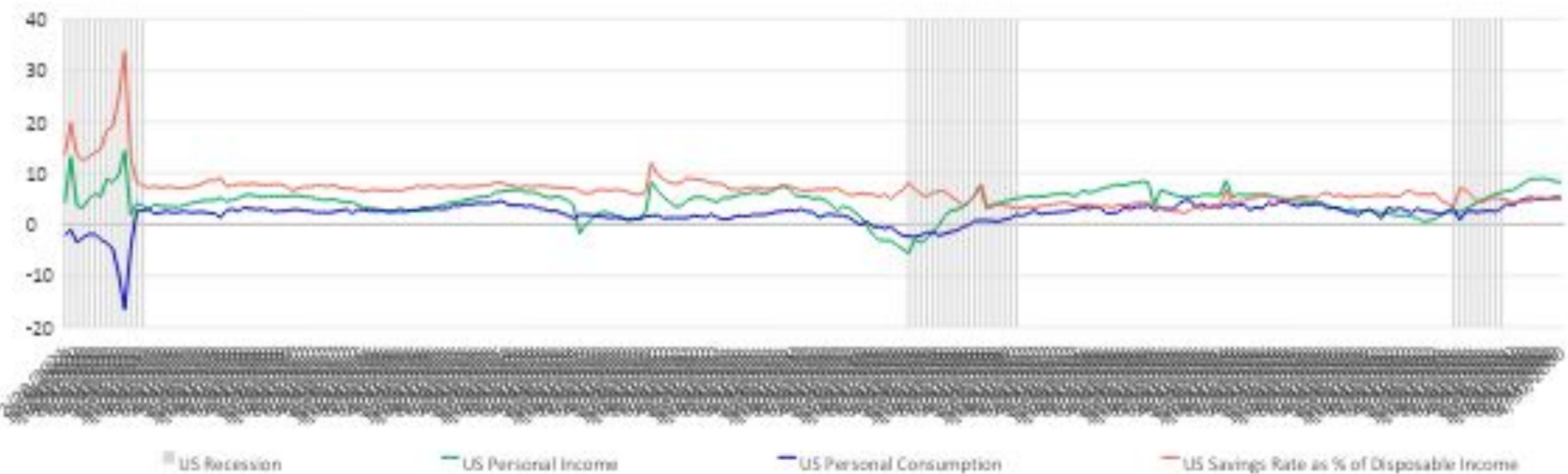
- US\$13.85 trillion/13.5% of Global GDP
  - in additional fiscal spending & foregone revenues plus liquidity support
  - (Not including the additional US\$1.9T in 2021)
- US savings as a percentage of disposable income was the highest in 2020 at 16.3% since 1945
  - This has resulted in excess household savings of approximately US\$1.7T



# Personal savings to compound pent up demand for 2021

The lockdowns and government income support programs have resulted in a positive personal income growth rate year-over-year and much higher than average savings rate for US consumers (12.9% vs 6.5% average savings rate since 2000). This is very different from the Great Financial Crisis that saw personal incomes fall. As such, the pent-up demand and accumulated savings may result in a period of rapid consumption growth upon a broader economic reopening in 2021 – the rapid reopen.

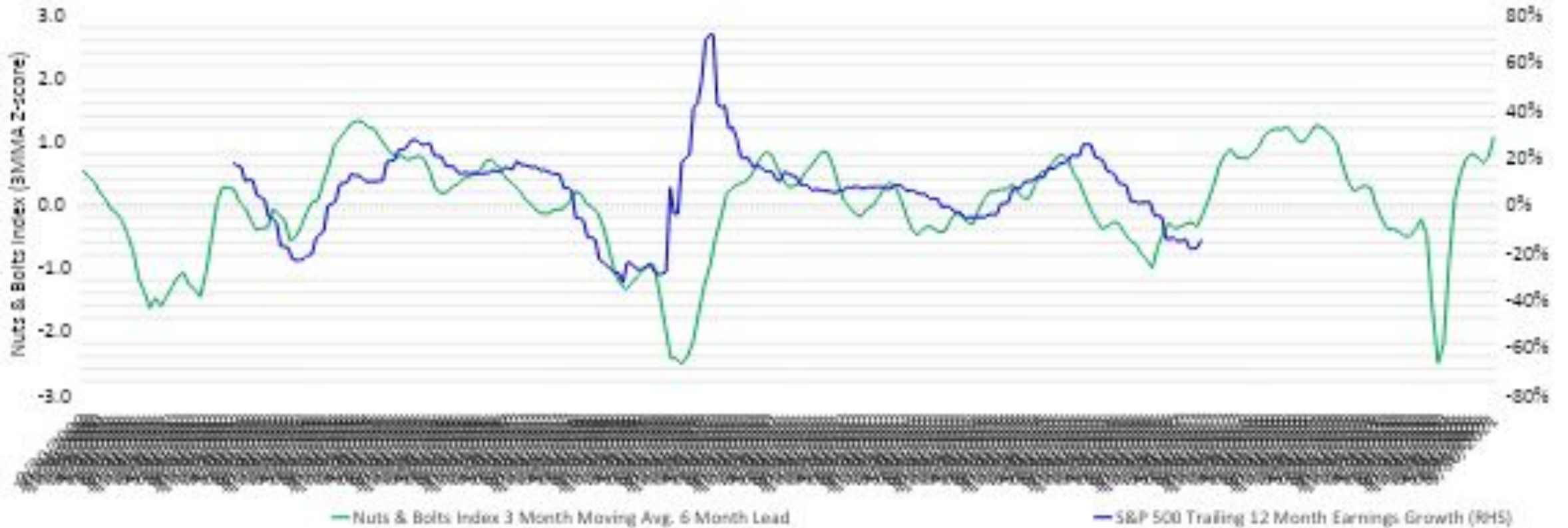
## US Personal Income (YOY), Consumption (YOY) and savings as percentage of disposable income (last 20 years)



Source: Manulife Investment, Bloomberg. As of February 28, 2021

# Robust earnings growth is supported by the recovery in US manufacturing

Nuts & Bolts Index vs. S&P 500 Trailing 12 Month Earnings Growth (2000 – current)



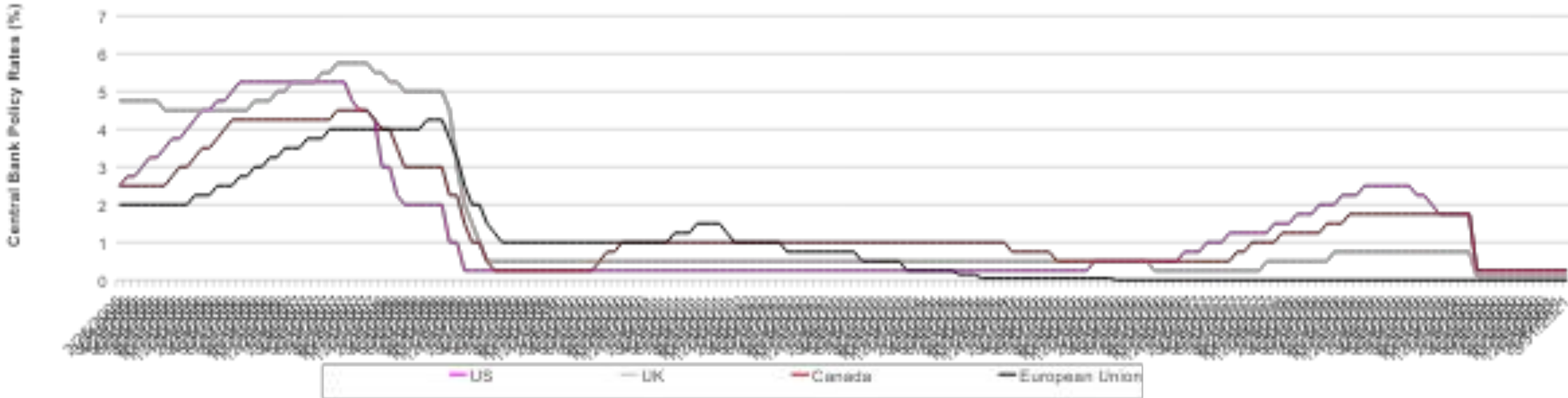
Source: Manulife Investment Management, Bloomberg. As of March 31, 2021

**The challenge for all of  
US...**

# Central Banks are likely to remain accommodative through 2022

Interest rates become a tale of two ends of the curve. While central bankers have indicated that benchmark rates will remain at their current levels until 2023 the longer end of the rate spectrum is subject to market movement. There is always the possibility that central banks may step in to limit how high longer-term interest rates can move however, we believe there is a reluctance to actually do so. It is our view that central bankers would embrace higher longer-term interest rates to support their inflation objectives.

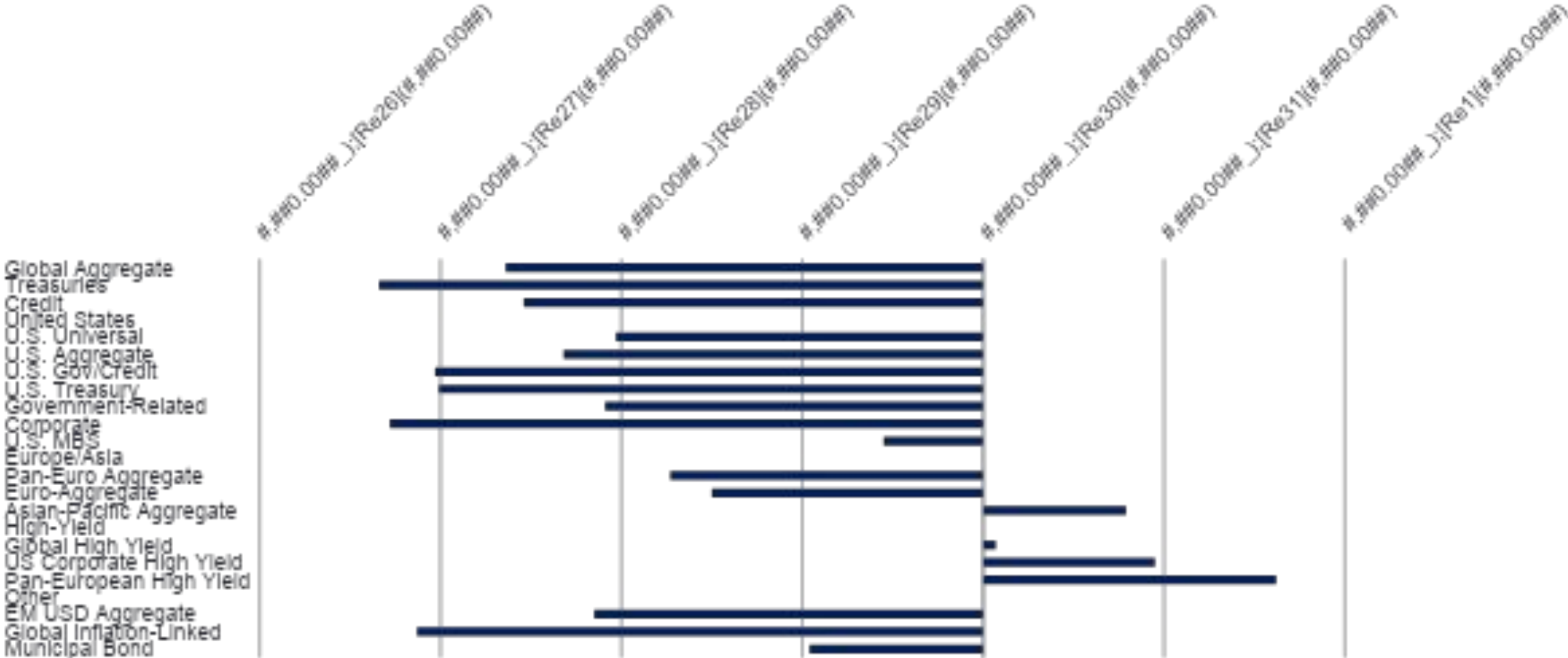
## Global Central Bank Rates (2005 – Current)



Source: Manulife Investment Management, Bloomberg. As of March 31, 2021

# It has been a terrible year for long-duration bonds already!

Bloomberg World Bond Indices  
YTD Return % as of March 1, 2021



# The Key Themes for 2021

## The Rapid Reopen

### Faster Growth/ Higher Inflation

As more of the population becomes immune to COVID economies will continue to reopen.

The pent-up demand and excess savings may drive a wave of consumption through the back half of 2021 into 2022.

### Favour Cyclical Equities

In this environment equities tend to do well as earnings growth recovers. There will be an offset to strong earnings growth in declining valuation.

Canadian equities, emerging market equities, and commodities tend to perform their best in such an environment.

### Bonds – 2018 Redux?

Higher inflation and central bank acceptance will allow long-term bond yields to push higher.

High yield, emerging market debt and investment grade corporate bonds may be better considerations.

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