The Market in Review

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This week's articles and insights

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"There is no amount of political news that can rock the market for longer than a day or so. The Kennedy assassination, the Martin Luther King Jr. assassination, Nixon's resignation…even the Bill Clinton impeachment.

None of these events had any meaningful effect on stocks. What had an effect was taxes and the Fed.

Leave your politics at home when investing in markets."

- *Helene Meisler*

Your Index Report

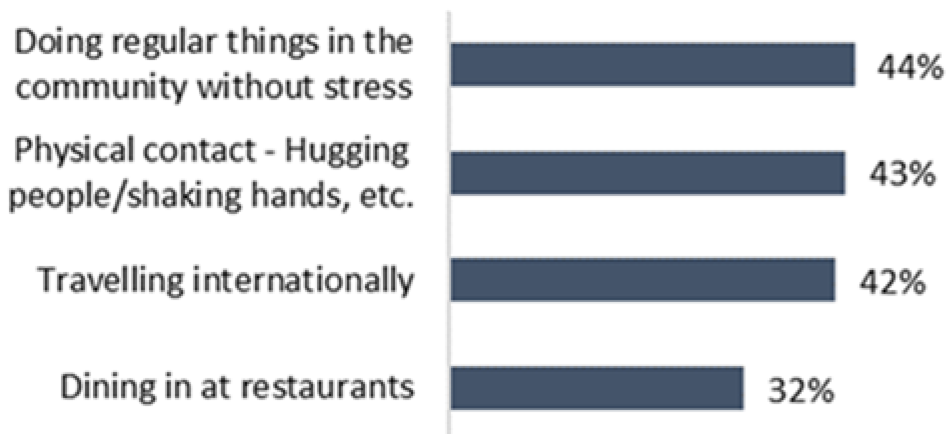
	Current	Last Week	Year-to-Date
Dow Jones Ind. Avg.	31,176	+ 1.17%	+ 1.86%
S&P 500	3,853	+ 2.25%	+ 2.58%
TSX	17,916	+ 0.04%	+ 2.77%

Smashing the Curve

2020 was about flattening the curve. 2021 will be about smashing it.

Many people in the U.S. will get their first vaccine shots within the next month. Canadians will have to wait much longer due to being at the back of the queue in terms of global order priority. It is the trade-off of government health care: the cost is small but the wait is long.

The post-pandemic wishes of people read something like those of prisoners just released. Surveys show we want to socialize and travel freely once again:



Source: Angus Reid

The good news is that Johnson & Johnson's (**NYSE JNJ**) one-shot vaccine may be only about two weeks away from approval, followed by the Oxford version. Some expect the U.S. to be vaccinating 4-5 million people a month by spring.

Many of the changes made at the beginning of the pandemic will remain long after it ends. Expect to see masks worn in public for years, for example. On-line food delivery is here to stay, as well. DoorDash (**NYSE DASH**) delivered 200 million meals in 2019 only to see this surge to over 1 billion in 2020. Close to 27 million Americans have used the service – almost 10% of the population.

The slow shift towards Asia in the global economy became a fast shift in 2020. China weathered the pandemic much better than most nations and did not have to resort to nearly the same amount of money-printing to accomplish this (see comments on the dollar below). Could Asian stocks outperform U.S. stocks in the decade ahead? Valuations suggest they easily could.

New Year's View

Here's the thing about New Year's predictions: every New Year is supposed to be a clean start with fresh expectations.

But in reality, January 1st is virtually the same as December 31st, except it has about one minute more daylight. Whatever trends we had in place last year will continue into the New Year, despite our desperate resolutions and hopeful predictions.

Since 1926, the stock market has averaged about 7-9% in total returns on average per year. If you are going to predict what 2021 is going to look like, pick a number in the middle. In fact, this is exactly what we said last year:

Today, most analysts are positive on the year ahead (2020), with returns in the 5-8% range. This is a safe prediction. You're not going to lose your job if you predict "average" and the world delivers "below average" or "above average". We do know that markets are generally positive in a US election year, as 2020 is. We also know that markets tend to do well after a strong year. Like Newton's Law of Motion, markets in forward motion tend to stay in forward motion. Since 1950, the S&P 500 has ended the year in the same direction as it began the year in 82% of presidential-election years since 1950 (Dow Jones Market Data). So far in 2020, the S&P 500 is up over 2%, suggesting a positive year ahead.

It would have been <u>brilliant</u>, as Toronto's S&P/TSX index returned 5% last year and the U.S. S&P 500 returned about 14%, for an average of 9% for North America.

However, there was this one…little…thing called a pandemic that sent us down -36% and then up 41% along the way. Didn't see that one coming.

The good news this year is the vaccines are here, and inoculations are accelerating. In *most* countries, anyway (Canada is nearly last in line of the developed countries). In the U.S. everyone who wants a shot should have one by mid-year.

Also, most countries continue to stimulate, which is mother's milk to stock prices. The new Biden administration has promised $1.9 trillion in new aid and relief cheques. Some of that will find its way into stock prices.

Are there risks? Of course. Stock prices are already high, which means when stimulus stops, we could see market indexes slump. Markets are already trading as if everyone will get the vaccine on time and will be back vacationing and eating out by July. We know things never go that smoothly.

We showed this graph in our last letter and it is still valid. 2021 could look a lot like 2010, the last post-collapse-recovery year. Such years are still positive, but returns tend to be lower and the bumps more pronounced.

That should be good news for those of us with cash waiting to be put to work.

Our outlook for 2021 looks like this:

- Strong start

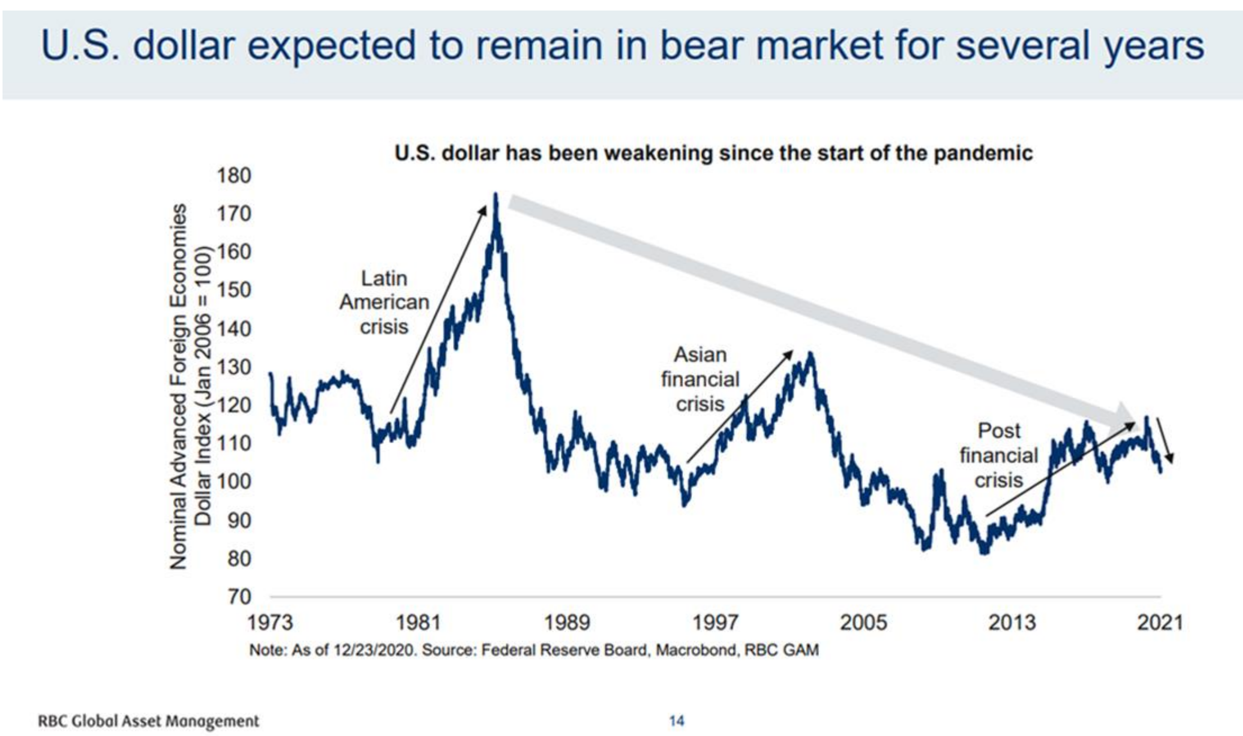
- Weak middle
- Strong finish

Assuming no new pandemics…

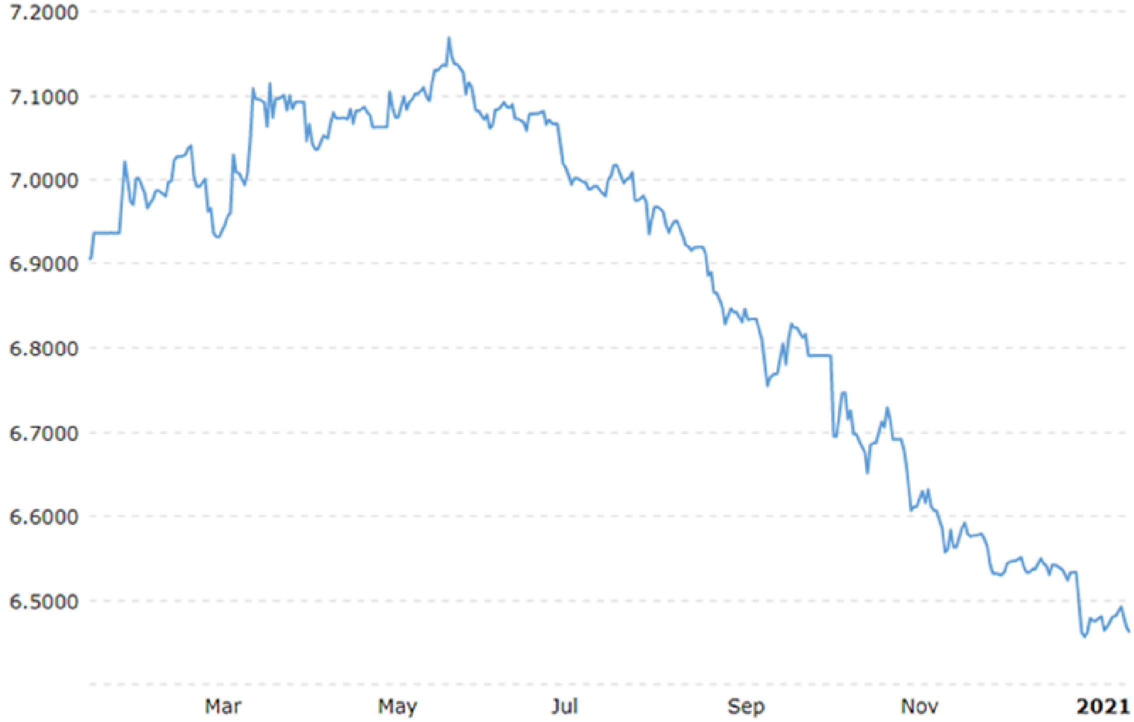
U.S. Dollar Headed Lower

The U.S. dollar has been sliding this year. This may be a deliberate action on the part of the U.S. Federal Reserve, in the sense that American exports become cheaper. Or, it may simply be an unintended side-effect of excess money printing.

Viewed against the global basket of currencies, the U.S. dollar is ending an 8-year climb:



The dollar has weakened against the Chinese yuan. The Chinese used to be big buyers of U.S. dollars and bonds. Now, they are buying fewer and keeping their money at home. This has led to a higher yuan:



Source: Macrotrends

…the Canadian dollar has strengthened:

…as has the euro:

The U.S. dollar is overdue for a bounce here. However, with the U.S. Treasury continuing to print money at an enormous rate, expect the exchange rate to continue to fall.

Manulife, a global insurance company that manages money for hundreds of pension funds, expects the Canadian dollar to appreciate as high as U.S. $0.83 this year, as a result.

Market Moves

Our managed portfolios have recently added more to an apartment trust already owned, as rents have held up well through the crisis. Also, high real estate prices suggest there will continue to be many renters who cannot buy a home.

We have also added to Suncor (**TSX SU**) as the Canadian oil sands producers have little decline in their reserves compared to shale oil producers. Oil sands production is also getting cleaner by the year, despite what you may read.

Finally, we added global exposure through a fund to follow our own advice above regarding better growth outside North America.

Borrowing From the Future

"I'll gladly pay you Tuesday for a hamburger today."

- *Wimpy (from the Popeye comic strip)*

One of the biggest questions we get is where all this government spending takes us.

Borrowing for stimulus - deficit spending – is growth "borrowed" from the future. Wimpy knew that a hamburger eaten today means no hamburger next Tuesday. Then again, his ploy was to never show up every Tuesday when the bill came due! Is this also the modern plan – to skip payment in the future?

2021 should be a year of above-average 4% economic growth. Recent years have seen economies in the U.S. (and Canada) only grow about 2% or less each year, so markets are excited about this. We lost so much growth in 2020, though, which means we have a lot to make up. The U.S. should add back an expected 6 million jobs once the vaccine is delivered, but will still be short about 2 million jobs compared to 2019 (source: Barron's). Similarly, Canada is expected to see over 150,000 small businesses close up shop due to the pandemic. It will take years to get back to where we were just a year ago.

We need to stimulate to help those who aren't working. But, there will be a price.

That price is likely cheapened currencies and higher inflation in the years ahead. The recent rise in bitcoin and gold both point in this direction.

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http://www.dividendvaluepartners.com

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