# Justwealth 4Q 2020 Market Commentary

"Good riddance 2020!" may have been the most popular phrase spoken on January 1, 2021, and rightfully so. Whatever challenges or struggles that you may have personally endured in 2020, we sincerely hope that the new year brings you happiness, prosperity, and good health.

Upon reflecting on financial market performance for 2020, it may be surprising to many that the results are strikingly positive for most benchmark indices. Powered by an exceptionally strong fourth quarter, equities, at an aggregate level, delivered mid-single digit positive annual returns in most markets and solid double-digit returns in the United States. Bonds also generated abnormally strong returns for the year as interest rates plummeted to all-time lows.

Digging a little deeper, however, reveals that success in the markets was not evenly distributed – quite the opposite in fact. Large technology companies were generally big winners in 2020, while companies within the travel and hospitality industries may have suffered steep declines. Extending the analysis a little further, the difference in performance for 2020 between value and growth stocks in the United States, as measured by the Russell 1000, was 35.7% higher for growth stocks. By comparison, the average difference between the two styles for the previous 9 years was only 6.5%! Understanding the uneven distribution of returns makes it easier to explain performance in each of the Justwealth portfolios for 2020. In general, performance of the Justwealth portfolios was relatively strong, particularly for the more heavily equity-oriented portfolios. But, our Justwealth Income portfolios, which tend to favour stocks that are more closely associated with a "value" style, performed predictably lower. The same argument applies to our unique Low Volatility Equity Portfolio which is also closely associated with a value orientation.

Overstating the obvious: things have not yet returned to normal. GDP levels are still below post-peak and unemployment rates are still higher. Governments are still pumping in financial aid to help while central banks continue to be extremely accommodative. Although multiple Covid-19 vaccinations are now being mass produced and distributed, the number of daily new infections globally is still increasing. **But, we believe that we are headed in the right direction!** Governments, corporations, and individuals have all tried to do the right things and adapt to the challenges that we face.

Nobody predicted a Covid-related market crisis to happen in 2020…NOBODY! Predicting events or forecasting short-term returns has proven time and time again to be absolutely useless. If anyone tells you that a stock market correction is inevitable, or that bitcoin is going to $100,000, ask them for a guarantee on that prediction….you won't get one.

The number and urgency of client inquiries that Justwealth received, spiked in March of 2020. In light of a financial market meltdown in the middle of a global pandemic, clients sought out direction on what they should (or should not) do. Our guidance was unwaveringly clear and on the public record: Do not let short-term market events distract you from your long-term investment objectives.

Example 1: March 17, 2020 note to clients

Example 2: April 7, 2020 market commentary

We are so proud of how Justwealth clients listened and responded to our advice, and thankfully, you were rewarded.

Looking forward, we acknowledge the possibility of continued heightened volatility in capital markets - ups and downs. But try to think of it this way; if you fell asleep on January 1 of 2020 and woke up on December 31 and looked immediately at the financial market performance for the year, you would probably think "Ho, hum. Another average, boring year on the markets." A longer-term perspective can be a much less stressful way to think about your investments and potentially more rewarding.

We stated at this time last year: *"Our longer-term annual expectations would be closer to 7% for equity, and 3% for diversified fixed income returns. These expectations are below historical rates of return, but we believe that they are realistic and reflective of the current investing environment."* We remain comfortable with the expectation for equity returns, but are revising our expectation for fixed income down by about 0.5% to 2.5%. Despite the enormity of what happened to humanity in 2020, short term events have repeatedly demonstrated that they have little bearing on long-term results.

Here is a recap of market performance as of December 31, 2020*

| Asset Class | Market Index | Quarter | 1 Year | 3 Years | 5 Years | 10 Years |
|---|---|---|---|---|---|---|
| **Fixed Income** | FTSE TMX Canada Universe Bond | 0.63% | 8.68% | 5.61% | 4.19% | 4.49% |
| **Canadian Equity** | S&P/TSX Capped Composite | 8.97 | 5.60 | 5.74 | 9.33 | 5.76 |
| **U.S. Equity** | S&P 500 ($Cdn) | 6.96 | 16.32 | 14.81 | 13.24 | 16.75 |
| **Int'l Equity** | MSCI EAFE ($Cdn) | 10.68 | 5.92 | 4.86 | 5.61 | 8.16 |

** Source: Morningstar. Performance annualized for periods greater than 1 year.*

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