4th Quarter 2020 Commentary

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Schacter Palazzi | Wealth Management

TD Wealth

TD Wealth Private Investment Advice

Andrew Palazzi
Senior Vice President,
Portfolio Manager
& Investment Advisor
andrew.palazzi@td.com

Jeff Schacter
Senior Vice President,
Portfolio Manager
& Investment Advisor
jeff.schacter@td.com

James McKinnon
Associate Investment Advisor
james.mckinnon@td.com

Schacter Palazzi
Wealth Management
180-2300 Steeles Ave. W.
Vaughan ON L4K 5X6
T: 1 866 831 5501

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Hoping to put 2020 in the Rearview Mirror and Other Lessons

To say this was a year to remember might be the understatement of the decade. A year that started in an environment of promise rapidly turned to an environment of uncertainty as the world came to grips with the reality of a pandemic. While in prior years there had been threats – SARS, MERS, & Bird-flu amongst others – this time it hit home hard. COVID-19 has left an indelible imprint on us all whether contracting the disease or not. It has also tested our resolve and brought forth our compassion as never before. I would say that the pandemic and subsequent lockdowns had their own unique impact on all our investors. Now, 10 months later, we are anticipating an economic recovery few would have imagined last March. While the beginning of a new economic cycle seems inevitable, the timing of the recovery is not. As vaccinations begin to roll-out across North America we are seeing some delays in the administration of those vaccines. It will take several months before enough vaccine is manufactured and made available to get to the point of herd immunity and hopefully stop the spread of COVID-19.

Ultimately, while investors can take comfort knowing the worst of the pandemic will likely be over sometime in 2021, we will almost certainly encounter some bumps in the road along the way.

Here are your most popular questions from the last quarter to Jeff, James and Andrew:

Q: What will happen with our investment portfolio if governments continue to issue lockdown orders in the months ahead?

Jeff: Fiscal and monetary policy has never been so globally coordinated or so accommodative as it is today. While Canadian and U.S. politicians' resolve will be tested, ultimately, we think policies will be developed that will help both the business and the consumer sides of the economy. We believe that, as vaccinations roll out, business will get back to normal and those companies who have adapted to these challenging conditions will do even better in that scenario. We will continue to position the investment portfolios in a way that helps protect against downside risks but also will take advantage of the opportunities that we feel will become increasingly evident as the economic recovery accelerates.

Thinking of portfolios, I believe it is possible there will be more volatility ahead for us all as vaccinations will take time to properly distribute and get to high enough levels of penetration (irrespective of your viewpoint) particularly over the first 3-6 months of the year. Depending on your asset mix of equities relative to fixed income, you could experience more or less of that volatility. Nonetheless, when the economy bounces back, we expect equities to outperform fixed income. I believe asset allocation will continue to be one of the more important factors affecting any portfolio's performance so I would encourage you to review your asset mix with James, Andrew or myself in the weeks or months ahead depending on your personal situation.

Q: Is now the time to be reducing my bond or fixed income allocation and what will be your approach as we head into the new year?

James: after some deliberations with Andrew and Jeff, I can tell you that we believe a bias toward equities over fixed income within the parameters of one's investment policy statement will serve investors well as we get through 2021 and into 2022. We feel that a combination of our traditional investment philosophy of buying quality growth companies with a complementary allocation of cyclical stocks will help navigate the near-term uncertainty around economic progress. As we see the vaccine roll out at a better pace, it is sectors like financial, consumer discretionary and industrials that tend to do well in the early stage of an expansion. Of course, this progress hinges on the continued successful rollout of the vaccines. We also hold the view that some of the "work from home" theme stocks may be due for a correction. Still, other themes which have been working over this past year will resonate long after the pandemic has ended. Sustainable investment themes (Solar, Wind, etc.) may become more top of mind for our investors and may attract money towards more environmental or social change issues.

Give us a call if you think your asset allocation might need a refresh as part of your overall review if we haven't spoken specifically about it and we would be happy to do a full review.

Q: What kind of volatility should we expect in 2021 and what are your overall predictions moving forward?

Andrew: I think volatility will continue to improve across all of our investment portfolios, particularly in a scenario that sees a successful rollout of vaccines across most major economies. Do I think everyone will want to travel and enjoy life again with family and friends in 2021? I think very likely! It is, however, our collective belief that rushing into some investment opportunities will require more patience as they may not play out right away. We are positive on Canadian equities as they severely underperformed their U.S. counterparts in 2020 but also see opportunities in investments outside of the US and Canada that could perform well in 2021. The biggest problem I see for our future is a news cycle that on economic and political fronts seems to shorten daily. This type of media exposure can cause even the most seasoned investor to become impatient if markets aren't moving right away or vaccine rollouts take longer. Equities are not like your CPP or an annuity – always there and steady. Equities must be viewed with patience and an eye to the long term – particularly in a year like 2020 when certain industries have not fully recovered to the levels at which they entered the year. While we feel 2021 will be good year to be invested, we also believe there will be times that investor patience will be tested. Maintaining a focus on one's long-term goals will continue to be the most important advice we give our clients this year and beyond. This is also a good time to remind everyone that markets tend to look forward 6-12 months. Prices adjust according to that further ahead view and so current news flow does not necessarily square with pricing today all the time.

In sum, we are cautiously optimistic as we head into 2021.

Thank you again for all of your questions and we apologize for some of you who didn't see your questions answered directly in this forum. We want to wish everyone the best in 2021 and note that many of us on our team are still working from home.

Here is hoping the new normal returns sooner rather than later as the year progresses!

Jeff, Andrew, James, Nino, Henry, Steve, Stacey, Jane

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Thanks again for all of your questions this quarter and if you have a question that was not covered here, please don't hesitate to reach out to us directly.

Andrew Palazzi
andrew.palazzi@td.com

Senior Vice President,
Portfolio Manager &
Investment Advisor

Jeff Schacter
jeff.schacter@td.com

Senior Vice President,
Portfolio Manager &
Investment Advisor

Nino Wijangco
nino.wijangco@td.com

Associate
Investment Advisor

James McKinnon
james.mckinnon@td.com

Associate
Investment Advisor

Steve Eng
steve.eng@td.com

Associate
Investment Advisor

Stacey Espinola
stacey.espinola@td.com

Client Relationship
Associate

Jane Chen
jane.chen@td.com

Client Service
Associate

Henry Wu
henry.wu@td.com

Client Service
Associate

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