RCTG

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ROTMAN COMMERCE TRADING GROUP

RCTG MARKET RESEARCH

GLOBAL MARKETS INSIGHTS

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- **Equity Markets** – In contrast to the economic difficulties brought on by the pandemic, the equity markets continue to grow with the S&P 500 finishing the year with a 16% gain.

GLOBAL MACRO COMMENTARY

As the month of December comes to a conclusion, the overall global economy continues to move towards recovery from the consequences of the pandemic. Ironically, the market rally seen in the previous month of November took place despite the surge in COVID-19 cases. This had resulted in increased fears of a second economic slowdown while moving into 2021. Although another full-scale shut down similar to the one seen in the early spring months is considered to be unlikely, the various costs society will have to continue to incur over the coming months will be substantial.

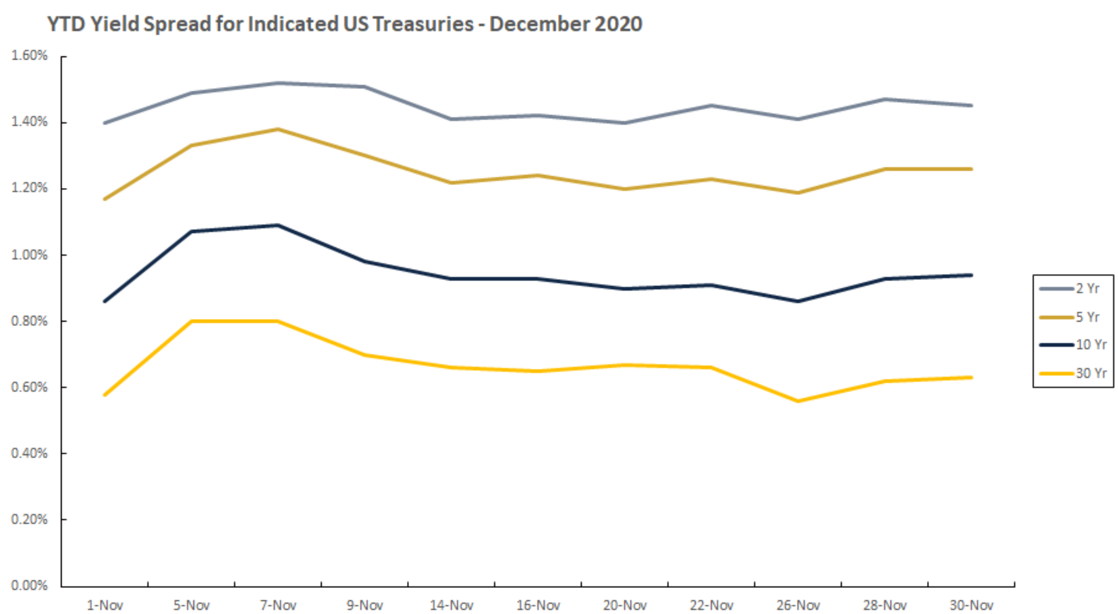
The pandemic took a turn for the worse over the last two months of the year. Infection rates rose significantly in Europe, the US, and Canada, topping the previous records set in the spring. Limitations in the healthcare system such as insufficient hospital capacities and outbreaks in nursing homes have forced governments to implement new stringent lockdown measures to slow the spread of the virus. In Europe and the UK, the services industry continues to be under pressure from the restrictions. News of mutations in the virus resulting in various new strains have also perpetuated the need for more stringent control measures in the hopes of inverting the virus contraction curve. Across the pond, the US continues to maintain the highest daily infection rate with over two hundred thousand cases being reported per day. In the US, as the second wave of the virus began with a time lag to Europe, the negative effects on US GDP growth will most likely not be seen until early spring of 2021.

On a more positive note, the conclusion of the US elections and the continuing mass production and distribution of the Covid-19 vaccinations, there is high hope of economic recovery moving into the summer of 2021. On an international level, the manufacturing sector continues to demonstrate a high level of resilience to the pandemic. In the equity markets, value and small cap stocks saw the greatest returns in the equity sectors with gains of 16% and 24%. The positive vaccine news has also propelled global equity markets to a series of record highs, with major indices such as the S&P 500, Nikkei 225, FTSE, and SSE seeing gains of 3.71%, 3.56%, 3.1%, and 2.42% respectively. In the last quarter of 2020, the equity markets as whole continued to rally for the third consecutive quarter and significantly outperformed fixed income markets.

FIXED INCOME MARKETS

Month in Review

The development of Covid-19 vaccines has generated market enthusiasm and strengthened investors' confidence. While rates remain low entering into the new year, the possibility of regaining strength appears plausible with the lack of room for future further decreases. The increase of municipal bond issuance is matching the high demand which parallels the strength in investment-grade corporate bonds in 2020. With a new U.S. administration and additional stimulus packages, markets are responding calmly to the chaos of the election aftermath in hopes of the increase of fiscal support. The consistent rise in treasury yields is causing uncertainty and change in the financial landscape, however the progression of vaccines gives mild hope to investors during unprecedented times. While the pandemic recovery process has felt lengthy, global credit and equity markets have rebounded since March, and with significant changes in stimulus, the opportunities for reparation in the new year appear to be at reach..



Rates

As the year comes to an end, it seems as though the Fed's long-term projections of monetary policy continue to align with the short-term rates anchored near zero. Over the course of the pandemic, the central bank's response has been consistent with slashing rates to respond to market illiquidity.

It is uncertain what is to come for 2021 as the inherently low rates as we see them now have no room for continuing to decrease. With the US swap curve near zero, LIBOR-based interest rate swaps, futures, and options are giving way to new securities tied to the incredibly low benchmarks. The road to recovery is dependent on limiting bank exposure and will require investment in infrastructure to create jobs, which will hopefully in turn bring rates back to their neutral level.

Credit

In contrast to the notable spread widening experienced earlier in the year, corporate spreads have steadily begun to tighten well into 2021, returning to more normal levels. Investment-grade corporate bonds finished the strongest of the pack with returns exceeding 9%. Having posted the greatest returns for the quarter, high yield spreads are much tighter than their long-term average with the average yield near its all-time low. High yield bonds have seen significant outflows this month, potentially due to a lack of conviction from investors regarding their true value.

Municipals

Despite the ongoing COVID-19 pandemic and the economic downturn, 2020 was a record-setting year for new issue municipal bond supply and for issuers to find strong demand in markets.

According to the Barclays Municipal Bond Index, the month of December achieved a total return of 0.61%. Performance among the longest maturities (6.25%) outperformed short maturities (2.83%) and high-quality credits such as AAA's outperformed lower-quality credits for 2020. Looking ahead to 2021, vaccine development and distribution should pave the way for recovery, indicating favourable outlook for the new year.

COMMODITY MARKETS

Month in Review

The second wave of the pandemic has stalled economic recovery. TD's aggregate spending data showed that growth slumped at the end of the year, and employment declined. Although the news on vaccine distribution offers hope for a tremendous economic rebound in the second half of 2021, the economy could suffer a modest contraction in the first quarter.

According to Dow Jones Market Data, the Bloomberg Commodity Index BCOM which tracks 23 commodity futures markets, traded at an all-time low in April based on data going back to 1991. The index bounced off its lows, rising into year-end, but still suffered an annual loss of 3.7%.

Jeffrey Currie, Goldman's head of commodities research, said he's confident a "structural bull market" in commodities is well underway. "This ship has sailed. If you look at all the classic telltale signs of a structural bull market, you have the weak dollar, grain prices...a client called corn "bitcorn" recently — and then you have what's going on in the metals markets."

Agriculture Market

Wheat prices have benefited from China's sustained purchases as part of the U.S.-China Phase 1 trade agreement and were up about 9% in 2020. The U.S. Department of Agriculture expects global ending stock to reach another record high in the 2020/21 season.

Gold

Gold was up 6.3% in December and has seen nearly a 25% gain in 2020. On a percentage basis, 2020's year gains mark the best return for the metal since an almost 30% rise in 2010. Gold and silver futures saw modest gains in the face of a weakening U.S. dollar, which has been a feature for dollar-pegged commodities for the better part of 2020. However, Gold has pulled back from its June high, driven by news of vaccines and therefore improved risk appetite. While a "normalized" economy may decrease the demand for assets that are considered to be "safe havens," the environment remains conducive for gold due to low rates and political/economic uncertainties going into 2021.

Copper

Surplus position Copper experienced a V-shaped recovery, bouncing 70% off its November lows and traded at the top end of its 18-month range. As China consumes roughly 50% of global demand, rapid action by its government to curb the pandemic has benefited copper. Analysts expect the copper market to remain in a surplus position in 2021.

Oil

Oil prices have been range-bound in the upper $40s throughout December. OPEC+ has been cooperative, and many expect it to increase production by up to 500,000 barrels per day for February. On December 25th, Bloomberg published an article titled, "Russia's Novak Backs Further OPEC+ Oil-Output Hike in February," by Olga Tanas, stating the following:

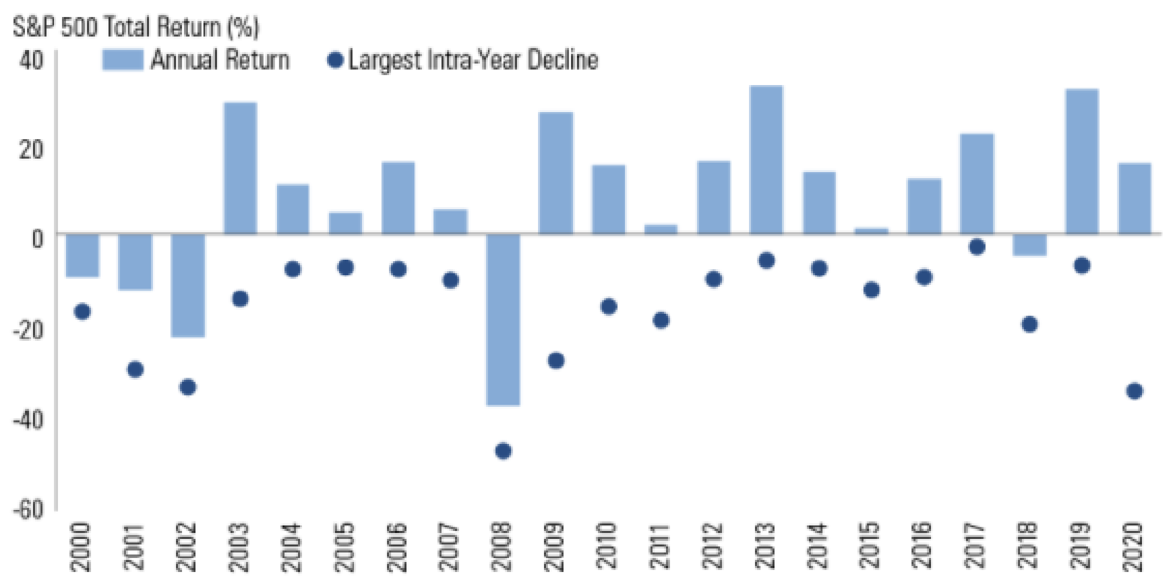
"To restore our output, that we've reduced a lot, the price range of $45 to $55 a barrel is the most optimal," Deputy Prime Minister Alexander Novak told reporters in Moscow. Otherwise, we'll never restore production; others will. If the situation is normal, stable, we will support the increase," Novak said when asked if Russia wants a further hike of 500,000 barrels a day in February. "We must reach levels that were envisaged earlier, from Jan. 1, gradually, without pulling the market too much." While there is concern that rising COVID-19 cases in January and possibly February might damp oil prices, especially with the new UK strain, vaccinations should accelerate from their slow start, which can help support prices as we roll into 2021.

EQUITY MARKETS

Month in Review

As the tumultuous year of 2020 came to an end, the month of December saw most major indices close in a positive position. The S&P 500, NASDAQ, and Russell 1000 all finished the year with significant annualized returns of approximately 16%, 44%, and 22% respectively. Despite the overall growth, the variations across business sectors have been substantial. When taking a closer look at the individual or sector-specific performances, healthcare, technology, communications, logistics, and e-commerce grew substantially. Companies such as Netflix, Amazon, Zoom, and Johnson & Johnson experienced significant growth. While businesses in travel and tourism, agriculture, retail, and fossil fuels generally continued to witness losses and instability.

Over the course of the year, there has been a trend of investors choosing to move their money into corporations with the least exposure to the negative effects of the pandemic. This is reflected by the increased market-volatility rates as the continuously changing social, economic, and political atmosphere provides investors with little certainty regarding how events will play out over the coming months. However, moving into 2021, the increase in participation of retail investors alongside the growth in major indices demonstrates a majority of market participants continuing to have faith in the equity markets and the future of business beyond the pandemic.



Source: GSAM.

U.S.

The tech-industry has seen significant Much like November, equity markets in the U.S leaned heavily on the news surrounding the vaccination, election outcomes, and fiscal stimulus. Unemployment and infection rates saw sharp increases through December.

However, progress in congress towards increased stimulus, as well as the mass production and early-stage distribution of the vaccine to first responders and those at risk, led to a firm rise in the US equity indices. The NASDAQ saw the greatest increase of 5.65%, followed closely by the Russell 1000 and S&P 500 with gains of 4.1% and 3.71% respectively.

Canada

In the North, the Canadian equity markets performed similarly to the US markets. Given the change in the political stance of the United States brought on by the new leadership coming in 2021, trade with Canada is believed to be set for expansion starting in the new year. In contrast to the more significant growth of the U.S equity markets, the S&P/TSX Composite Index increased by approximately 1%.

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