

Q4 2021

Let's Be Positive

Equity Markets

Equity market total return since 2020
(percent; Canadian dollar basis)



Data to December 31, 2021; shaded region represents period of US recession
Source: Bloomberg, Guardian Capital

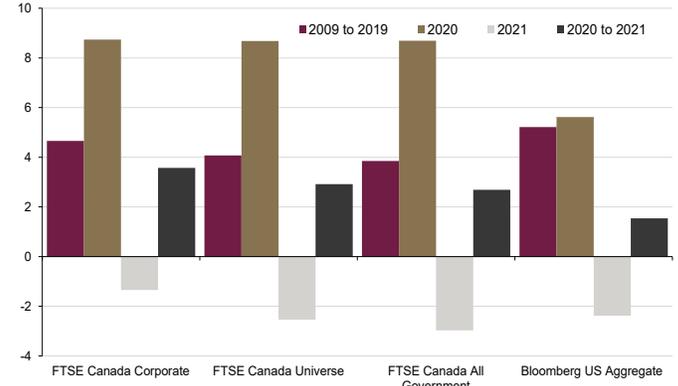
Fixed Income Markets

Fixed income market total return since 2020
(percent; Canadian dollar basis)



Data to December 31, 2021; shaded region represents period of US recession
Source: Bloomberg, Guardian Capital

Fixed income market total returns
(annualized percent; Canadian dollar basis)



Data to December 31, 2021
Source: Bloomberg, Guardian Capital

Commentary

The pandemic has caused a previously unthinkable shift in how we conduct our daily lives over the last two years. Along with these dramatic changes, levels of anxiety and hardship have been elevated across the world.

But, to borrow from renowned English philosopher Eric Idle, when things in life are bad and they make you really mad, always look on the bright side of life — a concept that can be difficult for somebody who was trained in the dismal science.

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As investors, frankly, it hasn't been all bad. Over the last two years, markets have actually been quite good. The charts above illustrate this history with equity markets climbing between 12% and 45% from what we thought was already a high level. Bond markets, despite the pullback last year, were still up around 6% over the last two years. Companies and markets had to adapt and adjust, alongside governments and, of course, ourselves.

The abrupt transition to working from home and the cancellations of extracurricular activities has meant that many have been able to spend more time with their loved ones than ever before — irreplaceable and precious time.

As well, the restrictions on economic activity (especially for services, which typically accounted for two-thirds of household budgets before the pandemic) brought on by stringent public health measures have seen household financial positions, in aggregate, improve markedly with reduced spending. Data compiled from national statistics organizations indicate that at least US\$3 trillion more than was typical pre-crisis has been socked away by households across the G7 economies since the start of 2020.¹

Moreover, thanks to strength in global financial and residential real estate markets over the last two years, aggregate household net worth has surged and now stands 25% above its pre-crisis peaks in Canada² and the US³. This has not strictly been a case of the rich getting richer. Recent data from *Statistics Canada*⁴ and the *US Federal Reserve*⁵ indicate that wealth gaps have narrowed since the onset of the pandemic, with households at the lower end of the wealth spectrum recording comparatively larger gains in net worth over this period.

This rapid, substantial buildup of wealth (particularly among the less wealthy cohorts that typically spend more of their gains in net worth) means that there is little reason to anticipate restraint by consumers once activity fully resumes. The need to rebuild lost savings has historically been a factor limiting the speed of recovery from past economic crises.

Another bright spot is that in the year since approval of COVID-19 vaccinations and global inoculation efforts began in earnest, *data* compiled by Oxford University⁶ show that roughly 60% of the world's population has received at least one jab (that proportion is more than 75% across high-income economies).

The elevated levels of immunity combined with indications that the new dominant strains of the virus have lower virulence (lower ability to cause severe symptoms), support the view from epidemiologists that the pandemic may be approaching its later stages. That is, transitioning from the “pandemic” to the “endemic” phase, *where the virus remains a constant within a population but far less impactful such that it does not represent an “emergency.”*

In such a backdrop, pressure on healthcare systems eases markedly as the wave subsides — very welcome developments — which permits governments to roll back stringency policies.

As such, there are growing expectations that the coming spring and summer could well represent the beginning of the post-COVID era.

The potential for resumed full-scale economic production with minimal disruption, as well as the scope for an uptick in the business investment cycle, will help to further work out the kinks in the supply chain and would go some way to easing price pressures that have been building up. This, combined with fading “base effects”⁷ in the coming year, will almost assuredly result in inflation moderating from its multi-decade highs of late in the year ahead, which will have a positive impact on the cost of living.

Taken together, despite the current unpleasantness, there is a legitimate reason to have hope for better things as the calendar rolls over anew.

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A robust growth backdrop should continue to be constructive for corporate profits and underpin further performance within equity markets — albeit likely with more moderate returns than experienced over the last 18 months.

For bonds, a decline from peak inflation rates will likely reduce the pressure on central banks to act aggressively, limiting the potential upside for market interest rates. However, given that we remain in a low yield environment, there is a little cushion for rising rates and the possibility of another year of negative bond performance remains. While history can only serve as a guide, it is worth noting that the broad Canadian bond market has not recorded back-to-back annual declines in the last four decades.

So, again, if life seems jolly rotten, there's something you've forgotten: always look on the bright side of life.

¹ Estimate based on personal savings data for G7 countries compiled from various reports from the OECD, IMF and Bloomberg as at Sept 30, 2021.

² Statistics Canada, *National Balance Sheet Accounts for Q3 2021 - Table 36-10-0580-01*, published December 10, 2021
<https://doi.org/10.25318/3610058001-eng>.

³ The Board of Governors of the Federal Reserve System, *Financial Accounts of the United States - Z.1* for Q3 2021, release date December 9, 2021.
<https://www.federalreserve.gov/releases/z1/default.htm>.

⁴ Statistics Canada, *Distributions of household economic accounts for wealth of Canadian households, first and second quarters of 2021*, The Daily Report, Release date: October 26, 2021.
<https://www150.statcan.gc.ca/n1/daily-quotidien/211026/dq211026b-eng.htm>.

⁵ The Board of Governors of the Federal Reserve System, *Distribution of Household Wealth in the U.S. since 1989*, last updated December 17, 2021.
<https://www.federalreserve.gov/releases/z1/dataviz/dfa/distribute/chart/#range:1989.3,2021.3;quarter:128;series:Net20worth;demographic:networth;population:all;units:levels>.

⁶ Our World in Data, *Coronavirus (COVID-19) Vaccinations*, Statistics and Research-daily data, accessed January 7, 2022.
<https://ourworldindata.org/covid-vaccinations#how-many-people-have-received-a-coronavirus-vaccine>.

⁷ Definition of Base Effects: The upward pressure in year-over-year inflation calculations stemming from low readings in the previous (base) year.

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