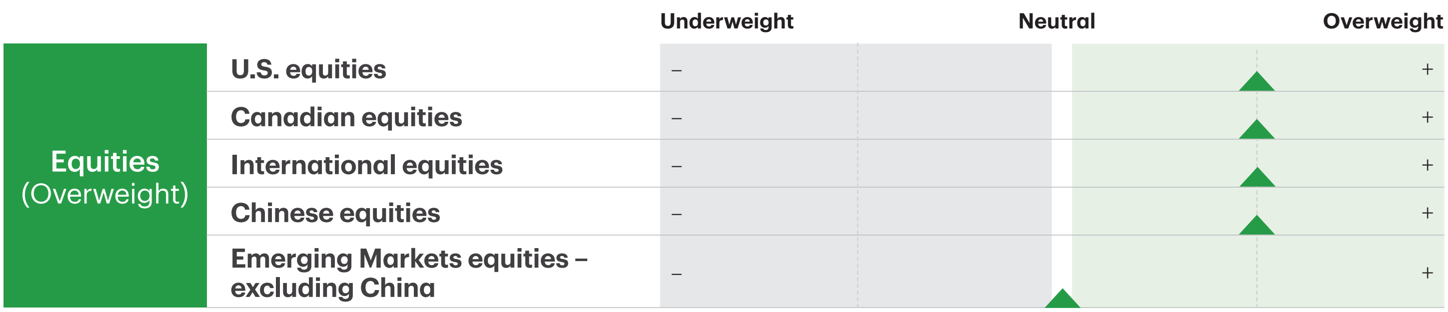
TD Asset Management

Special Report + 5 Minutes
= Greater Insights

Equity Forecast | 2021

The TD Wealth Asset Allocation Committee (“WAAC,” “we”) maintains an overweight position in equities. Stocks delivered relatively solid returns across most major global markets in 2020, despite COVID-19 and its impact on societies and economies. Looking ahead, we retain our bullish view for equities overall. While risks remain, we are optimistic in terms of global economic growth, and equity markets in general. We expect improving corporate fundamentals to drive returns over a 12-18 month horizon.



Canadian Equities
(Modest overweight)

- Canadian stocks significantly lagged the performance of other major equity markets in 2020 and could see this return disparity narrow with broad economic re-openings
- Underperforming sectors like Financials, Materials, and Industrials should be strong beneficiaries of broad economic re-openings
- We expect Canadian financials to see solid growth and healthy dividend yields in 2021

U.S. Equities
(Modest overweight)

- Strong equity returns will be driven by earnings growth, improving corporate fundamentals and the general firming of economic conditions
- Stimulus will also be a key driver of equity markets, while protracted low rates and a weaker U.S. currency may provide an additional boost to U.S. stocks
- COVID-19 vaccination will be the game changer and may give markets an extra boost in 2021

International Equities
(Modest overweight)

- The Eurozone struggled with COVID-19 cases, lockdowns and restrictions during much of 2020
- The U.K. was the first country to authorize the use of the Pfizer-BioNTech vaccine in 2020, which generated much euphoria and optimism
- Fiscal stimulus and a post-Brexit deal should provide much needed support to European economies

Emerging Markets Equities – excluding China
(Neutral)

- Emerging markets equities posted solid returns over 2020, despite high COVID-19 infection rates in many countries like India and Brazil
- Positive news on COVID-19 vaccines led to rallies in value and cyclical stocks
- Emerging markets offer higher yielding assets relative to advanced economies which are currently starved for yield

Chinese Equities
(Modest overweight)

- Chinese equities could deliver returns above that of U.S. and Canadian equity markets in 2021, but with greater volatility
- China’s successful pandemic containment efforts have allowed its business activity to recover at a more robust pace relative to countries still grappling with the pandemic
- China may be one of the only major economies that will see positive aggregate growth in 2020 relative to 2019

Part of WAAC's mandate is to highlight risks and opportunities on the horizon.
Below are some of the factors we will be monitoring in 2021.

↑ Opportunity ↔ Neutral ↓ Risk

What We're Monitoring	Potential Implications
Economic Data	↑ Globally, economic fundamentals appear to be strengthening as evidenced by stronger GDP numbers. ↑ Global PMI data has been climbing steadily since its low point in April and in the U.S., service industries continue to see improving demand. The strength in the numbers continues to provide evidence that the recovery remains on solid footing and that demand is returning to more normalized conditions to fill the output gap from earlier in the year. ↔ We have also seen a gradual uptick in North American employment data. This combined with healthy consumer spending, and strong housing markets, is further evidence that many sectors of the economy are rebounding. However, the jobs market will require time to fully recover as unemployment remains elevated across most advanced economies still suffering through lockdowns and mobility restrictions.
Corporate Earnings	↑ Overall in 2020, earnings are expected to decline by about 7%, year-on-year; however, 2021 earnings are expected to rebound by a robust 22% year-on-year. ↔ The digital economy and so-called stay-at-home stocks experienced most of the benefits as lockdowns forced people and companies to adapt to new ways of life and conducting business. However, valuations may appear elevated entering 2021. ↑ The earnings recession was concentrated in sectors most impacted by the pandemic, e.g. retail, hospitality and tourism. These sectors could benefit most in a post-pandemic world.
Policy Action	↑ As economic conditions worsened in 2020, global authorities responded with aggressive and coordinated measures to effectively prevent further hemorrhaging of economies, while maintaining liquidity in credit markets. We expect further stimulus measures to be taken in 2021 to keep economies and markets afloat. ↑ Major central banks have signaled a clear intention to keep interest rates at historic lows until a measurable recovery is firmly in hand. ↓ Several headwinds remain that could disrupt the path to recovery. For instance, fiscal and monetary stimulus may have reached their peaks in many countries.
Geopolitics	↑ Joe Biden's election win has helped remove some political uncertainty, despite President Trump's numerous failed attempts to legally challenge the outcome. ↔ Democratic control over all three branches of government might give way to more aggressive liberal policy objectives like increased taxation on corporations and high-income earners; however, this outcome could also expedite the passing of additional fiscal stimulus, which would provide much needed support for businesses and individuals hardest hit by the pandemic. ↑ Markets were also encouraged by the potential for a pivot back to a more multilateral approach to U.S. foreign policy when engaging with the international community. This should benefit much of the world's financial markets as countries can refocus on working together to achieve parallel economic objectives.

What We're Monitoring	Potential Implications
Vaccines	↑ Encouraging developments from major pharmaceuticals, including Pfizer Inc. and Moderna, Inc., brought about the euphoric, yet objective realization that an end to the COVID-19 pandemic was within reach. ↑ The possibility that a significant percentage of the population could be vaccinated by the summer of 2021 should provide much needed relief to segments of the economy and countries that have been hardest hit by the pandemic. Many industries like, travel, retail and hospitality that have had their operations severely disrupted, could experience a demand surge for their products and services as economies fully re-open. ↓ The potential for near-term market disruptions generated by a resurgence of infections, an increase in hospitalizations and mortality rates, and fears of tighter lockdown restrictions, remain as headwinds.

Equities

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