January 17, 2022

After a challenging 2020, the global economy steadied and charted a course to recovery in 2021. This was all the more commendable as we faced a number of hurdles along the way. Most notably the COVID-19 delta variant in the spring and the omicron strain in winter, stubbornly high inflation, and supply chain disruptions. There was also ongoing uncertainty and discussion about when central banks would raise rates and wind down their pandemic stimulus plus the Evergrande debt crisis in China. Despite these hurdles, we ended the year positively and in much better shape than when we started.

Equities and bonds

U.S, Canadian and global equity markets achieved a record-breaking year. By the end of August, equities had notched seventh straight months of gains with the S&P 500 Index finishing near its all-time high and the TSX Composite Index on its longest winning streak in four years. U.S. and Canadian equities headed into Q4 confidently as well and by the end of October had posted their biggest monthly gains since November 2020. Markets then experienced their biggest dip for the year as the omicron variant struck before stabilizing in December. U.S. and Canadian equities as well as the MCSI World index ended 2021 significantly up, approximately 20-25% while the MSCI EAFE Index returned approximately 11%.

Bond markets, which tend to move slower and in the opposite direction to equities were mixed. U.S. treasury yields increased fractionally, and the yield curve flattened slightly on the Fed's comments about ending its pandemic stimulus and raising rates soon to combat inflation. Canadian yields fell fractionally. Eurozone bond yields slipped too after the European Central Bank revealed it would keep some stimulus and a rate hike in 2022 was unlikely, highlighting the economic recovery isn't uniform across regions.

Other 2021 market developments

Closer to home, Canadian ETFs and mutual funds recorded stellar assets under management in 2021. Canadian ETFs crossed the C$320 billion mark with CI ETF's offering hitting a new all-time high of approximately C$16 billion in assets. Mutual funds surpassed C$2 trillion in total assets. CI Global Asset Management launched the world's first Ethereum ETF in April - the CI Galaxy Ethereum ETF. By October it became the first ETF of its kind to garner C$1 billion in assets. In addition, the first bitcoin ETF was launched in the U.S. and had the second largest debut in ETF history. In Q3, CI also introduced a climate investing mutual fund and ETF, the CI Global Climate Leaders fund.

In foreign exchange markets, the Canadian loonie and U.S. greenback seesawed subtly over the course of 2021 with the loonie ending marginally up. Oils prices surged approximately 55%. Key drivers included the threat of Hurricane Nicholas in the U.S. gulf, depleting U.S. crude and fuel inventories, the debt crisis of mega Chinese property developer Evergrande and supply chain disruptions. Cryptocurrencies, despite their extreme volatility, attracted more assets in 2021 than all previous years combined.

Facebook rebranded as Meta and began trading as MVRS in December. That month, one of the biggest acquisitions in Canadian banking history occurred. Bank of Montreal purchased U.S. based Bank of the West for US$16.3 billion. This is BMO's largest ever deal.

Inflation, interest rates and central banks

Late in December, the Bank of England became the first major central bank to raise interest rates, from 0.1%

to 0.25%, since the pandemic. The bank said this was in response to inflation likely hitting 6% in early 2022, three times above its target.

U.S. inflation climbed to 6.8%, its highest level in 40 years. The Fed stated it expected inflation to begin cooling by the second half of 2022. It projected in September a rate hike by late 2022, but late in December hinted three raises were coming. In addition, the Fed announced it will double the pace at which winds down its pandemic stimulus, from US$15 billion to US$30 billion a month, putting it on track to complete the program in Q1 2022.

In Canada, inflation headed north as well, hitting 4.7%, its highest level since 2003. The Bank of Canada noted it could be ready to start hiking rates as early as April 2022. It also announced it was ending its pandemic stimulus. In December, the bank's five-year mandate was renewed by the federal government. This included a new measure, to consider the labor market when making interest rate decisions and use the flexibility of its 1-3% inflation target range to support employment if necessary.

What can we expect next?
The emergency stimulus of central banks is ending so we might experience some near-term volatility as market conditions shift. While the omicron variant is concerning, it should not stop the global economy's recovery. Economic fundamentals and corporate earnings remain healthy. Inflation will likely cool, as supply chain disruptions ease, but settle at a higher rate than we had pre-pandemic. It's also inevitable the pace of growth will slow after the record-breaking double digit returns of 2021.

Regardless of where we are in the market cycle, it's important to take a disciplined approach to investing and stay focused on your long-term financial goals. We recommend you maintain a diversified mix of asset classes in your portfolio to maximize potential returns and minimize risk. Regularly reviewing and rebalancing your portfolio back to the target asset mix we created also helps you remain on track.

2021 RRSP deadline and new 2022 TFSA room
March 1, 2022, is the deadline for 2021 RRSP contributions. If you still have available room, why not consider making an additional contribution? The new year also brings an extra $6000 you can allocate to your TFSA. Both RRSPs and TFSAs hold most types of investments. I can talk to you more about the advantages of tax-deferred RRSP and TFSA investing and maximizing your retirement savings.

Me and my team are here to support you in achieving your financial goals. Should you have any questions regarding your portfolio, please do not hesitate to contact our office, 250-785-9603.

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Financial Advisor

The information in this letter is derived from various sources, including CI Global Asset Management, Globe and Mail, Daily Mail, National Post, Wall Street Journal, Forbes, MSCI, Bloomberg, Reuters, Investment Executive, Advisor's Edge, U.S. Energy Information Administration, Bay Street, CNBC, The Economist, Yahoo News, CTV News, Bank of Canada and Statistics Canada as at various dates. This material is provided for general information and is subject to change without notice. Every effort has been made to compile this material from reliable sources and reasonable steps has been taken to ensure their accuracy. Market conditions may change which may impact the information contained in this document. Before acting on any of the above, please contact me for individual financial advice based on your personal circumstances.

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