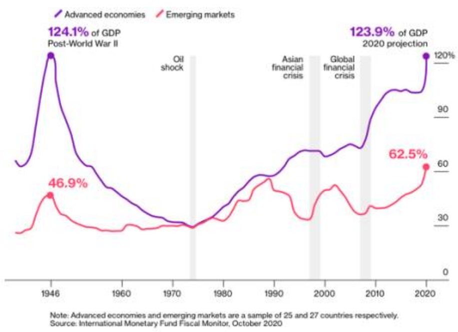
2021 WEALTH ELEMENT MARKET OUTLOOK CAUTIOUSLY OPTIMISTIC

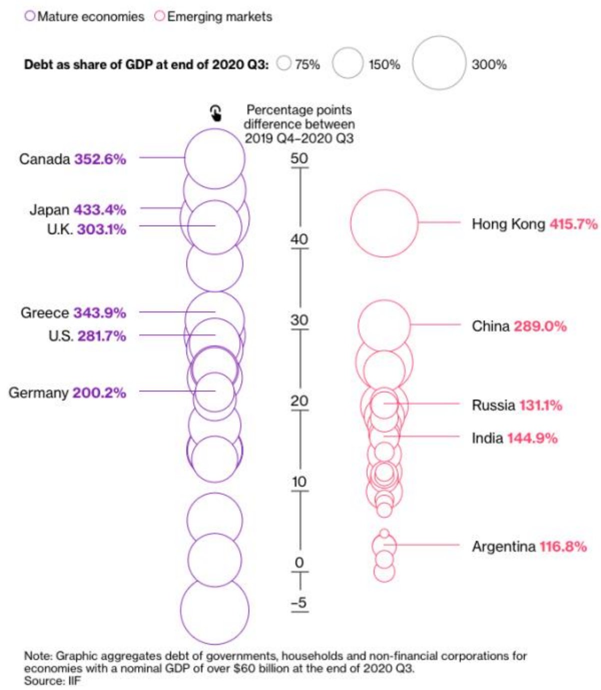
The outlook for financial markets is positive according to most major investment houses. As we turn the page on the COVID pandemic and the vaccines start to penetrate the population over the first half of the year; it is safe to assume that growth, consumption and employment will resume, but how quickly and how far?

The general assumption is that we will witness a "Roaring 20's", a phenomenon that followed the Spanish flue. That is discounting the impact of World War I. Central banks monetary policies and national fiscal policies have had a positive impact to cushion the impact of the recession.

The long-term effects, however, are unknown. The high indebtedness of G7 countries will surely impact their future fiscal policies. The liquidity provided by the Fed and the US Administration have had immediate positive sways on financial markets but have distorted them now that a recovery is about to begin. In Europe government loan guaranteed granted to companies nearing bankruptcies are looming in maturity while the economic upturn is yet to happen. Finally, the internet disruption factor in all industries has allowed for the global economy to endure but will it tolerate the resumption of labor force re-hiring?



The consensus is that growth will occur to the tune of 4% to 6.4% depending on the investment houses' outlook. Also, the consensus is that most of this growth will occur in the second half of 2021 when vaccinations will allow for full opened economies. Markets have anticipated this 2nd half growth on the back of the stimulus package as approved during the Trump Administration and ahead of the US$ 1.9 trillion Biden stimulus.



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Equities Allocation

There is no doubt investors should be overweight equities despite stretched valuations on Wall Street. There is also a broad unanimity that cyclicals would benefit most and that value stocks should profit most, which is contradictory in terms. The main indicators of a solid rebound in the economy with be in construction and durable goods. Construction as a whole has taken a hit during 2020: Total construction starts for 2020 was down -8% split into: Nonresidential Buildings -24% and Non-building Infrastructure -14% and with Residential starts up +7% from 2019. The figure on new home sales for January is expected to rise 2.9% according to Trading Economics. The Durable Goods numbers for January might be less impressive due to the transportation component of this indicator. Our conclusion is that it might be too early to call for a strong rebound at this point. The fiscal impact of the Biden $1.8 trillion will help consumer spending but unless vaccinations are accelerated it might fizzle out rapidly. A critical element is the speed at which the re-hiring occurs to allow for a resumption to normalcy. The tourism and related services, such as air transportation and hospitality, will not recover before 2023.

Another consensus among investors is the view that the US dollar will be weakened and that non-US equity markets are preferable such as Europe excluding UK and Asia. We agree with that stance. Valuations on the US stock markets are high and we expect some profit taking. There is also the menace of breaking up certain market players in the tech industry, which have become dominant such as Amazon, Google, Facebook.

With the Euro Stoxx 50 Price/Earnings Ratio at a current level of 22.76 and the FTSE Pacific Index P/E Ratio components at a current level of 23.5 versus the S&P 500 Price Earnings Ratio at 34.24, such a biais appear to make sense.

A second biais would be towards small and mid cap in the US, which is a trend which started in 2021.

Tactical Allocation

An important element of our portfolio is composed of what we label tactical plays, which could be investments in specific sectors, currencies, commodities or volatility. The obvious investments are into companies that lead the growing disruptions into industries. We prefer investing through ETFs rather than directly into stocks. The likelihood of a boom or bust occurrence in these companies at the

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edge of technology is important. ETFs spread the risk and allow to rely on analysts who study these narrow sectors to avoid the pitfalls of high-risk investments.

- Green Energy
- E-commerce
- Artificial Intelligence

These three sectors have been on our light for over a year now with incredible returns for 2020 (between 117% on and 200% on green energy). We would like to add three more FinTech, HealthTech and 5G.
We will dive into specifics in our next weekly market report on all 6 tactical investments.

Fixed Income Allocation

Here the environment seems a bit clearer. It is undoubtful that the Fed will focus on inflation. It will pursue it easy monetary policy well into 2022. Labor or real estate won't not be contributing factors to inflation. Inflation might come from a weaker dollar and higher commodity prices. Emerging market investment-grade dollar denominated debt should offer yield spreads of 267 bps. over Treasuries. One caveat is still the need to hold Treasuries to hedge any over-weighting of equities. Although these two asset classes are correlated in case of a major equity pull-back negative correlation occurs and is an important component in reducing volatility.

Summary

In conclusion we recommend to stay overweight equities will a bias towards International Equities (Europe, Asia and Emerging Markets). For US equities we recommend Mid and Small Caps and do not recommend cyclicals yet. We maintain having a portion in US Treasuries for the sake of hedging the equity portion while seeking yield in US dollar emerging markets. Finally maintain positions in long tactical plays such as Clean-Energy, E-Commerce, AI and add FinTech, HealthTech and 5G.

WE PORTFOLIOS	CONSERVATIVE	BALAN
CASH	**5**	
FIXED INCOME	**70**	
US GOVT	15	
US IG	10	
US HY	25	
EM $	20	
EQUITY	**10**	
US Large Cap	2	
US Mid Cap	2	
US Small Cap	1	
Inl. Equities	3	
EM Equities	2	
TACTICAL	**15**	
PORTFOLIO	**100**	