PERSPECTIVES THAT DRIVE ENTERPRISE SUCCESS

1<sup>st</sup> QUARTER 2021 Investment Landscape Webinar

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### Call instructions



### $1^{st}$ quarter conference call



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### **IMPORTANT INFORMATION**

Dial in:	1 (877) 309-2074 U.S. & Canada
Access Code:	844-142-644
Playback info:	Will be available on the website after the call <u>www.verusinvestments.com</u>
Audio options:	You may choose to listen through the webcast on your computer <b>or</b> dial in.
Introduction by:	Jeffrey MacLean, Chief Executive Officer
Presented by:	Ian Toner, CFA, Chief Investment Officer



Jeffrey J. MacLean Chief Executive Officer



lan Toner, CFA Chief Investment Officer

### 4<sup>th</sup> quarter summary

#### THE ECONOMIC CLIMATE

- Real GDP grew at a -2.8% rate year-over-year in the third quarter (+33.4% quarterly annualized rate) as the U.S. economy recovered much of the economic activity lost in the second quarter.
- Joe Biden was elected President of the United States. The market seemed to interpret a Biden win as a mild positive for risk assets, on the expectation of larger economic stimulus. Democrats also took both seats in the Georgia run-off election, completing the party's "Blue Wave".
- Several new, more-infectious strains of COVID-19 emerged and spread around the world, though experts remain confident in the efficacy of the currently-approved arsenal of vaccines.

### PORTFOLIO IMPACTS

- Emerging market equities (+19.7%) outperformed U.S. (+12.1%) and international developed equities (+16.0%) once again in Q4. Latin American equities showed significant outperformance (+34.8%), after years of lagging behind other emerging markets.
- The U.S. 10-year TIPS breakeven inflation rate headed notably higher over the quarter, from 1.6% in September to 2.0% in December. Although U.S. inflation is lower than pre-pandemic levels, market pricing for inflation is the highest since 2018.

### THE INVESTMENT CLIMATE

- Congress passed an omnibus spending bill, including \$900 billion earmarked for COVID-19 relief. Key features of the package included a re-up of the Paycheck Protection Program, \$600 stimulus checks for most individuals, and \$300 per week in additional unemployment benefits over a 10-week period.
- According to FactSet, S&P 500 Q4 earnings are expected to be down -8.8%. This estimate improved from the -12.7% drop expected on September 30th. For full year 2020, analysts are expecting a -13.3% earnings decline.

### ASSET ALLOCATION ISSUES

- U.S. equities delivered +12.1% during the quarter, ending the year at an all-time-high. The S&P 500 was one of the strongest equity markets in 2020, up +18.4% despite an earnings recession and considerable uncertainty.
- Weakness in the U.S. dollar remained a theme in Q4, and the Bloomberg Dollar Spot Index fell to a two and a half year low. Analysts attributed some of the weakness in the US dollar to lower relative real yields in the U.S.
- Within the U.S. market, a sizable rotation occurred in Q4 as certain sectors that had been beaten-down during the pandemic performed strongly. Rising energy prices boosted the Energy sector, while higher interest rates improved the outlook for Financials.

### A more neutral risk positioning may be warranted in the current environment

There seems to be a high degree of uncertainty regarding the future market path

4



### What drove the market in Q4?

#### "The Mass Distribution of Covid-19 Vaccines Is Under Way. 'Everything Has to Come Together."

#### **COVID-19 U.S. HOSPITALIZATION RATE**

7/25	8/29	9/26	10/31	11/28	12/26
7.6%	4.4%	4.1%	8.7%	16.6%	10.4%

Article Source: Wall Street Journal, December 13th, 2020

### "Congress agrees to \$900 billion Covid stimulus deal after months of failed negotiations"

#### U.S. TOTAL PUBLIC DEBT OUTSTANDING (TRILLIONS)

Jul	Aug	Sep	Oct	Nov	Dec
\$26.5	\$26.7	\$26.9	\$27.1	\$27.4	\$27.7

Article Source: CNBC, December 20th, 2020

### "Powell says stock prices are not necessarily high considering the low level of interest rates"

#### TEN-YEAR U.S. REAL YIELD (NOMINAL YIELD MINUS BREAKEVEN INFLATION)

Jul	Aug	Sep	Oct	Nov	Dec
-1.03%	-1.10%	-0.95%	-0.83%	-0.95%	-1.07%

Article Source: CNBC, December 16th, 2020

#### "Dollar's Slump Propels Global Peers Toward Multi-Year Peaks"

#### **BLOOMBERG DOLLAR SPOT INDEX**

Jul	Aug	Sep	Oct	Nov	Dec
1179	1161	1177	1172	1145	1120

Article Source: Bloomberg, November 29th, 2020

#### **GLOBAL VACCINATION CAMPAIGN**



Source: Bloomberg, as of 1/13/21, or most recent release

#### MOST RECENT FISCAL STIMULUS PACKAGE ALLOCATIONS (BILLIONS)



Source: U.S. House of Representatives, as of 12/21/20

#### S&P 500 INDEX





### COVID-19 update



#### SEVEN-DAY AVERAGE DAILY CASE GROWTH - EUROPE AND THE U.K.

#### SEVEN-DAY AVERAGE DAILY DEATHS PER 100,000 IN POPULATION



Source: Bloomberg, as of 1/14/21



6

### Global vaccination campaign

CUMULATIVE VACCINE DOSES ADMINISTERED PER 100 (LOG-SCALE)



#### CUMULATIVE VACCINE DOSES ADMINISTERED PER 100 (LINEAR-SCALE)

Source: Our World in Data, as of 1/21/21 – or most recent release



### U.S. economics summary

	Most Recent	12 Months Prior
GDP (YoY)	(2.8%) 9/30/20	<b>2.1%</b> 9/30/19
Inflation (CPI YoY, Core)	<b>1.6%</b> 12/31/20	<b>2.3%</b> 12/31/19
Expected Inflation (5yr-5yr forward)	<b>2.0%</b> 12/31/20	<b>1.8%</b> 12/31/19
Fed Funds Target Range	0% – 0.25% 12/31/20	1.50% – 1.75% 12/31/19
10-Year Rate	<b>0.9%</b> 12/31/20	<b>1.9%</b> 12/31/19
U-3 Unemployment	<b>6.7%</b> 12/31/20	<b>3.5%</b> 12/31/19
U-6 Unemployment	<b>11.7%</b> 12/31/20	<b>6.7%</b> 12/31/19

Source: Bloomberg



8

### U.S. GDP

U.S. REAL GDP GROWTH (YOY)



### **U.S. GDP GROWTH ATTRIBUTION**



Source: BEA, annualized quarterly rate, as of 9/30/20

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9

### Inflation



#### **BREAKEVEN INFLATION RATES**



Source: Bloomberg, as of 12/31/20



### Labor market

### **U.S. UNEMPLOYMENT**



#### LABOR PARTICIPATION RATE



Source: FRED, as 12/31/20

*Source: FRED, as of 12/31/20* 



### The employment recovery has stalled...

### 0% Unemployment rate less peak employment rate -2% -4% -6% -8% -10% -12% 0 10 20 30 40 50 60 70 80 90 100 110 Months after peak employment - 1948 ----- 1953 ----- 1957 ----- 1960 ----- 1969 -- 1974 ----- 1980 <u>1990</u> 2001 <u>2007</u> ----- 2020

**HISTORICAL U-3 UNEMPLOYMENT RATE RECOVERIES** 

#### NONFARM PAYROLL GROWTH BY SECTOR



*Source: FRED, as of 12/31/20* 

Source: BLS, as 12/31/20

### U.S. consumer

#### **REAL RETAIL SALES GROWTH (YOY)**



#### **GOOGLE U.S. ACTIVITY TRACKER**



Source: Google anonymized U.S. citizen mobility, as of 12/31/20



### U.S. sentiment

### **CONSUMER SENTIMENT**



#### SMALL BUSINESS OPTIMISM



Source: NFIB, as of 12/31/20



Source: University of Michigan, as 12/31/20

### U.S. housing

### U.S. HOME SALES (YOY)



### **30-YEAR FIXED MORTGAGE RATE (AVERAGE)**



*Source: FRED, as of 12/31/20* 

Source: FRED, as 11/30/20

### International economics summary

Area	GDP (Real, YoY)	(CPI, YoY)	Unemployment
United States	<b>(2.8%)</b> 9/30/20	<b>1.4%</b> <i>12/31/20</i>	<b>6.7%</b> <i>12/31/20</i>
Eurozone	<b>(4.3%)</b> 9/30/20	<b>(0.3%)</b> 12/31/20	<b>8.3%</b> 11/30/20
Japan	<b>(5.7%)</b> 9/30/20	(1.3%) 12/31/20	<b>2.8%</b> 11/30/20
BRICS Nations	1.9% 9/30/20	1.5% 12/31/20	<b>5.1%</b> <i>12/31/20</i>
Brazil	(3.9%) 9/30/20	<b>4.5%</b> <i>12/31/20</i>	<b>14.3%</b> 10/31/20
Russia	<b>(3.4%)</b> 9/30/20	<b>4.9%</b> <i>12/31/20</i>	<b>6.1%</b> 11/30/20
India	(7.5%) 9/30/20	<b>4.6%</b> <i>12/31/20</i>	<b>9.1%</b> <i>12/31/20</i>
China	<b>2.3%</b> 12/31/20	<b>0.2%</b> 12/31/20	<b>4.2%</b> 12/31/20

Inflation

GDD

#### **REAL GDP GROWTH (YOY)**



Source: Bloomberg

Source: Bloomberg, as of 9/30/20 or most recent release

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### Interest rate environment

Area	Short Term (3M)	10-Year
United States	0.06%	0.91%
Germany	(0.83%)	(0.57%)
France	(0.77%)	(0.34%)
Spain	(0.83%)	0.04%
Italy	(0.65%)	0.54%
Greece	(0.38%)	0.62%
U.K.	(0.06%)	0.20%
Japan	(0.12%)	0.02%
Australia	0.02%	0.97%
China	2.28%	3.14%
Brazil	2.00%	6.91%
Russia	3.54%	6.01%

#### **GLOBAL GOVERNMENT YIELD CURVES**



Source: Bloomberg, as of 12/31/20



### Yield environment





Source: Bloomberg, as of 12/31/20



### Credit environment

**SPREADS** 



Source: Barclays, E	Bloomberg, as	of 12/31/20
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	Credit Spread (OAS)			
Market	12/31/20	12/31/19		
Long U.S. Corp	1.4%	1.4%		
U.S. Inv Grade Corp	1.0%	0.9%		
U.S. High Yield	3.6%	3.7%		
U.S. Bank Loans*	4.6%	4.4%		
Source: Barclays, Credit Suisse, Bloomberg, as of 12/31/20				

\*Discount margin (4-year life)



### Default & issuance

### HY DEFAULT RATE (ROLLING 1-YEAR)



Source: BofA Merrill Lynch, as of 12/31/20 – par weighted

**U.S. HY SECTOR DEFAULTS (LAST 12 MONTHS)** 



### Equity environment

	QTD TOTAL RETURN		RETURN 1 YEAR TOTAL RETURN	
	(unhedged)	(hedged)	(unhedged)	(hedged)
US Large Cap (S&P 500)	12.	1%	18	.4%
US Small Cap (Russell 2000)	31.	4%	20	.0%
US Large Value (Russell 1000 Value)	16.3%		2.	8%
US Large Growth (Russell 1000 Growth)	11.4%		38.5%	
International Large (MSCI EAFE)	16.0%	11.9%	7.8%	2.5%
Eurozone (Euro Stoxx 50)	16.2%	12.2%	5.5%	(1.2%)
U.K. (FTSE 100)	17.2%	11.4%	(8.9%)	(10.2%)
Japan (NIKKEI 225)	21.1%	18.8%	24.2%	19.4%
Emerging Markets (MSCI Emerging Markets)	19.7%	16.0%	18.3%	19.6%

Source: Russell Investments, MSCI, STOXX, FTSE, Nikkei, as of 12/31/20



## Domestic equity

#### S&P 500 PRICE INDEX



### **Q4 SECTOR PERFORMANCE**



Source: Standard & Poor's, as of 12/31/20

Source: Standard & Poor's, as of 12/31/20



### Domestic equity size & style

### SMALL CAP VS LARGE CAP (YOY)



### VALUE VS GROWTH (YOY)



Source: FTSE, as of 12/31/20

Source: FTSE, as of 12/31/20



### Factor portfolios in 2020

### **Q4 2020 PERFORMANCE**



Source: J.P. Morgan, as of 12/31/20; Equity Factor Composite represents the performance of a 10-factor model designed as a simple proxy for quant performance. The factors are combined so that the long and short portfolios contain the most- and least-attractive quant stocks.



Oct-20

Dec-20

CUMULATIVE RETURN (INDEXED 12/31/19=100%)

## Global equity

### INTERNATIONAL DEVELOPED EQUITY



### **EFFECT OF CURRENCY (1-YEAR ROLLING)**



*Source: MSCI, as of 12/31/20* 

Source: MSCI, as of 12/31/20



## Equity valuations

FORWARD P/E RATIOS



#### **BLENDED 12-MONTH EARNINGS EXPECTATIONS**



Source: Bloomberg, as of 12/31/20



Source: MSCI, 12m forward P/E, as of 12/31/20

## Equity volatility

### U.S. IMPLIED VOLATILITY (VIX)



#### **1-MONTH U.S. IMPLIED VOLATILITY CURVE**



Source: Bloomberg, as of 12/31/20





### **BLOOMBERG DOLLAR SPOT INDEX**



#### USD/CNY CROSS RATE



Source: Bloomberg, as of 12/31/20



Source: Bloomberg, as of 12/31/20

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### 4 Microphone Array (Realtek High... Use the orange arrow to expand the control panel **(**()) Speakers / Headphones (Realtek... Talking: Verus presenter Questions Thank you for joining us for our quarterly Investment Landscape Call. Stay tuned, the call will begin shortly. Ask questions here [Enter a question for staff] Questions Verus Quarterly Investment Landscape This session is being recorded.

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# Thank you

