CI ASSANTE WEALTH MANAGEMENT | Portfolio Construction

Changing Tides

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Alfred Lam, CFA, Senior Vice-President and Chief Investment Officer
Marchello Holditch, CFA, CAIA, Vice-President and Portfolio Manager
CI Multi-Asset Management

Closing out 2020

Last month, global equity markets surged as news around COVID-19 vaccine candidates gave investors hope that an economic recovery was plausible. Regionally, developed international equities provided the strongest returns, while beaten down sectors (real estate, energy and financials) and styles (value) came back into favour. In the U.S., Joe Biden was pronounced president-elect after a week of vote counting. However, Democrats fell short of the much anticipated "blue sweep" as Republicans held the Senate. Our portfolios delivered strong performance in November as overweight exposure to equities and credit contributed to performance.

As the new year approaches, hospitals are under increased strain, leading some governments to impose tighter restrictions on activity. This is contributing to pockets of weakness in economic data, particularly in the service sector. Despite these short-term concerns, our outlook for 2021 remains bullish as vaccine deployments, accommodative monetary and fiscal policy, and upbeat corporate earnings expectations continue to drive markets higher.

What lies ahead for the markets

In our view, what will be different next year is which areas of the market drive returns. The spring and summer rallies were spurred by "stay-at-home" sectors, hence the strength of the tech-heavy, large-cap, U.S. equity market. Winners next year are likely to be "reopening" areas of the market. Even with their recent strength, valuation differences remain at extremes, suggesting we are still in the early innings of a rotation.

Our portfolio positioning strategy

Within our portfolios we continue to trim fixed income and add to equites. While short-term interest rates remain low for the foreseeable future, long-term interest rates will likely trend higher over the next year. As a result, we have trimmed longer duration government bonds and added to corporate bonds. We expect lower default rates and an improving economy will lead to healthy returns from investment-grade and high-yield bonds next year. We believe there is a risk that low interest rates and cash on the sidelines, as reflected in the high savings rates, will lead to accelerated spending and consumer price growth.

Looking at equities, we have been adding to "reopening" areas of the market. From a regional perspective, we are focused on Canada and Europe, markets that have more exposure to cyclically sensitive sectors such as energy and financials. We have also been favouring smaller companies over larger ones. Smaller companies are less expensive, and we expect they will have higher earnings growth potential in 2021. In summary, globally synchronized expansion will help revitalize "reopening" sectors and provide a positive backdrop for our portfolios.

We would like to thank our investors for their continued support over the year and wish everyone a safe and happy holiday.

Combined top 15 equity holdings as of November 30, 2020 of the Evolution 40i60e Standard portfolio with Alpha-style exposure:

1. Microsoft Corp.
2. Amazon.com, Inc.
3. Alphabet Inc.
4. Brookfield Asset Management Inc.
5. Alimentation Couche-Tard Inc.
6. CGI Inc.
7. Royal Bank of Canada
8. Visa Inc.
9. Booking Holdings Inc.
10. Canadian Tire Corporation Ltd.
11. Fortis Inc.
12. Apple Inc.
13. Franco-Nevada Corp.
14. Tencent Holdings Ltd.
15. Empire Company Ltd.

Source: Bloomberg Finance L.P. and CI Multi-Asset Management as at December 11, 2020.

For more information, we encourage you to speak to your advisor or visit us at assante.com