



ASSANTE
WEALTH MANAGEMENT

The Playbook

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Alfred Lam, MBA, CFA

Senior Vice-President & Chief Investment Officer
CI Multi-Asset Management

Richard J. Wylie, MA, CFA

Vice-President, Investment Strategy
Assante Wealth Management

Toshi K. Okada, B.MOS

Analyst, Investment Strategy
Assante Wealth Management

NIKKEI CLIMBS TO 30-YEAR HIGH



* Source: Commodity Systems Inc.

MARKET FOCUS

Nikkei finally moves towards a new all-time high

Like virtually all the world's other major equity indexes, Japan's Nikkei 225 fell dramatically during the onset of the COVID-19 pandemic. It recorded a 31.3% decline between January 20 to March 19, 2020. Like other market, it subsequently rebounded and posted a "recovery" on November 5. However, this market was different from

most others in that it was not declining from an all-time high in early 2020. In fact, this index has stood apart for decades, as the most recent all-time high was entered into the books on December 29, 1989 (closing at 38,915.9). This peak came amid an asset-pricing bubble that saw rapid credit expansion, rampant real estate speculation and deeply intertwined ownership of many major financial players. The various bull markets that have emerged over



the intervening decades failed to lift the index to its previous high. Nevertheless, this may be on the verge of changing. On January 14, 2021, the Nikkei closed at 28,683.9, its highest level since August 3, 1990 and a 306.8% gain from the March 10, 2009 financial crisis low (7,055.0). Finally closing the gap still requires a further 35.6% advance in order to establish a new all-time high. However, extremely low interest and inflation rates, which were the purview of Japan alone, now appear to be widely entrenched in other economies. As the world looks to the expansion of vaccine availability, further economic stimulus and improvement in global trade relations, the prospects for the Japanese economy remain positive.

North American job recovery stalls

The U.S. Bureau of Labor Statistics reported that non-farm payroll employment fell by 140,000 during December. According to the Bureau “the decline in payroll employment reflects the recent increase in coronavirus (COVID-19) cases and efforts to contain the pandemic.” The decline came on the heels of seven consecutive monthly gains that totalled 12,461,000. At the close of 2020, payrolls were 9,839,000 below the cyclical peak in February 2020. Similarly, Statistics Canada announced that 62,600 jobs were lost in December, entirely reversing the November gain (62,100). The losses reported were also the first decline, following seven consecutive monthly gains. With the December reversal, domestic employment levels are 636,400 below February 2020’s cyclical peak. Looking forward, Statistics Canada stated “Additional public health measures implemented in many provinces after the December Labour Force Survey reference week (December 6 to 12) are likely to be reflected in January Labour Force Survey results.”

Brent breaks higher

Brent crude oil moved closer to recovering its pandemic-related losses, as global demand pushed prices through technical resistance at US\$56 on January 8, 2021. This was its strongest level since February 25, 2020, before the coronavirus forced nations across the globe into economic lockdowns and decimated global oil consumption. The recent price gains extend the months-long rebound from the 18-year low of US\$19.33 seen on April 21, 2020. The ongoing rally from these lows reflects continued optimism that the widespread use of COVID-19 vaccines will allow a resurgence in global economic activity that will translate into energy demand, which approaches previous levels. It remains to be seen if the anticipated recovery will be sufficiently vigorous to support this level of pricing.

LONGER VIEW

Markets are searching for any certainty around the potential fallout from the spread of COVID-19. With economic activity shut down around the globe, central banks and governments are doing “whatever it takes” to keep the economic system functioning. Central banks have responded by cutting interest rates, creating programs to keep credit flowing and increasing the size of their asset purchasing programs, which effectively means printing money to buy assets. On the fiscal side, governments are expected to provide “helicopter money” to individuals who have been forced out of work. While we are not sure of the exact timeline, we are confident that this period of stress will eventually pass and investors with long-term horizons have an excellent opportunity to purchase stocks at bargain prices.



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