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The economic outlook: What to expect in the year ahead

In this issue of *Advice Matters*, we'll examine the economic and financial outlook for the year ahead. But first, let's take a quick look back for some added perspective on 2020.

Myles Zyblock
Chief Investment Strategist, Scotiabank

THE YEAR IN REVIEW

With each passing year, it seems like we are met by some sort of surprise. But nothing, at least in our experience, holds a candle to the events that unfolded in 2020; not the Asian currency crisis, the dot-com collapse of 2000, or even the financial crisis of 2008.

The world was gripped by a ferocious pandemic, the likes of which had not been seen in at least a century. Schools were closed, stores were shut, and travel came to a complete standstill. Our lives were turned upside down in a matter of weeks.

The waves from this shock led to some of the steepest declines ever recorded in credit, equity, and commodity markets. Asset price volatility surged to a level not seen since the 1930s Great Depression. For a brief period, oil prices turned negative for the first time ever, as demand dried up and oil producers actually paid buyers to take the commodity off their hands.

Policymakers responded to this crisis in the only way that they knew how: to flood the system with stimulus. Tax cuts, lending support and income supplements were just a few of the many tools governments used to offset the collapse in private sector incomes. Central banks threw in their support by slashing interest rates and buying up troubled assets, legacies of the last financial crisis, in order to help stabilize the economic and financial system.

What then followed was a stunning reversal of fortune. Prices skyrocketed from their late-March lows and, by August, both equities and credit had moved back into positive territory for the year. The initial surge higher was in response to hope, that the mountains of policy stimulus would stabilize the economy. We quickly learned how to work, shop and communicate better from home. This helped the thawing process and added to investment optimism.

Yet many industries such as airlines, commercial real estate, hotels, resorts, entertainment and energy are still behaving as if the world economy is a long way from anything which resembles normal. The virus is spreading again across the U.S. With hospitals filling up and mortality on the rise, it feels like this situation is far from being resolved.

The interaction between the virus and the economy are at the heart of this unfolding story. Buckle up. The next several quarters have all the makings for a fascinating ride.

ECONOMIC CRACKS RESURFACING

The most recent surge in virus caseloads, particularly across Europe and the U.S., is likely to weigh on economic activity over the next few months. Growing concerns about the spread will encourage individuals to remain indoors or to reduce unnecessary travel and interaction. The impact of government-imposed restrictions will also play a role in the slowdown.

It is too soon to say, but it would be very surprising if some sort of slowdown was entirely avoided. Many economic indicators clearly point to slower growth ahead in Europe. Similar data suggests that the U.S. has lost momentum in some sectors of the economy, but not enough at this stage to alter our view of its ongoing recovery.

Keep in mind that we are about one year into this pandemic and have learned many new ways of doing things. These adaptive behaviors should be able to take a lot of the sting out of this recent wave of viral spread. Government support that is now in place, and more which seems likely to follow, in both Canada and the U.S., will also help to stabilize global economic growth. Most importantly, we have promising new vaccines which will play a primary role in shaping the economic and financial market environment as the calendar turns to 2021.

SHOTS HEARD 'ROUND THE WORLD

Vaccine development is a highly complex process. It involves several stages which include preclinical and technology development, phased trials, and licensing. We are naïve about this subject matter. But, the level of complexity is evidenced by the fact that it has usually taken 10 to 15 years for a vaccine to be developed. And in some cases, like AIDS, we are still waiting for a vaccine effective enough to be licensed.

Yet, three viable coronavirus vaccines appeared on the world stage over the course of November. Phase III trial data showed high efficacy estimates in reducing symptomatic cases for Pfizer-BioNTech Moderna. This places the coronavirus vaccine breakthrough in a league of its own; a complete testament to human ingenuity and innovation when enough smart people focus on a single problem.

Governments are now closely working with the vaccine producers to ensure that everybody who wants a vaccine will be able to get one. In Canada and the U.S., the initial vaccine rollout has begun on a small scale, with high-risk health workers, first responders and the elderly receiving the initial vaccination shots. U.S. health authorities say that they expect significant impact on the dynamics of the outbreak as early as the second or third quarter, while Canadian officials hope to have the large majority of Canadians vaccinated by the end of 2021.

There are concerns about the ability of the health authorities to get the doses to the people who need it most, tracking the doses, making sure the vaccine doesn't expire before the end of its useful life, and following how people are doing in cases of "breakthrough" infection. In America, many of the distributional considerations have been left to the individual states which risks ad hoc or messy decision making. But, let's not lose sight of the forest for the trees: inoculation against COVID-19 is now within reach.

THE RECOVERY'S NEXT IMPORTANT PHASE

The world economy has rebounded following its historic second-quarter collapse, when Gross Domestic Product (GDP) growth for the major G7 countries dropped by an astonishing 36% annualized. Activity has vaulted higher with help from forceful government stimulus packages and innovative labour force and supply chain adjustments. It's not hard to see how much worse this economic downturn might have been without the flexibility provided by various technology-based products and services. In fact, we might still be in a very deep freeze.

Aside from some economic speed bumps, the inoculation programs that have just begun should open the door to greater mobility, confidence and the long-awaited shift back to normalcy. It is hard to know exactly what this new normal will look like. It is unlikely to look the same as our pre-pandemic past. Regardless, life for many will most likely improve over the coming year.

The private sector has built up enough savings, with ample spare capacity, to suggest that the current expansion could be sustained for several years into the future. Governments are likely to only slowly withdraw stimulus after they have the confidence that corporate profits are in a solid uptrend and much of the damage inflicted on the labour market has been corrected.

For central banks, this might mean that we will not see any interest-rate increases for at least the next one to two years. And, subsequent fiscal stimulus packages, while smaller, will most likely be present far into 2021.

After falling by close to 4% in 2020, the economics community expects global GDP growth to bounce back to around 5% in 2021. We have no real disagreement with these views, thinking that most economies will post solid growth, with the Emerging Markets leading the way. GDP for both Canada and the U.S. will probably finish 2021 about 4% higher. In our opinion, the economic recovery is going to transition, with immense help from medical technology, towards a more self-sustaining phase during the next year.

Words from the wise

With 2020 behind us, we reached out to three of our portfolio managers to get their perspective on how the pandemic has impacted investing, what to expect in 2021 and investment advice.

WHAT DO YOU SEE AS THE BIGGEST IMPACT OF THE PANDEMIC ON INVESTING?

Judith Chan
Director
Portfolio Solutions Scotiabank

The pandemic has altered us in many ways, however, the principles of investing haven't changed. Our investment process – which includes our ongoing assessment of the macroeconomic environment and constant analysis of the competitiveness and fundamentals of the companies that we invest in – remains the same.

As a result of the pandemic, governments are increasingly indebted, central banks are more accommodative, interest rates are even lower, while stock valuations are at record highs. With this backdrop, it's vital to remember that investing broadly across the market isn't likely to net the same results as it has in prior periods. Being selective, while maintaining a diversified portfolio, will be increasingly important going forward.

The new economy continues to grow at the expense of the traditional brick-and-mortar economy, and COVID-19 has only accelerated this trend.

The competitive landscape of many industries and companies have changed due to the pandemic, in addition to consumer behaviour changes, which has led to clear winners and losers. As we come out on the other side, we're likely to see a different balance or co-existence between the old and new. It will be crucial to assess and select the companies that have the competitive profile to bounce back or continue to thrive in the recovery, while avoiding those that will likely continue to struggle. As prudent investors, we are also acutely aware of lofty valuations and are careful not to overpay for a company's growth potential.

HOW DO YOU SEE 2021 SHAPING UP?

Don Simpson
Vice President & Portfolio Manager
1832 Asset Management L.P.

Despite all the uncertainty, we are cautiously optimistic about the future. We believe that the prospects of a COVID-19 vaccine will allow for a global economic recovery in 2021 and beyond. As we slowly transition to a more normalized economy, one thing is obvious: there will be winners and there will be losers. This means that individual security selection will become even more important. We don't have a crystal ball, so we choose to be conservative with our investments. Therefore, we invest in high-quality companies with real business models, resilient balance sheets and proven management teams. We realize that there will likely be volatility, so we encourage clients to tune out the market noise and focus on the long term. We firmly believe that good investing should be boring; and after such an eventful year, we think you might agree.

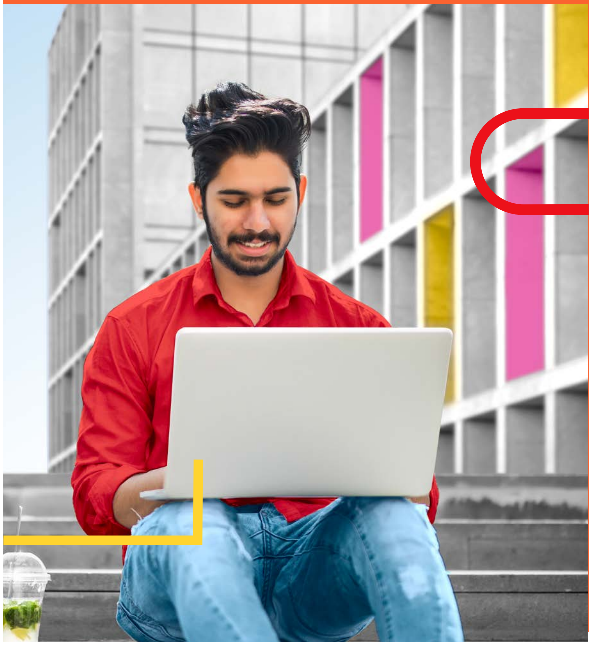
WHAT IS THE BEST INVESTMENT ADVICE YOU'VE EVER RECEIVED OR WOULD GIVE?

Derek Amery
Vice President & Senior Portfolio Manager
1832 Asset Management L.P.

Investment advice is often a lot like parenting advice – everyone has an opinion on what to do, what not to do, and usually what you're doing wrong. One of my favourite pieces of advice is based on the premise of "never leave free money on the table." Despite the old adage that nothing comes for free, many companies offer to match employee contributions to their retirement plans (up to a certain limit). So by contributing up to the threshold into your retirement plan every year, you maximize the amount of "free money" your employer will contribute to your future. Failing to do so leaves that money on the table and means you aren't getting all the benefits you're entitled to. I like this piece of advice because it really has nothing to do with investing, or the markets, stock or bonds. It's just plain, simple logic – no opinions necessary. Similarly, another piece of wisdom I like is to invest early and regularly.

Our top advice picks for 2021

As we move into 2021, we've compiled some of our favourite financial advice from the past year. We hope you consider these financial tips to help you make the most of the coming year and beyond.



1. CHART YOUR FINANCIAL FUTURE

A **financial plan** provides you with a complete picture of your finances – it not only encompasses longer-term goals, such as retirement planning, but also includes shorter-term goals, such as saving for a car or a home. A sound financial plan focuses on your current needs and future goals, and puts strategies in place to help you achieve them. Focusing on your goals may help you to feel less uneasy during times of economic uncertainty.

Once you have a financial plan in place, it's also important to revisit your plan regularly to confirm that you are still on track to meet your goals, or if adjustments should be made.

A Scotiabank advisor can help you create a financial plan that's right for you.

2. KEEP AN EYE ON YOUR FINANCES

By creating a budget to keep track of your income and expenses, you'll have greater control of your finances as you'll know where your money is going. If you're in a relationship, ensure you are both on the same page with regards to shared expenses.

An integral part of the budgeting process is gaining a solid understanding of all your expenses. Start by dividing them into two categories – discretionary and non-discretionary. This is an important step in achieving short-term priorities like paying monthly bills, and longer-term goals like buying a car or a home. Review your expenses and remove or reduce any discretionary or non-essential costs. Focus on budgeting for the non-discretionary costs that are "needs," such as mortgage payments, rent, hydro, etc. Reassess your budget at least annually and prioritize your spending.

To help you get started, visit **scotiabank.com/moneyfindercalculator** and try the **Scotiabank Money Finder calculator**. It will help you determine if you have additional funds available to put towards your financial goals by comparing your income to your expenses.

3. SAVE FOR THE GOOD TIMES AND THE BAD

You work hard for your money and deserve to enjoy the fruits of your labour. You may have your sights set on a home renovation, vintage furniture, a walk-in closet or a dream car. These things are within your grasp … if you save on a regular basis.

Unexpected expenses are inevitable, so an emergency fund should be part of your budget. If you set aside small amounts every pay period, you won't need to access your savings or borrow from your credit card if something does arise, like a major car repair. A rule of thumb is to save the equivalent of three to six months of living expenses to get you through a financial setback or job loss.

If you haven't been saving and want to start, or your savings aren't quite where you want them to be, review your discretionary – i.e., non-essential – expenses and start cutting or reducing those costs to fund that cash reserve. If money is tight right now, try and start as soon as your family budget allows.

Make it easy on yourself by scheduling automatic deposits to your emergency fund through **Pre-Authorized Contributions**. Visit **scotiabank.com/preauthorizedcontributions** to learn more about PACs.

4. PAY YOURSELF FIRST

If you're looking for a convenient and flexible way to build up your savings for short and long-term goals, you may want to consider **Pre-Authorized Contributions (PACs)**.

With a PAC, you simply choose the amount you want to contribute and the frequency – for instance, weekly, biweekly or monthly. Even small amounts saved regularly can add up over time. Check out the article on page 16, *Investing automatically makes saving easier,* to learn more about the benefits of a PAC.

To see how quickly your savings can grow, visit scotiabank.com/preauthorized contributions and try out our **interactive PAC video**.

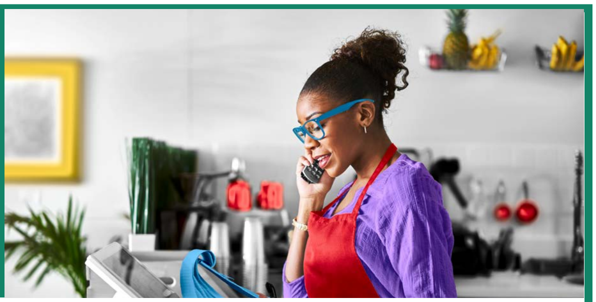
5. PREPARE FOR THE UNEXPECTED

COVID-19 has us all re-evaluating our current situation to ensure our families are protected in the event of an emergency. A sudden illness, disability or loss of life can put a substantial strain on a families' finances. Making regular payments towards a mortgage, credit card, loan or line of credit may become difficult.

Scotia Creditor Insurance is *optional* protection that can help pay off your debt or cover your monthly payments in the case of loss of life, certain, specified critical illnesses, disability, job loss or a strike or lockout. To learn about the comprehensive range of affordable creditor insurance protection products available, speak with a Scotiabank advisor or visit scotiabank.com/insurance.

It's also important to take the time to review your estate plan and ensure your Wills and Powers of Attorney are up to date and reflect your wishes. Remember the importance of life insurance; review your policy to ensure it's appropriate for you and your family, and your current needs.

ADVICE FOR GETTING THROUGH MARKET UPS AND DOWNS



Market volatility can be unsettling for even the most knowledgeable investor and could lead to impulsive investment decisions that may not align with your long-term financial goals.

Here are some fundamental principles to help you get through periods of increased market fluctuations.

- **Remain Calm.** It's easy to let your emotions get the better of you during stressful times – investing is no different. Sitting on the sidelines or selling for the temporary relief of cash might cost you more in the long run.
- **Stay Diversified.** Diversification is essential during periods of market stress. While by no means immune to market downturns, a well-diversified, professionally managed portfolio may experience less volatility in turbulent markets.
- **Be Patient.** There's always uncertainty when investing in the markets, but market downturns don't last forever. While it could take some time, markets should recover, rewarding patient investors.
- **Stick to the Plan.** Downturns come and go. A financial plan can provide the discipline to ride out the short-term uncertainty. By recognizing short-term market uncertainty for what it is, you can help ensure that it doesn't derail your long-term investment success.

Focus on the things you can control, such as maintaining a long-term view, staying diversified and working with a Scotiabank advisor to determine the best course of action to help you stay on track to meet your financial goals. If you don't have a financial plan in place, contact a Scotiabank advisor today to develop a plan that makes sense for you.

Getting started on saving and investing: A brief how-to guide

As you set out on your journey to begin saving and investing to meet your financial goals, you'll need to determine which products and/or investment strategies are right for you and your financial situation.

To determine the most appropriate savings and investing options, begin by asking yourself these three key questions:

- What are you saving or investing for?
- What is your time horizon to reach your goal?
- What is your risk tolerance?

DID YOU KNOW?

An RRSP and TFSA are investment vehicles, while GICs and mutual funds are investment products you hold within these vehicles.

The following is a brief, high-level guide to get you started on choosing which investment options align with your goals and timelines:

	TIME HORIZON	EXAMPLE OF FINANCIAL GOAL	RECOMMENDED OPTIONS
Short-term goal	Less than 3 years	• Contributing to an emergency fund • Saving for a car • Saving for a vacation	• Savings accounts • Short-term Guaranteed Investment Certificates (GICs) • Cashable savings bonds
Medium-term goal	3 to 5 years	• Saving for a down payment on a house • Saving for a major home renovation	• GICs • Tax-Free Savings Account (TFSA) • Mutual Funds
Long-term goal	5+ years	• Contributing to a retirement nest egg • Funding your children's education • Saving for a cottage or investment property	• Registered Retirement Savings Plan (RRSP) • Tax-Free Savings Account (TFSA) • Mutual Funds • Registered Education Savings Plan (RESP) • Long-term GICs

YOUR RISK TOLERANCE – A KEY FACTOR IN DETERMINING HOW YOU'LL INVEST YOUR MONEY

Your risk tolerance, or risk appetite, is the amount of risk you're willing to accept when investing and your financial ability to handle loss. Having a clear understanding of your risk tolerance will help you determine which investments are appropriate and which to avoid.

Many investments offer the potential for a higher rate of return but also involve some level of risk. More risk may be acceptable if your financial goal is longer term, which will allow for more time to recover any financial losses.

Your Scotiabank advisor can help assess your risk tolerance and build an investment plan tailored to address your unique needs and comfort level.

BASICS OF SAVING AND INVESTING OFFERINGS – FREQUENTLY ASKED QUESTIONS

High-Interest Savings Accounts (HISAs) vs. Guaranteed Investment Certificates (GICs)

What are they?

HISAs usually earn more than a typical savings account, helping you increase your savings over time. How much interest you earn depends on the financial institution, but typically, the higher your balance or the longer you keep your money in the account, the more interest you can earn.

GICs work similarly to savings accounts, as you can earn interest on your funds **without the risk of losing your original principal investment**. However, unlike many savings accounts, GICs are not meant to be touched for a set amount of time. GIC terms range from 30 days to 10 years, so you can choose the option that works best for your investment goals. GICs usually require a minimum deposit between $500 and $1,000.

How much do I have to invest?

If you have a **large sum of money to inves**t, a GIC will usually help you earn a better interest rate than a savings account. However, it's important to keep in mind that there are penalties for early withdrawal, so you have to be certain that the money invested in a GIC won't be needed for the entire term of the certificate.

If you want to make **ongoing contributions to your investment**, then a HISA might be the more appropriate option. You can continuously add to your savings as long you hold the account.

Visit scotiabank.com to learn more:

- High Interest Savings Account (HISAs)
- Guaranteed Investment Certificates (GICs)

RRSP vs. TFSA

RRSP and TFSA: What are the main benefits and key differences?

Essentially, both the Registered Retirement Savings Plan (RRSP) and the Tax-Free Savings Account (TFSA) let you shelter your investment returns from taxes.

An **RRSP** is an investment vehicle that helps you grow your retirement savings. One of the main benefits of an RRSP is that **you defer paying taxes on the money you contribute and any investment income earned**, until years later when you withdraw your money in retirement.

A **TFSA** is a relatively new investment vehicle that was introduced in 2009. It can be used to save towards retirement, but also many other goals because, unlike an RRSP, you're free to **withdraw funds at any time without penalties**. The main benefit of a TFSA is that **they are completely tax free**. Since you've already been taxed on the money you put into your TFSA, any income you earn from the investments within your TFSA is tax free, even when withdrawn from the account.

What type of investments can I hold in an RRSP or TFSA?

Generally, the same types of investments are permitted in both. There are a wide variety of options to choose from, including cash, guaranteed investment certificates (GICs), exchange-traded funds (ETFs), mutual funds, stocks and bonds.

Visit **scotiabank.com** to learn more:

- **Registered Retirement Savings Plan (RRSP)**
- **Tax-Free Savings Account (TFSA)**

Mutual Funds

What is a mutual fund?

A mutual fund is a **professionally managed investment** that pools money from different investors to invest in a variety of stocks, bonds, short-term money market instruments or other securities.

Mutual fund investors get the benefit of diversification and having a professional manager reviewing their investment on an ongoing basis. Their investment knowledge can be an invaluable resource, especially for many investors, who simply don't have the time or investment expertise to micro-manage their investments.

Visit **scotiabank.com** to learn more:

- **Scotia Portfolio Solutions**
- **Scotia Aria® Retirement Program**

THE MOST FREQUENTLY HELD INVESTMENT PRODUCTS AMONG INVESTORS[1]

64% **Mutual funds**

41% **Cash deposits** (deposits earning interest)

41% **Fixed income/interest bearing investments** (e.g., bonds, GICs)

40% **Stocks or shares** of companies listed on the stock market

2.2 Average number of investment products held

Source:
[1] Scotiabank, Scotia Global Asset Management Investor Sentiment Research, May 2020.

The various savings and investment choices mentioned have their own unique benefits, and to maximize their effectiveness, your personal circumstances, time horizon and risk tolerance should be considered. A Scotiabank advisor can recommend options and help you choose an investment strategy that works best for you.

Investing automatically makes saving easier

Pre-Authorized Contributions (PACs) are a convenient way to help keep you on track to meet your investing goals.

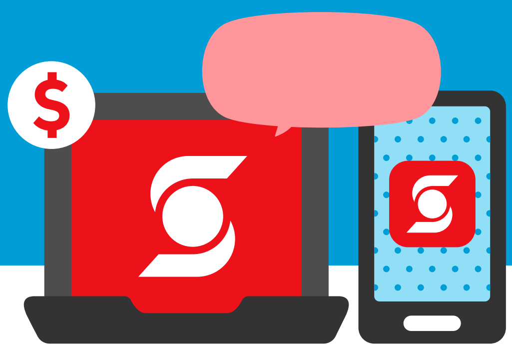
You choose the amount you want to contribute and how often – for example, weekly, biweekly or monthly. You can adjust the amount and frequency at any point in time.

PAC BENEFITS

- **Helps you stick to your plan**
  When it comes to saving, it's sometimes easy to get sidetracked. A PAC allows you to make saving priority number one by ensuring you automatically make contributions.
- **Minimizes scrambling to meet Registered Retirement Savings Plan (RRSP) deadline**
  With a PAC you'll save automatically for your RRSP – all year round – and avoid the stress of meeting the RRSP deadline and making a yearly lump-sum contribution.
- **Eliminates the guesswork of when to invest**
  Research has shown that investing on a regular basis is much more effective than trying to "time the markets"– especially during periods of volatility.
- **Works with almost any budget**
  With a PAC, you determine what you can afford to save. Get started with as little as $25 per month.
- **Takes advantage of potential compound growth**
  Saving over a longer period of time allows your money more time to grow and to benefit from compound growth.

Investing on a regular basis through PACs is a great way to build your savings easily and automatically. Visit scotiabank.com/preauthorized contributions and try out our interactive PAC video. Speak with a Scotiabank advisor to set up a PAC that meets your needs.

Digital banking corner



STAY ON TOP OF YOUR ACCOUNT ACTIVITY WITH INFOALERTS

Wouldn't it be great if you had a trusted individual to monitor your account activity and let you know when important transactions go through – or even provide you with credit card and line of credit payment reminders?

Well, your wish has come true.

With Scotia **InfoAlerts**, you'll instantly get an email or text when important account activity happens, such as:

- cheques clearing
- changes in your account balance (for example, when you pay a bill, send an e-transfer or use your credit card)
- if you're approaching your credit limit

Flexible and convenient, InfoAlerts can be set up on any of your:

- bank accounts
- credit cards
- lines of credit, or
- business accounts

Make payments on time

With InfoAlerts' timely payment reminders, there's no longer any need to worry about missing a credit card or line of credit payment.

Added safety for your accounts

InfoAlerts can inform you of potential unauthorized activity in your account as you are notified of transactions the moment they're processed.

Visit scotiabank.com/infoalerts to learn how to set up InfoAlerts for online banking and on the mobile app.

Market insights

MARKET RECAP

The development and approval of COVID-19 vaccines suggests a coming end to the pandemic.

In the fourth quarter, several large pharmaceutical companies released positive large-scale clinical test results for COVID-19 vaccines, a few of which were subsequently approved for use in a variety of countries. Clinical trials showed effectiveness of up to 95%, better than had been expected. While there is much work to be done to successfully roll out mass vaccinations, these events suggest what the end of the pandemic may look like, and how we might get there. The vaccination process will occur throughout 2021, but this development sparked optimism among investors.

Another round of U.S. fiscal stimulus is coming.

Congress recently agreed on a stimulus bill, releasing US$900 billion in emergency relief funds. The plan includes stimulus cheques of $600 per person, the extension of Pandemic Unemployment Assistance, Paycheck Protection Program loans, and emergency assistance to renters, in addition to funding for virus testing and vaccine purchases. Investors take this as a positive sign, as substantial fiscal stimulus was a big driver of the economic recovery that has occurred since the severe economic weakness of the spring. Additional fiscal stimulus this year, along with continued accommodative policy from central banks, sets the stage for the expected strong economic rebound in the second half of 2021, and into 2022.

We're seeing continued evidence of a recovering global economy.

In December, China released data showing its economy strengthening. Industrial production rose by 7% in November, year-over-year, and retail sales climbed by 5% in the same period. While the early part of China's economic recovery was driven by government spending, more recent growth has more broadly included consumers. Economists expect China's economy to have expanded by 5.9% in Q4 2020, and 2% overall in 2020. Investors view this as a very positive sign, and a strong Chinese economy will support demand for exports from western economies, supporting global economic growth.

MARKET PERFORMANCE

YTD Total Returns in Canadian (CAD) currency as at December 31, 2020	Q4 Total Returns in Canadian (CAD) currency as at December 31, 2020
8.7% FTSE Canada Universe Bond Index	**0.6%** FTSE Canada Universe Bond Index
5.6% S&P/TSX Composite Index	**9.0%** S&P/TSX Composite Index
16.3% S&P 500 Index	**7.0%** S&P 500 Index
14.5% MSCI World Index	**8.8%** MSCI World Index
16.6% MSCI Emerging Markets Index	**14.2%** MSCI Emerging Markets Index

Source: Morningstar

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January 2021