MACKENZIE
Investments

2021 capital markets year in review

Brent Joyce, CFA
Investment Strategist
Mackenzie Investments

Justin Truong, CFA
Manager, Investment Strategy
Mackenzie Investments

2021 - Market review

Regional Equity Indices	Index Level		2021		2020
	Dec. 31, 2020	Dec. 31, 2021	Price Return	Total Return	Total Return
S&P/TSX	17,433	21,223	21.7%	25.2%	5.6%
S&P/TSX Small Cap	655	774	18.2%	20.3%	12.9%
Dow Jones Industrial	30,606	36,338	18.7%	20.9%	9.7%
S&P 500	3,756	4,766	26.9%	28.7%	18.4%
Russell 2000	1,975	2,245	13.7%	14.8%	19.9%
Nasdaq	12,888	15,645	21.4%	22.2%	45.1%
MSCI All Country World	646	755	16.8%	19.0%	16.9%
MSCI Europe	132	162	22.4%	25.8%	-2.8%
MSCI EAFE	2,148	2,336	8.8%	11.9%	8.4%
MSCI Emerging Markets	1,291	1,232	-4.6%	-2.5%	18.8%

Fixed Income Indices	Index Level		2021	2020
	Dec. 31, 2020	Dec. 31, 2021	Total Return	Total Return
FTSE Can. Universe Bond	1,124	1,221	-2.5%	8.7%
FTSE Can. All Corp. Bond	1,284	1,397	-1.3%	8.7%
Bloomberg Can. High Yield	147	158	5.6%	7.2%

Currencies	Dec. 31, 2020	Dec. 31, 2021	% change
CAD/USD	0.785	0.791	0.8%
CAD/EUR	0.643	0.695	8.2%
EUR/USD	1.22	1.14	-6.9%
GBP/USD	1.37	1.35	-1.0%
USD/JPY	103.25	115.08	11.5%

Bond Yields (%)	Dec. 31, 2020	Dec. 31, 2021	bps change
10-yr Canada Govt.	0.68	1.43	75
10-yr U.S. Treasury	0.91	1.51	60
10-yr Germany Govt.	-0.57	-0.18	39
10-yr Japan Govt.	0.02	0.07	5
30-yr Canada Govt.	1.21	1.68	47
30-yr U.S. Treasury	1.64	1.90	26

Commodities	Dec. 31, 2020	Dec. 31, 2021	% change
Gold USD/oz.	1,898.36	1,829.20	-3.6%
Oil US$/bbl.	48.52	75.21	55.0%

Source: Bloomberg December 31, 2021. Index returns are in local currency. *Total return is price return plus reinvestment of dividends.
All figures quoted in the text are price only return, local currency, unless otherwise noted

2021 – Stocks to the moon!

2021 will go down as a year that defied expectations—from the speedy and vast rollout of COVID vaccines to corporations shattering progressively higher earnings expectations quarter after quarter. The year did not come without its challenges. Businesses struggled to keep up with the rapid reopening of the global economy and underestimated the immense consumer demand from the tsunami of fiscal and monetary stimulus that has flowed through the system. The combined effects led to significant supply chain disruptions, energy shortages, and sharply rising input costs. Adding to the headwinds were the emergence of multiple COVID variants (Delta and Omicron), leading to a bumpy and non-linear path for the recovery. However, in the eyes of investors, these concerns took a back seat to the better-than-expected results in economic and corporate data. Apart from emerging markets, many equity markets rocketed to new all-time highs, highlighted by the ~25-30% gains from the S&P/TSX Composite and S&P 500 Indices. Bond yields shifted meaningfully higher, pricing in the widening global economic recovery, along with higher inflation expectations. The jolt higher in sovereign yields occurred primarily in the first quarter, bringing the worst quarterly loss on record for Canadian bond investors before some reprieve to end the year. Credit spreads tightened, softening the blow for investment-grade credit and high yield bonds, with the latter managing a decent mid-single-digit return. Capital market gains were underpinned by hopes of vaccine efficacy, newly found treatment methods holding up against fresh Covid-variants, central bankers taking a lighter hand on tightening monetary policy, and businesses and households continuing to learn and adapt to a world living with COVID.

Central banks kept the easy money flowing, which supported stock prices through periods of heightened uncertainty around the virus. Central bankers viewed the meteoric rise in consumer and producer prices as largely transitory for most of the year. However, persistent monthly inflation readings that blew past economists' estimates forced central banks to capitulate on their initial transitory view and raise their inflation forecasts meaningfully higher for 2022. To maintain credibility and avoid falling behind on controlling inflation, many central banks began tapering their quantitative easing bond purchase programs and pulled forward their timeline to raise interest rates. Equity markets were whipsawed in the final months of the year as investors grappled with whether central banks could tighten policy enough to tame inflation without toppling the economic recovery.

In a year where exuberance was plentiful, it was encouraging to see markets shift their attention back to fundamentals—namely corporate earnings. Corporations held up exceptionally well in an economic backdrop filled with uncertainty. Consumers have been relentless in drawing down the estimated US$1.6 trillion* in pandemic savings, allowing them to be accepting of price increases for now. With corporations successfully passing costs down to consumers, profit margins soared to record highs as earnings topped already lofty analyst estimates. The reopening of the global economy allowed many of the stagnant cyclical companies to play catch up to the mega-cap, hyper-growth information technology stocks.

As the year progressed, the services sector slowly began to awake from its slumber. With consumers being restricted or hesitant to attend their favourite restaurant or sporting event during the pandemic, consumer spending concentrated on manufactured goods. This jump in service activity bodes well for the global economy because it indicates a normalization of consumer spending habits if COVID concerns are able to fade. A shift in consumer spending into services should help alleviate the current strain on global supply chains and, in turn, the price pressures as the demand side of the inflation equation cools.

Retail traders made waves, poking some parts of Wall St repeatedly with a sharp stick. Excess savings and favourable liquidity conditions were indeed drivers. But new tools and trading platforms have become more available, revolutionizing the investing landscape. Zero-commission brokerages, investing platforms accessible in the palm of one's hand, and the greater use of complex trading tools like options and shorting by a wider array of investors have added a new wrinkle to capital markets. Meanwhile, social media played a prominent role in shaping the behaviour of this new generation of investor, rapidly spurring investing frenzies and violently moving stock prices in a blink of an eye. These themes brought Special Purpose Acquisition Corporations (SPACs), cryptos and meme stocks, aka the BANG complex (Blackberry, AMC Entertainment, Nokia and GameStop), and non-fungible tokens (NFTs) into the daily lexicon. SPACs raised copious amounts of money (with celebrities hopping on the bandwagon); share prices rose and then fell as the bloom came off the rose. Blockchain technology gave rise to NFTs, allowing individuals to buy or sell ownership in unique digital items such as digital art or music.

A similar path played out for cryptocurrencies, initially buoyed by some recognition and high-profile endorsements by Tesla, Blackrock, BNY Mellon, and Mastercard, only to see some of those same players (Elon Musk) pull the rug out on social media. Central bankers and regulators piled on with China imposing curbs and US and European officials citing money laundering, drug trafficking and terrorism as reasons for regulation. Despite the extreme volatility, Bitcoin rose 60% this year. The outsized jump in its value and the resilience it has shown, bouncing back from the multiple drawdowns, has worked to further legitimize cryptocurrencies as a financial

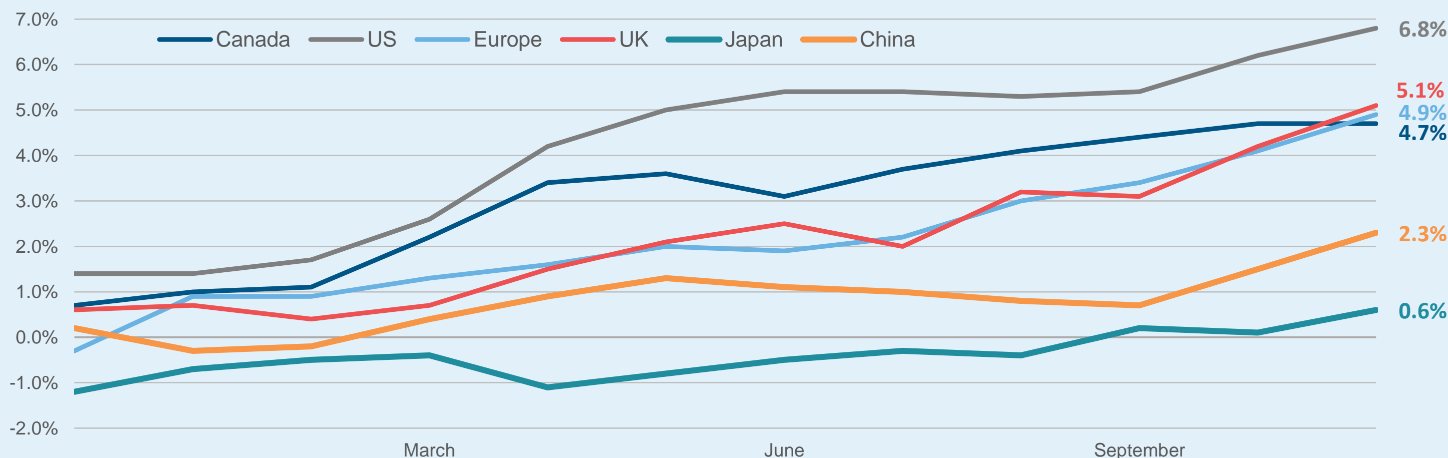
*Source: US Federal Reserve Bank of New York

asset. The popularity of cryptocurrencies and blockchain technologies has led to major developments in ease and accessibility when investing in cryptos, such as crypto exchange platforms (Coinbase) and approved Bitcoin ETFs in Canada and the US.

None of the aforementioned saw more spectacular volatility than the Reddit-fueled meme/BANG craze. These businesses, whose fortunes appear challenged, became a David vs. Goliath narrative. A community of everyday market participants sniffed out the heavily shorted stocks. Some were savvy enough to know what a short squeeze can do if it squeezed hard enough (short-sellers face the theoretical prospect of unlimited losses). The share prices went on roller-coaster rides of volatility measured in the hundreds and thousands of percent moves. The price action primarily occurred in the first half of the year, but the gains have surprisingly held up: AMC exploded 1,183% higher, while BANG poster boy, GameStop, recorded a 'modest' 688% gain on the year.

Inflation bites

Inflation was a key theme this year, particularly in the second half, where a multitude of factors fed into rising prices. On the supply side, the rapid spread of COVID cases forced factories to shutdown and caused a shortage in workers. Making matters worse were untimely forces of nature (floods in British Columbia, Hurricane Ida, and the power crisis in Texas) causing major disruptions across supply chains and boosting commodity prices higher due to energy shortages. On the demand side, consumer spending was nothing short of robust. 2021 US personal consumption in nominal terms was the best year on record dating back to 1947. Demand was fueled on three fronts. Consumers drew down from the enormous, estimated US$1.6 trillion* stockpile of excess savings. Surging home and financial asset prices have created a wealth effect, emboldening consumers' propensity to spend. Finally, a sharp rebound in revolving credit amplified consumer spending power. The overwhelming demand combined with the numerous breakdowns in the supply chain culminated in the back half of the year. A record number of containerships sat idle at the two largest US shipping ports in Los Angeles and Long Beach, high profile evidence of the global supply chain snarl. Freight costs surged higher, and many businesses and consumers rushed to place their orders ahead of the holiday season, only adding to the congestion. As a result, US inflation soared to levels not seen in almost 40 years, with the headline CPI figure hitting a towering 6.8% y/y in November. Canadian inflation wasn't far behind at 4.7% y/y ending November.

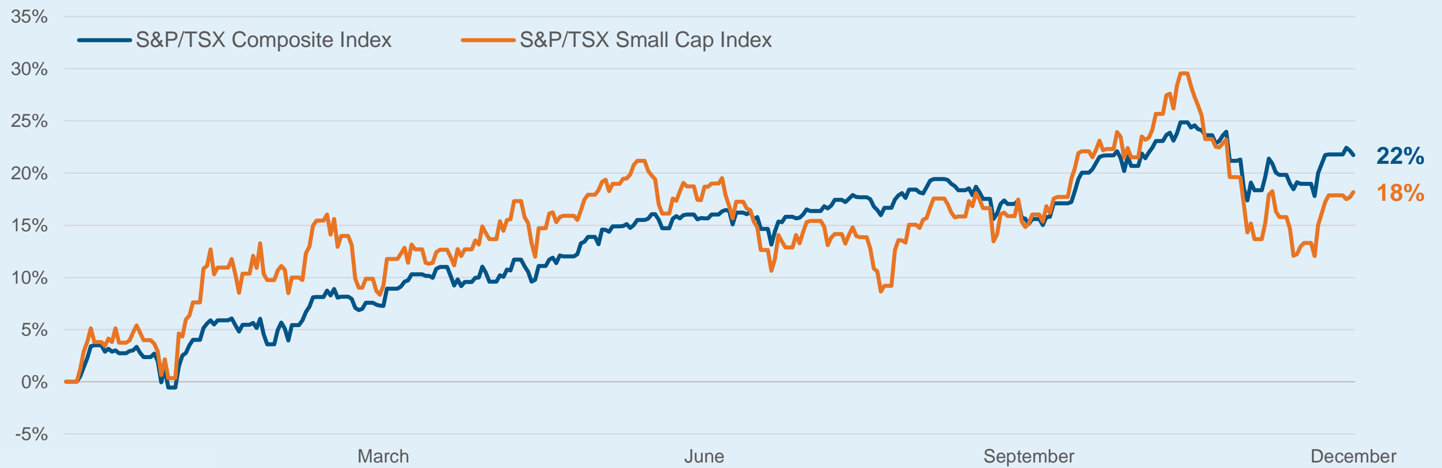


*Source: US Federal Reserve Bank of New York

Canadian equity

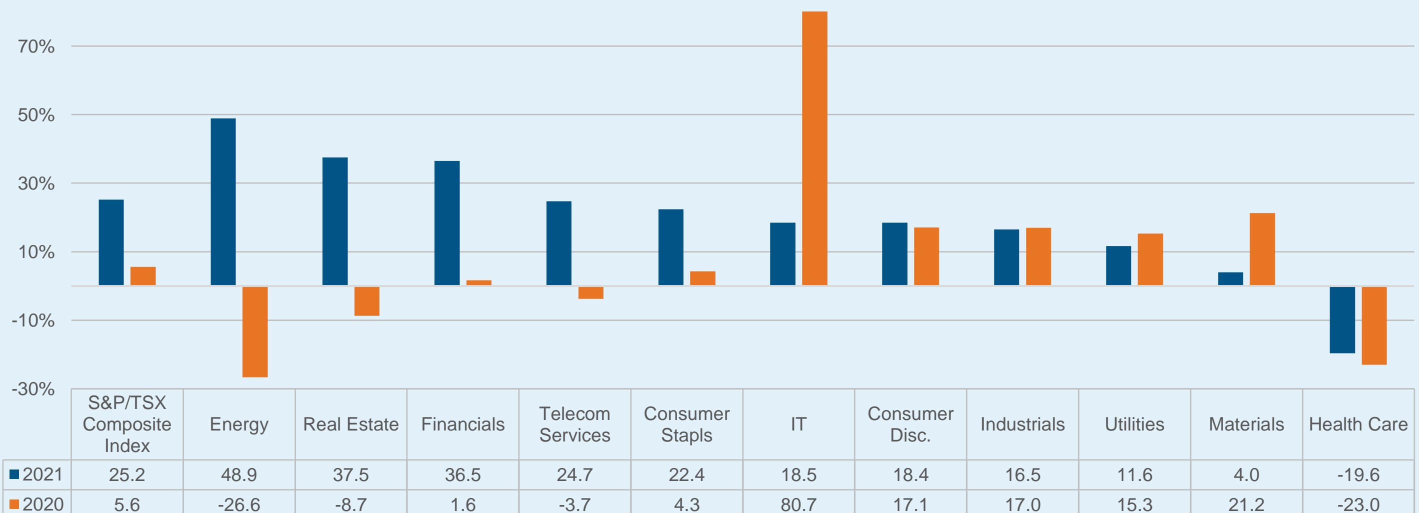
Canadian equities were amongst the top global performers, with the S&P/TSX Composite surging 25% on a total return basis. The bulk of the advance was concentrated in the first half of the year, as a rotation trade into cyclical sectors accelerated alongside the global economy reopening. Bouts with the Delta (Q3) and Omicron (Q4) variants were periodic setbacks for cyclicals and, in turn, Canadian equities. Overall, gains for the TSX were broad-based, with health care being the lone sector in negative territory. The heavyweight financial and energy sectors led the way, powered by earnings that 'beat' analyst expectations by record amounts. Financials benefitted from a release of loan-loss provisions set aside during the initial months of the pandemic and the return of dividend increases and share buybacks (after being restricted since the beginning of the pandemic). Energy companies were bolstered by the sharp rise in energy commodity prices.

S&P/TSX Composite and S&P/TSX Small Cap - 2021 performance



Source: Bloomberg December 31, 2021

S&P/TSX sector total returns (%)



	S&P/TSX Composite Index	Energy	Real Estate	Financials	Telecom Services	Consumer Stapls	IT	Consumer Disc.	Industrials	Utilities	Materials	Health Care
2021	25.2	48.9	37.5	36.5	24.7	22.4	18.5	18.4	16.5	11.6	4.0	-19.6
2020	5.6	-26.6	-8.7	1.6	-3.7	4.3	80.7	17.1	17.0	15.3	21.2	-23.0

Source: Bloomberg December 31, 2021

MACKENZIE
Investments

US Equity

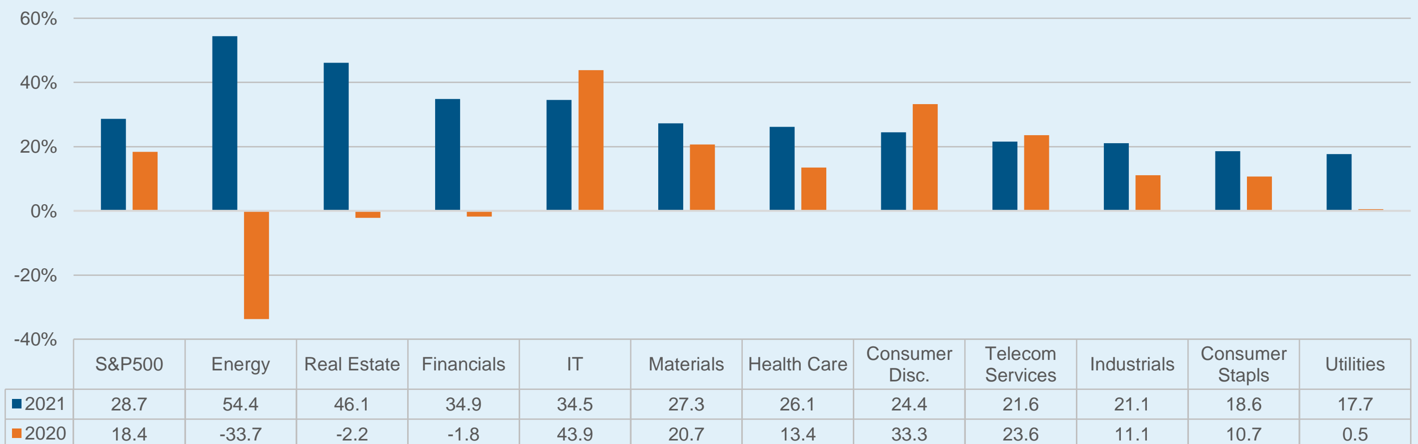
US equities once again ran away with the trophy against their developed counterparts. All major large and small-cap US equity benchmarks recorded double-digit returns (S&P 500, DOW, NASDAQ and Russell 2000), extending the remarkable rebound from the depths of March 2020. The S&P 500 soared ahead with a 28.7% total return as corporations smashed through analyst earnings estimates. Although market darling tech stocks continued to climb higher (NASDAQ up 21%), 2021 saw gains broadening out to other sectors, as the reopening of the global economy shifted flows from pandemic-winners to more cyclically-oriented companies (S&P 500 Value Index up ~22% after falling 1.4% in 2020).

All 11 sectors in the S&P 500 finished in the green. The energy sector was the standout performer, as Americans began returning to the roads and airports, boosting oil prices. The heavily-weighted information technology (IT) sector was again the largest contributor, as strings of record quarterly earnings ‘beats’ sent stock prices higher. These long-duration, hyper-growth IT stocks experienced volatility and a traceback in the first and last quarters of the year when bond yields moved meaningfully higher. However, both instances were followed by a retracement in bond yields, allowing IT stocks to resume their climb. Financials benefitted from strong share price gains for banks. US banks were able to release enormous amounts of loan-loss provisions set aside during the beginning of the pandemic and took advantage of a loosening of regulations that paved the way for the resumption of share buybacks and dividend increases.

US equity indices - 2021 performance

Source: Bloomberg December 31, 2021

S&P 500 sector total returns (%)



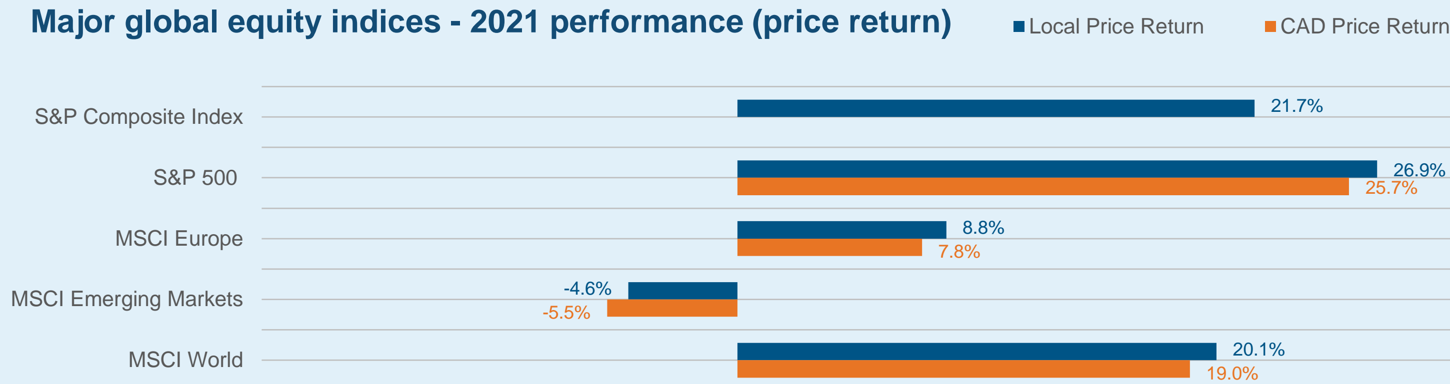
	S&P500	Energy	Real Estate	Financials	IT	Materials	Health Care	Consumer Disc.	Telecom Services	Industrials	Consumer Stapls	Utilities
2021	28.7	54.4	46.1	34.9	34.5	27.3	26.1	24.4	21.6	21.1	18.6	17.7
2020	18.4	-33.7	-2.2	-1.8	43.9	20.7	13.4	33.3	23.6	11.1	10.7	0.5

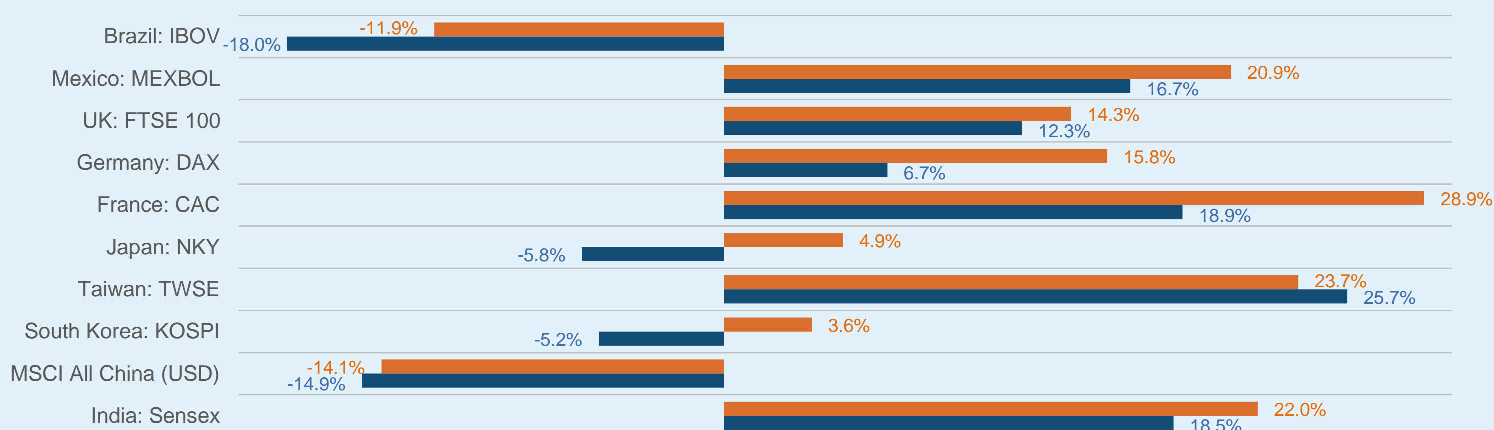
Source: Bloomberg December 31, 2021

International Equities

International equities gains were solid but milder, with the MSCI EAFE Index delivering a 11.9% total return. Europe and Japan struggled to contain the virus, forcing governments to periodically reinstate lockdowns that were harsher relative to the US. The economic stops and starts hampered the recovery acutely in certain parts of the Eurozone. Most major European indices still recorded double-digit returns, as increased vaccinations allowed countries to reopen. All the while, the European Central Bank kept monetary policy loose, ensuring abundant liquidity via its Pandemic Emergency Purchase Programme (PEPP). Exporter-heavy Japanese equity indices were a relative laggard but managed a modest gain, with the Nikkei 225 gaining 4.9%. Lockdown restrictions, alongside the slowing pace of Chinese growth, were notable restraints.

Emerging market (EM) equities were one of the few areas delivering an outright loss, with the MSCI Emerging Market Index (USD) falling -2.5% total return and significantly underperforming its developed market peers. Chinese equities were the primary detractor to the broader index. The MSCI All China Index (USD) plunged -14.1% amid a plethora of headwinds. The Chinese government's desire to tackle the outsized real estate sector through a forced deleveraging campaign coincided with increased regulation in the education sector and curbs aimed at the large platform technology/internet giants. These reforms were set against an overall tightening of financial conditions throughout most of the year. China's government and central bank (PBoC) headed earlier where Western governments and central banks appear headed in 2022. The net result was defaults for some of the biggest property companies, most notably Evergrande. Concerns over contagion into other sectors proved overblown. However, the cumulative impacts appear to have either achieved the desired outcomes or perhaps overshot in some respects, as December saw the PBoC ease financial conditions (0.5% RRR cut) and the government signal that 2022 would be a year to focus on 'stability'. A combination of surprise strength for the US dollar, some EM central banks outside of China raising interest rates, and developed market central banks shifting toward a tightening bias also weighed on EM broadly.





Source: Bloomberg December 31, 2021

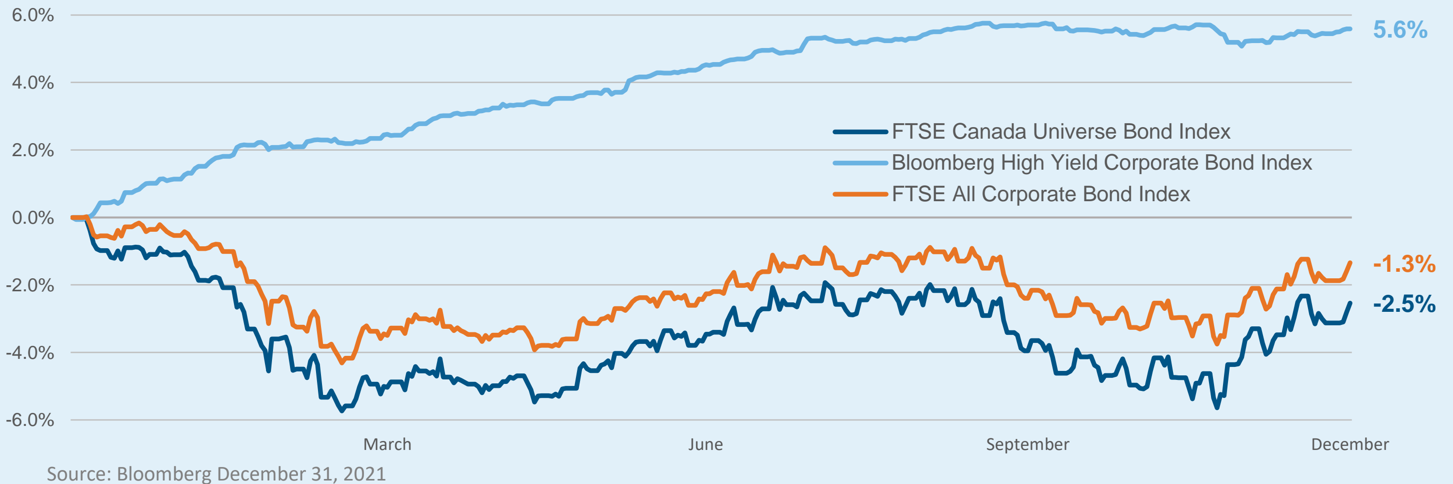
MACKENZIE
Investments

Canadian fixed income

It was a tumultuous year for Canadian fixed income investors amid volatile, rising bond yields. The FTSE Canada Universe Bond Index fell -2.5%. Most of the damage occurred in the first quarter, when the Government of Canada 10-year bond yield jolted 88 basis points (bps) higher, as accelerating global vaccinations fueled optimism for a reopening of the world economy. The overall rise in yields led to shorter duration bonds outperforming longer duration. The FTSE Canada Long Term Overall Bond Index fell -4.5%, while the FTSE Canada Short Term Index was down -0.9%.

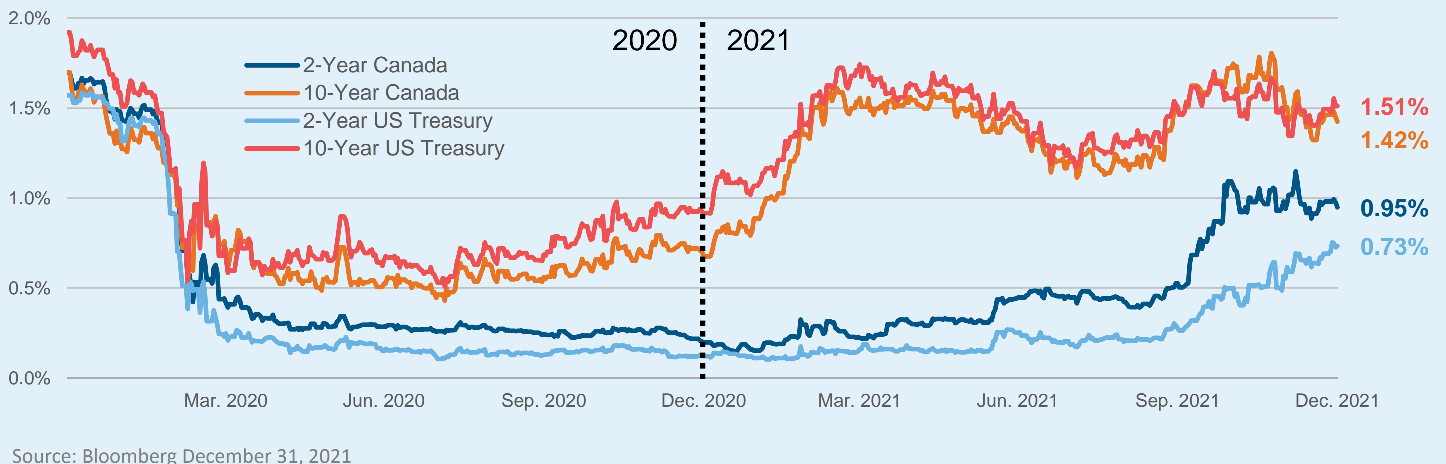
Central bankers shifted more hawkish amid rising and persistent inflation and inflation expectations. Many major central banks, including the Bank of Canada and the US Federal Reserve, began tapering their quantitative easing programs and have, or at least moved up, their timeline for raising benchmark interest rates. Credit spreads continued to narrow, with investment-grade corporate bonds outperforming government bonds. High yield bonds were by far the best performer; the Bloomberg Canadian High Yield Corporate Bond Index produced a mid-single-digit return. Within the government sector, federal bonds outpaced provincial and municipal bonds.

Canadian fixed income indices - 2021 total return



Source: Bloomberg December 31, 2021

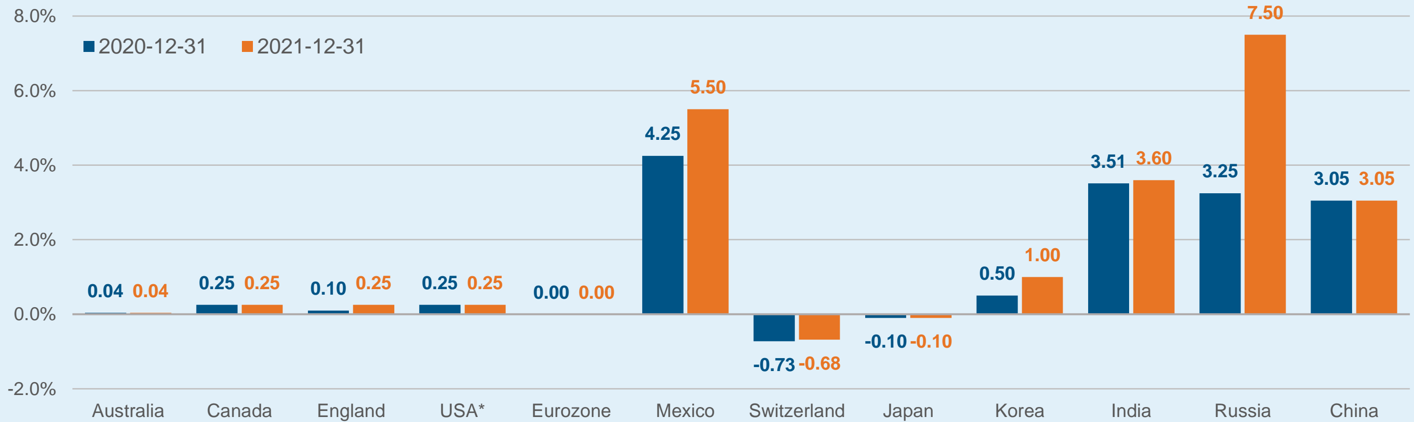
2-Year and 10-Year Government Bond Yields



Source: Bloomberg December 31, 2021

MACKENZIE Investments

Global central bank rates (%)



Source: Bloomberg December 31, 2021
*upper range

Commodities

Commodities were one of the most sought-after asset classes this year. The rapid reopening of the economy caught the global commodity complex off-guard. Shortages in various parts of the world and disruptions in global supply chains boosted commodity prices. Energy prices moved notably higher, with the price of WTI oil up 55% to US$75.21/bbl. Control over a swath of the global supply of oil at the hands of OPEC and Russia (OPEC+) continues. OPEC+ is moving slowly to restore their oil output after the record production cuts in the face of collapsed demand due to the pandemic. US shale companies have also shown discipline by increasing production only gradually in response to the higher prices. Copper prices (a bellwether for global economic activity) surged to an all-time high on the reopening trade and received a further boost as more countries announced aggressive climate targets (copper being an input into electric vehicles and other green technology).

Bloomberg commodity index

Source: Bloomberg December 31, 2021

Source: Bloomberg December 31, 2021

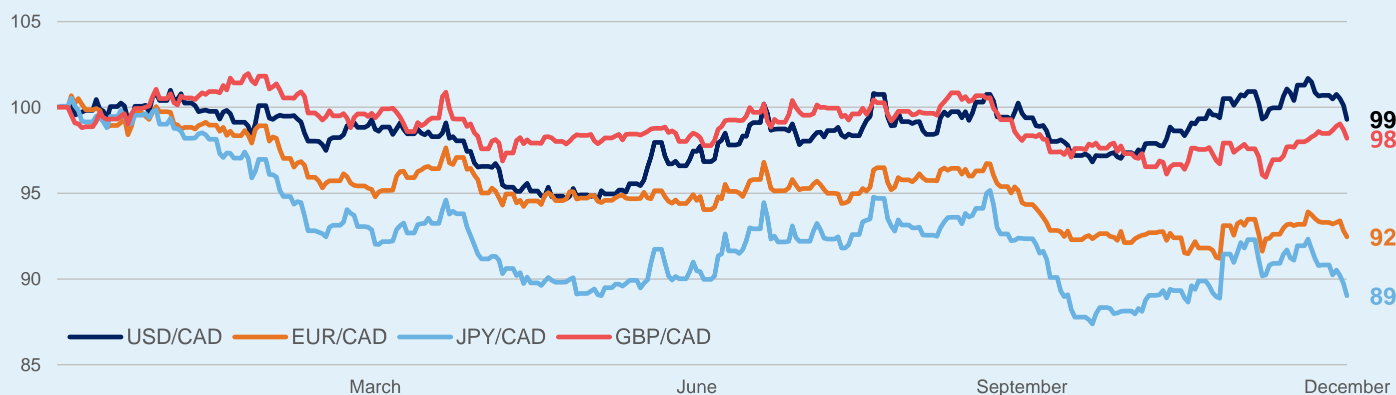
Gold prices were dull, falling -3.6% to US$1,829/oz after recording a blistering 25% return in 2020. The yellow metal's price traded sideways around the US$1,800 mark as investors looked to pile their money elsewhere in the risk-on environment. Higher global bond yields and a strengthening US dollar were headwinds, while investors betting on gold as a hedge against inflation were left disappointed.

Source: Bloomberg December 31, 2021

Currencies

The Canadian dollar was little changed on the year, opening at US78.5¢ and closing at US79.1¢ (+0.8%) or USDCAD $1.27 to $1.26 (-0.7%). The loonie had soared to US83.1¢ in June, after touching US68.9¢ in March of 2020. The loonie is a typical beneficiary of global growth and a risk-on environment. In the first half of the year, the currency was fired up by booming commodity prices and the Bank of Canada's earlier than most move toward the slow removal of emergency monetary policy efforts. However, the currency pared its gains in the back half of the year as more central banks pivoted toward tightening, oil prices fell on Omicron concerns, and the earlier gap in short-term interest rate differentials relative to the US narrowed.

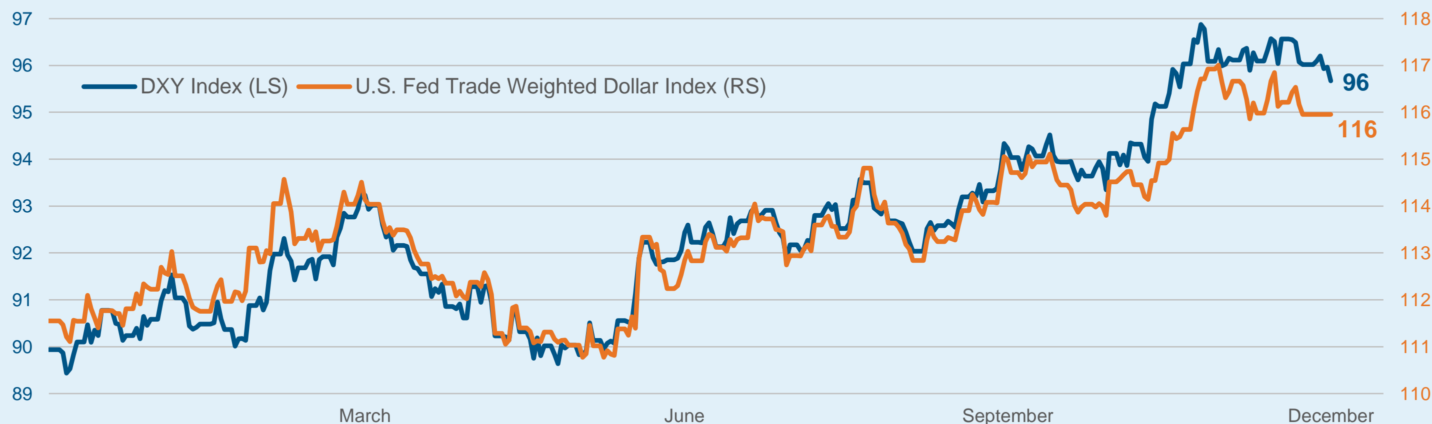
CAD Performance vs. Global Currencies (indexed to 100)



Source: Bloomberg December 31, 2021

The US dollar (DXY Index) rose in the second half of the year and was up 6.4% in 2021. The hawkish shift from the US Federal Reserve (Fed) drove the move higher in the greenback. The Fed's most recent Summary of Economic Projections (dot plot) is now penciling in three rate hikes for 2022. The emergence of the Omicron COVID variant has raised concerns of further restrictions that threaten the economic recovery leading to the typical 'safety' trade into the US dollar.

US Dollar Index vs. US Fed Trade Weighted Dollar Index



Source: Bloomberg December 31, 2021

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently, and past performance may not be repeated. The content of this material (including facts, views, opinions, recommendations, descriptions of or references to, products or securities) is not to be used or construed as investment advice, as an offer to sell or the solicitation of an offer to buy, or an endorsement, recommendation or sponsorship of any entity or security cited. Although we endeavour to ensure its accuracy and completeness, we assume no responsibility for any reliance upon it. This material contains forward-looking information which reflects our or third party current expectations or forecasts of future events. Forward-looking information is inherently subject to, among other things, risks, uncertainties and assumptions that could cause actual results to differ materially from those expressed herein. These risks, uncertainties and assumptions include, without limitation, general economic, political and market factors, interest and foreign exchange rates, the volatility of equity and capital markets, business competition, technological change, changes in government regulations, changes in tax laws, unexpected judicial or regulatory proceedings and catastrophic events. Please consider these and other factors carefully and not place undue reliance on forward-looking information. The forward looking information contained herein is current only as of December 31, 2021. There should be no expectation that such information will in all circumstances be updated, supplemented or revised whether as a result of new information, changing circumstances, future events or otherwise.