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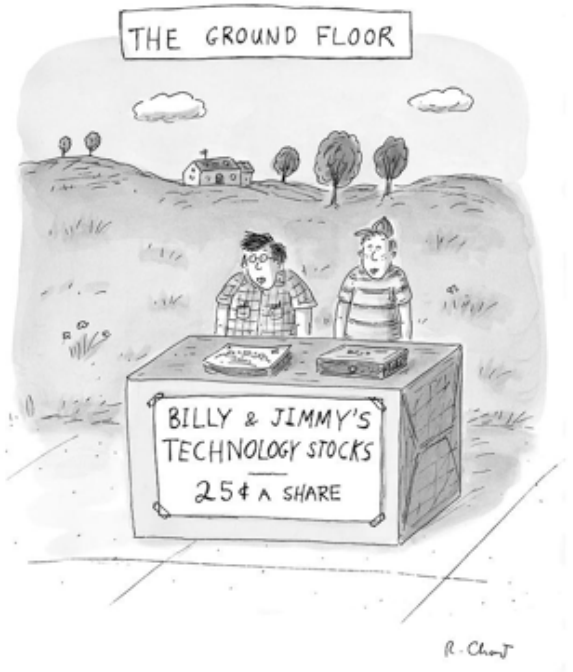
Equity Markets are pricing in an economic snap-back and growth on top of it, inviting the question as to whether they are being too rosy? Taking stock (pun intended) of the situation, we can observe that far from imploding as many feared after the virus drained the life out of the world's indexes, America Inc has emerged from the plague year looking remarkably healthy. Of course there are losers too -particularly in industries such as hospitality, travel and energy, which rely on people mixing or moving about. Of the 305 S&P 500 that so far have presented full-year results, 42 ended 2020 in the red, up from 18 the year before. Their losses added up to a whopping $177B, an amount five times as much as in 2019. But winners won big: $860B in total, led by technology titans that enabled on-line shopping, commerce and entertainment to continue unabated. The strength in equity Markets seems to suggest that Wall Street is wagering that both winners and losers have room for improvement, and are pricing this bet in by sending stocks higher.



Industry sentiment is certainly bullish, and a survey last month by *Corporate Board Member*, a trade publication, found that nearly two-thirds of all board members rated their firm's outlook "very good" or "excellent". The expectation is that both revenues and profits will increase, and half predicted increased investment. This optimistic outlook holds for small, mid-sized and large firms, which explains the gains seen in the Russell 2000 (an index which track the smallest publicly-listed stocks) as well as the broader indexes.

There are two primary reasons for this optimism. First, investors are pricing in the successful rollout of vaccines in America by the summer, which would help re-open the economy. With an estimated $1.4 T (trillion) in unspent income over the past year, the expectation is that this will translate into consumer-spending driven growth. Second, it is widely assumed that unified Democratic control of the White House and Congress will mean continued fiscal and monetary stimulus that could fuel that demand further still.

These considerations have led financial forecasters to project that S&P 500 revenues in 2021 will match or surpass levels seen in pre-pandemic 2019. A summary shown here breaks this down by sector and corresponding timeline. With the exception of the automotive sector (surprising considering GM just beat analysts earnings expectations today), only hotels, airlines/cruise lines and outdoor entertainment are predicted to rebound more slowly than initially forecast.

The risks to this favourable forecast are if President Biden fails to get his proposed stimulus through Congress intact, or either a slow-down in the vaccine rollout or the emergence of new strains that extend partial lockdowns of the economy. If the virus does turn endemic and the recovery slows, the disconnect between Wall Street and Main Street may become untenable. Time will tell and regardless of the direction of equity Markets in the short term, we remain confident in the institutional expertise of our Wealth Management partners at Dimensional, Edgepoint, Guardian and Mackenzie to find opportunities and deliver solid results for you over time.

Be safe, be well!

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