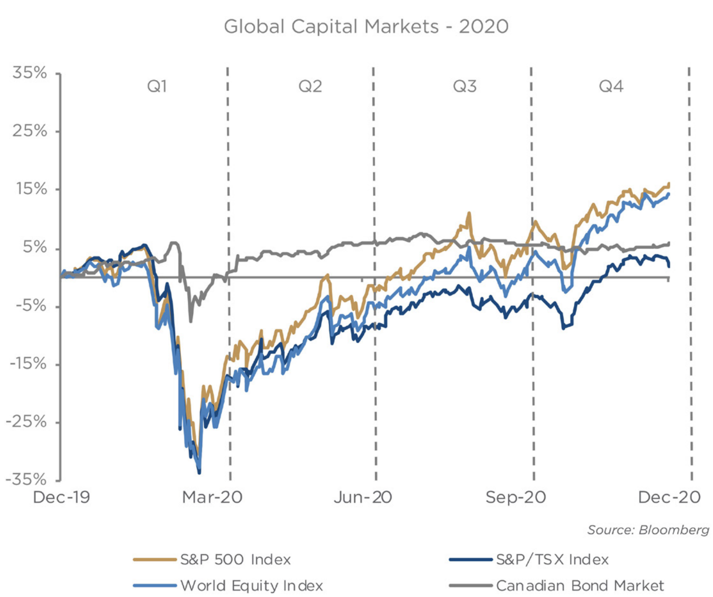
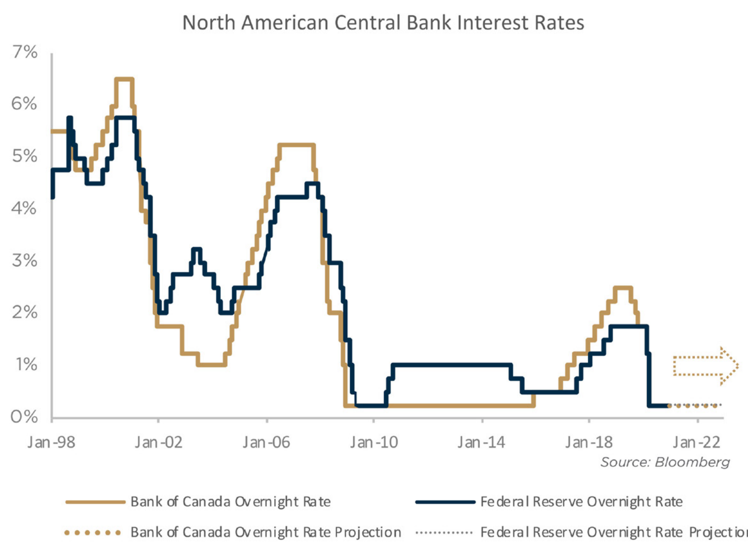
Quarterly Macro Overview Q4 / 2020

MATCO FINANCIAL

In years to come, when people look back on 2020 it will be remembered as one of the most challenging years in the modern era.

The COVID-19 pandemic was at the forefront, with social inequality protests and the U.S. election also having a significant impact on this tumultuous year. The investment markets were not immune to the chaos, with considerable turbulence followed by a rather orderly recovery. Although moving on from 2020 may be at the top of everyone's New Year's resolution list, we would like to take a second to recap the developments that have brought us to where we are today. Back in March of this year, the COVID-19 pandemic began to spiral out of control, with global infections on the rise causing the most significant economic lockdown in almost a century. Individuals around the world began to work from home, global travel was halted, social, and cultural events were put on hold and businesses shut their doors. The initial shock of the pandemic caused global equity markets to trade lower by 30% to 35%, with investors wondering how deep the sell-off could go.



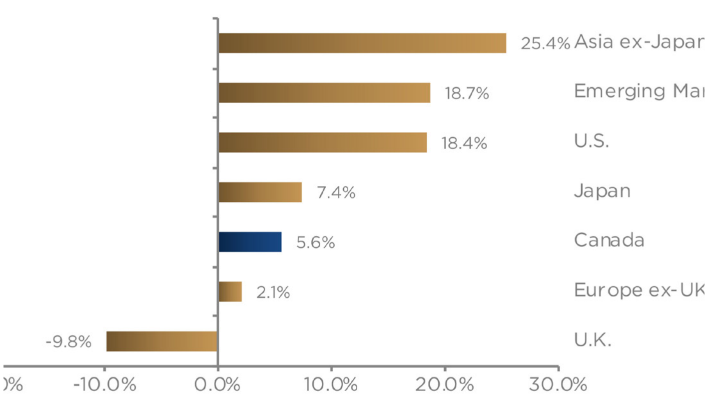


Governments and central banks quickly grasped the magnitude of the economic calamity on the horizon and stepped up with fiscal support measures. Central banks reduced their overnight interest rates to the lower bound of 0.25%. This helped stimulate the economy by lowering borrowing and debt servicing costs for businesses and households. With the economy still at a standstill, governments were quick to understand that lower borrowing costs simply would not be enough to bridge the economy from one side of the pandemic to the other. The U.S. government spent approximately US$6.6 trillion in 2020, US$2.2 trillion of which was directly attributable to the Coronavirus Aid, Relief and Economic Security Act (CARES Act). Similarly, the Canadian government spent CAD$322 billion in relief funds. A combination of these efforts allowed the stock market to regain more solid footing in early April and begin its steady recovery. The summer months of the year brought global social inequality protests, catalyzed by the inhumane death of George Floyd. This event may have sparked the flames of anger; however, social unrest had been brewing for some time. While the protests dominated headlines with images of chaos streaming on news networks daily, there was an economic recovery well underway.

With retail storefronts having closed their doors, consumers continued to spend. Their spending habits simply shifted from travel and shopping mall trips to home renovations, recreational goods, and online shopping. The shift from brick-and-mortar retail to online shopping was a trend that started over a decade ago, but the COVID-19 pandemic has accelerated this transition. Other technology sub-sectors such as mobile health care, remote workstation software and hardware, cloud computing and food/grocery delivery platforms were also able to capitalize on the new normal we found ourselves in.

From an investment perspective, it was the cyclical sectors that led the recovery. These sectors historically do well in the early stages of an economic recovery, and this remained consistent. The primary cyclical sectors are technology, consumer discretionary, financials and real estate. The only exception in this recovery was real estate, which has struggled in 2020 due to the uncertain outlook for both retail and office space as the world digests what the new normal will look like going forward. From a regional perspective, Asia (ex Japan), emerging markets and the U.S. stock markets led the way, posting gains of 25.4%, 18.7% and 18.4% respectively. Next in line was Japan with a return of 7.4%, followed by Canada and Europe in the mid-single digits. The bond markets in North America proved resilient through recession, posting returns of 7% to 9%.

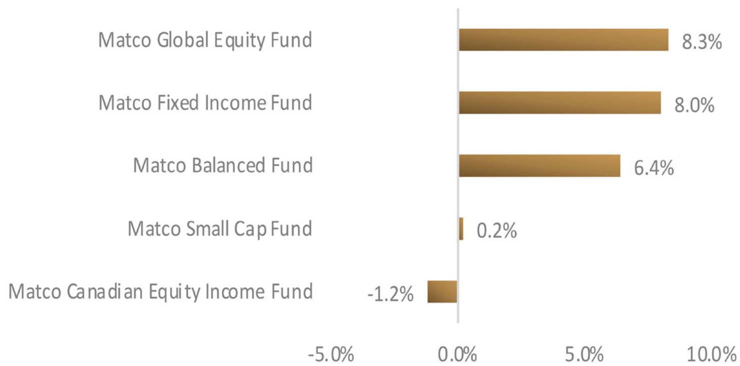
Global Equity Market Returns - 2020



Source:https://am.jpmorgan.com/be/en/asset-management/adv/insights/market-insights/monthly-market-review/

The Matco investment platform fared well, with our Fixed Income Fund returning 8.0%, Balanced Fund 6.4% and Global Equity Fund 8.3%. Although the Matco Canadian Equity Income Fund and Matco Small Cap Fund recovered steadily throughout the year, they were not immune to the struggles of the Canadian market, returning -1.2% and 0.2% respectively.

Matco Fund Performance 2020



Source: RBC
Performance shown is F series performance net of fees

As we look out to 2021, we remain focused on our investment process of analyzing fundamental data to select solid companies to invest in. 2020 reinforced the importance of having an objective investment process that removes emotion from the equation and narrows in on the economic trends in motion. More specifically, we continue to seek companies with strong balance sheets, resilient earnings growth and the ability to consistently return capital to shareholders.

Notable trends into 2021 are the shift from growth to value, large companies to smaller companies and the more cyclical regions beginning to close the gap with the U.S. which led the way in 2020. Several positive catalysts are on the horizon, notably a second fiscal stimulus package in the U.S. and Canada likely to materialize in early 2021, along with the global distribution of COVID-19 vaccines. Although stock markets have benefited from a steady recovery, it will be up to earnings growth to sustain this recovery going forward.

Our mission at Matco is to simplify the investment world for clients. We remain focused on this objective to both protect and grow your investment capital.

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