

2021 - FINANCIAL MARKETS REVIEW

FIXED INCOME (historical average returns of 2% to 4%)

BONDS: 2021 return below historical average – The year 2021 was difficult for the Canadian Bond market. The Bank of Canada announced the end of its quantitative easing program and yields rising from the record lows of 2020 led to the sector's first negative yearly performance since 2013. Investors also worried about tightening financial conditions, which, in turn, could raise the borrowing costs for consumers and businesses alike, limiting the scope of economic growth. The average 2 years GIC rate in 2021 (short term guaranteed investment) was 1.10%.
TMX Universe Bond Index 2021 return : -2.5%.

EQUITIES (historic average returns of 7% to 9%)

CANADA: 2021 return above historical average – Stock markets rose in 2021, encouraged in part by a robust post-pandemic economic recovery. Supported by a combination of government spending and Bank of Canada policy support, Canada's economic recovery was swift. More cyclical sectors such as energy, real estate, and financials were among the top performers – an outcome that benefitted Canadian stocks which posted their best annual return since 2009. S&P/TSX Composite Index 2021 return: with dividend 25.1% / ex-dividend 22.7%.

UNITED-STATES: 2021 return above historical average – Fiscal and monetary policy supports contributed to a strong recovery in the U.S. economy in 2021. Time and again, investors brushed off news that could have derailed stocks in years past. A contested presidential election, an assault on the Capitol, historically high inflation, supply chain disruptions, naysayers who forecasted a correction that never appeared—none of these events stopped stocks from notching all-time highs. Not even the still-raging global Covid-19 pandemic, or its Delta and Omicron variants. SPDR Dow Jones industrial ETF 2021 return (US\$): 20.8%.

INTERNATIONAL: 2021 return above historical average – European equities surged for the year, thanks to strong economic growth indicators, robust consumer demand and better than expected corporate earnings growth. Conditions proved more difficult for emerging markets, which, after delivering the best performance of the major regions in 2020, ended 2021 in negative territory (-2.2% in US\$), dampened by heightened regulatory and economic uncertainty in China. IShares MSCI EAFE ETF 2021 return (US\$): 11.2%.

ALTERNATIVE INVESTMENTS: Infrastructure investments delivered returns in line with historical averages in 2021. Dynamic Infrastructure return: 9.0%. By many measures, the commercial real estate market exceeded expectations in 2021, as the multifamily and industrial property markets outperformed historical trends. Dynamic REIT return: 32.1%. Gold prices dropped by 4.0% in 2021.

In summary for 2021, a good year for investors. Negative returns for bonds but above average returns for equities. A diversified portfolio delivered a return slightly above historical average. For 2022, we forecast that the economic recovery will continue, but the pace of growth will slow down. Strong underlying trends such as consumers' substantial accumulation of excess savings, the rebound in the services sector and accommodating financial conditions will help growth rates remain above their long-term average.

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