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2020 Fourth Quarter Investment Review & Perspective

Todd Degelman MBA, Founder & Vice-Chairman & Chad Pruden PFP®, CIM®

We are pleased to outline our commentary on financial markets and interesting data on important economic trends. We endeavour to monitor market and economic data to sort out what is useful and what is simply noise. Our efforts are intended to give us proper perspective on news that affects our views and the advice we give our clients. We hope that you find the information included to be valuable and we welcome your comments and questions.

Global Asset Market Performance

Included in the table below are year-to-date rates of return for major asset classes along with returns from the first quarter of 2020. All asset classes shown here, except for oil, generated positive investment returns for the year. This is remarkable when we compare these results to returns from the first quarter of 2020, when we were in the midst of a stock market crash during a global pandemic. Though the pandemic is not over, global stock markets have experienced an astounding recovery from their lows this year.

Index	First Quarter	Year to Date Return December 31st, 2020
Gold Bullion	+5.59%	+22.67%
S&P 500 (US Stocks)	(-20.67%)	+15.87%
Japanese Stocks	(-18.48%)	+15.13%
Emerging Market Stocks	(-16.51%)	+14.57%
Canadian Bonds	+1.45%	+8.57%
Global Stocks	(-15.97%)	+6.49%
European Stocks	(-17.62%)	+6.27%
S&P/TSX (Canada)	(-20.82%)	+4.42%
Canadian Dollar vs. \$US	(-7.84%)	+2.04%
Crude Oil (WTI)	(-66.31%)	(-20.89%)

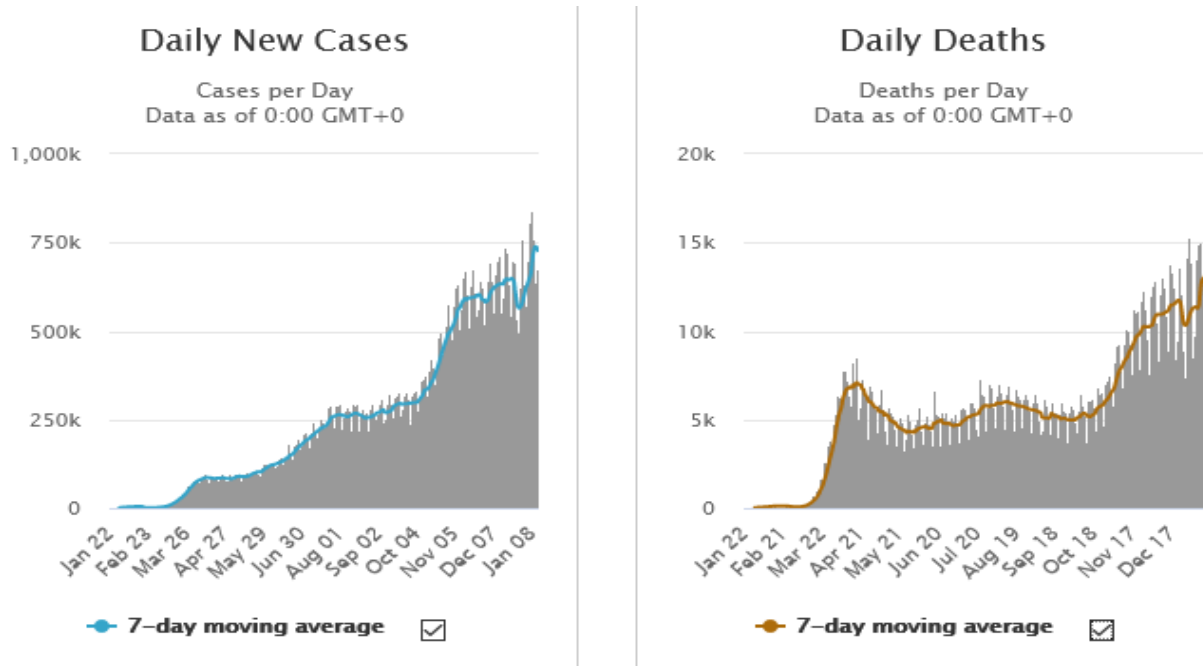
**Source: Google Finance Canada / Bloomberg - Data in \$C as of December 31st, 2020*

In this report, we will cover the following topics;

- What is Happening with COVID-19 & COVID-19 Vaccinations Globally? (page 2)
- A 2020 Timeline (page 3)
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What is Happening with COVID-19 & COVID-19 Vaccinations Globally?

COVID-19 continues to spread rapidly around the world and has seen a stunning acceleration. Roughly 750,000 people are finding themselves newly infected each day and 15,000 people are dying from COVID-19 every day. Both figures are dramatically higher than what we saw in the spring of 2020.

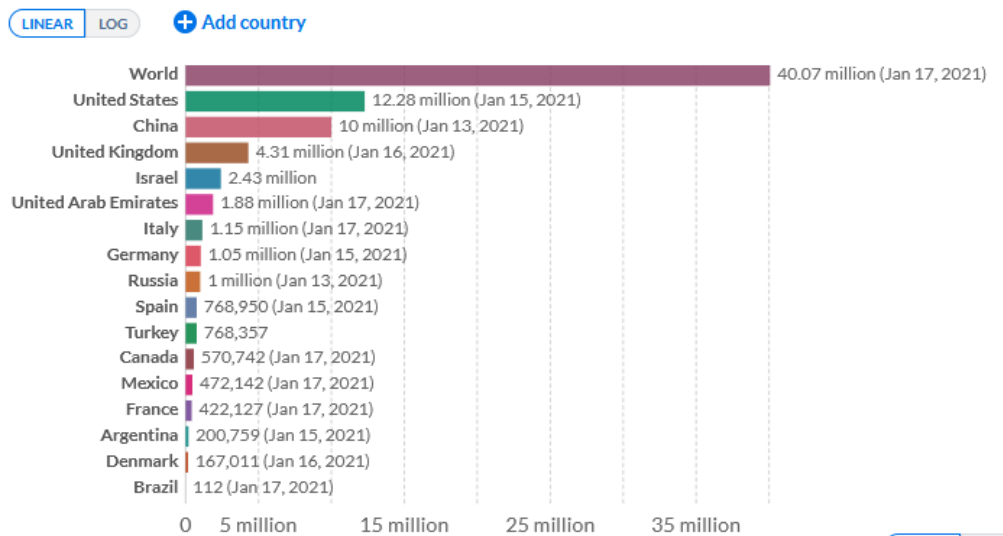


The only good news is that vaccines are being administered. While the pace is slow, public health authorities and vaccine manufacturers are racing against the virus to inoculate as many people as possible.

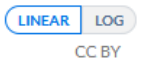
The table on the right shows that roughly 40 million doses have been administered globally as of January 18th, 2021.

COVID-19 vaccine doses administered, Jan 18, 2021

Total number of vaccination doses administered. This is counted as a single dose, and may not equal the total number of people vaccinated, depending on the specific dose regime (e.g. people receive multiple doses).



Source: Official data collated by Our World in Data - Last updated 18 January, 11:30 (London time)



A 2020 Timeline

The exhibit below is a quick summary of the major market moving events of 2020. It has been more than a year since COVID-19 was detected outside of China and roughly a year since the first case was detected in North America. We do not have much to add to the chart below as we think it speaks for itself. We are certainly happy to put 2020 in the history books.

S&P 500 Index Performance in 2020 Price Index & Major Events



Article & Sources:
<https://howmuch.net/articles/sp500-index-performance-in-2020>
 Yahoo Finance - <https://finance.yahoo.com/>

howmuch.net

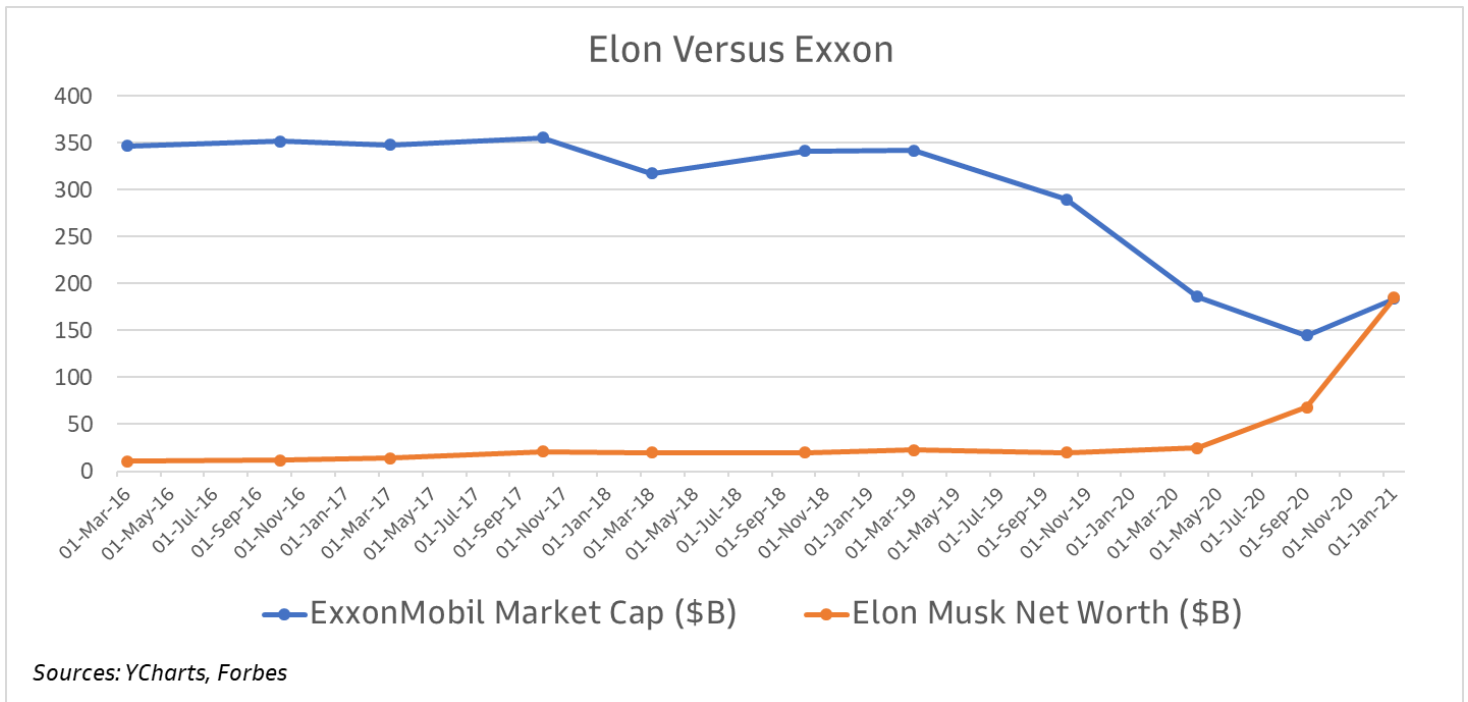
Elon Vs. Exxon

Elon Musk (founder of Tesla) is now the richest person in the world after overtaking Jeff Bezos (founder of Amazon) due to the surge in the value of Tesla stock that took place in 2020.

While the surge in Elon Musk's net worth is incredible, what we find more remarkable is that his personal net worth is almost the same as the total market value of Exxon Mobil. Exxon Mobil has, at several points in history, been the most valuable company in the world and still employs nearly 75,000 people worldwide.

Tesla's mission is "to accelerate the world's transition to sustainable energy" while Exxon's mission is "to safely market and distribute energy and petrochemical products while offering innovative value added services". These companies are almost perfectly opposite in their mission and comparing the two is a perfect example to show how quickly the world is changing.

As of January 18th, 2021, Elon's net worth is approximately USD \$197 Billion. As of January 18th, the entire market capitalization of Exxon Mobil is roughly USD \$202 Billion. The chart that follows illustrates how this comparison has evolved over the last 5 years.



Is this a temporary blip that is indicative of a stock market mania in technology stocks or is this a signal towards a future with a dramatically lower dependence on fossil fuels? Time will tell, but a fossil fuel free future seems closer than ever.

Strange Happenings with Government Debt - Net Negative Interest Expense in Japan

There was no shortage of strange happenings in 2020, but one that has likely escaped the attention of most people is the fact that the Japanese government now earns more interest than it pays on its own debt.

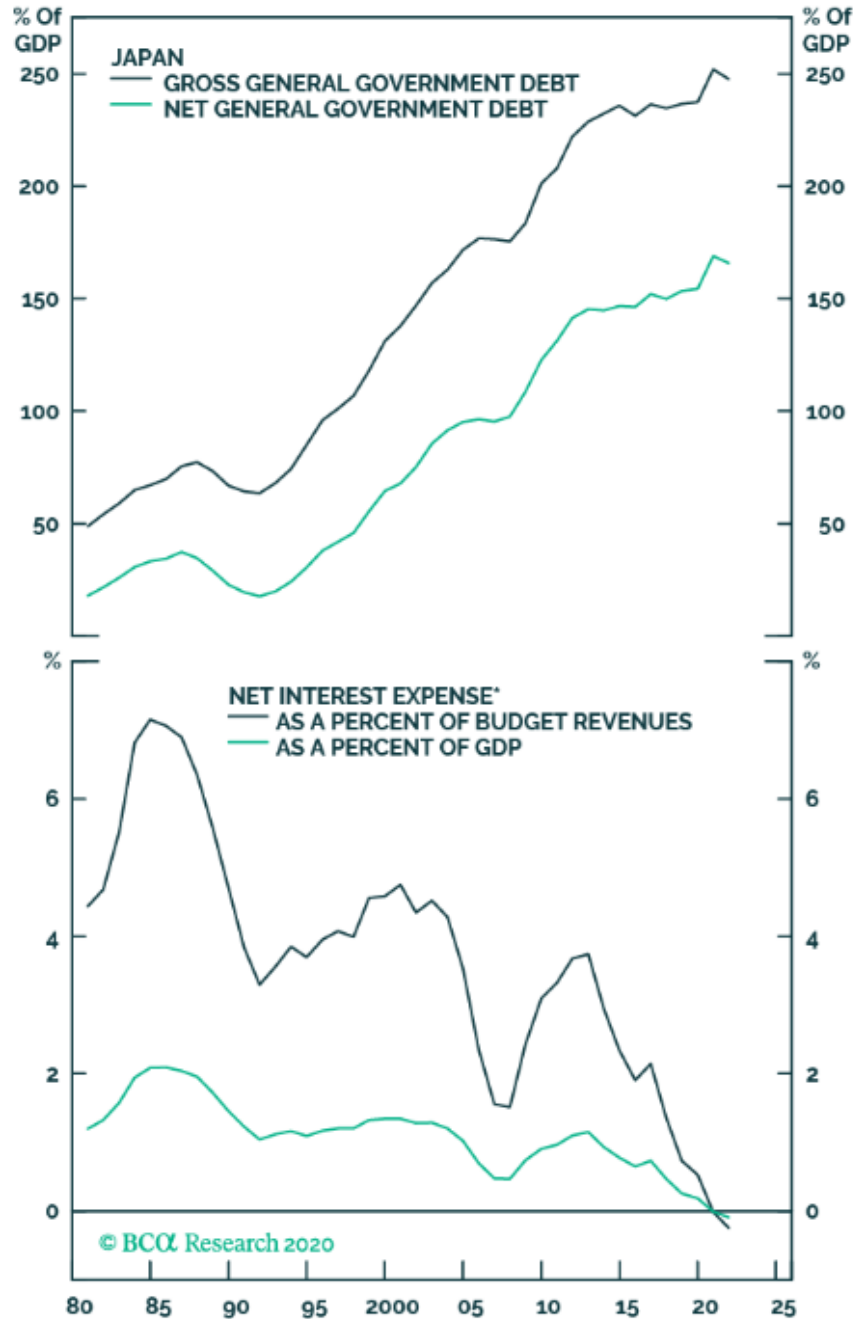
That sentence is strange enough that it deserves an explanation. Japan has long been the poster child for extreme levels of government debt. Japan has the highest level of government debt as a percentage of GDP in the developed world. We would normally expect that as the level of debt increases, it becomes more and more difficult to deal with. This would certainly be true on a personal level, but when governments borrow, sometimes we get very counterintuitive results.

The chart on the right shows that while gross and net general government debt in Japan was rising rapidly over the last 30 years, net interest expense as a percentage of GDP and as a percentage of budget revenues has fallen. This is due to the decline in interest rates that has taken place in Japan.

Interest rates have now fallen so far, that the average interest rate that the Japanese government pays on its debt is now negative. That means that the Japanese government now earns more money than it pays on its own debt.

While there is almost certainly a limit to how far this can go and how long it lasts, we appear to have moved past the theoretical limit of how much debt a government can issue. This certainly bears watching over time, to see how it plays out.

Japan: Ballooning Debt And Declining Interest Payments



* NET INTEREST EXPENSE CALCULATED AS GENERAL GOVERNMENT PRIMARY BALANCE MINUS GENERAL GOVERNMENT OVERALL BALANCE. SOURCE: IMF. INCLUDES FORECAST FROM THE APRIL 2020 IMF FISCAL MONITOR.

2020 Silver Linings – Major Scientific Breakthroughs

2020 was obviously a very difficult and in many ways, a horrible year. There have been some exciting developments that have mostly gone un-reported or, at least un-noticed that we would like to highlight. Below are links to interesting articles along with key quotes about the technologies.

- *Messenger RNA gave us a COVID-19 vaccine. Will it treat diseases, too?*
(<https://www.sciencemag.org/news/2020/12/messenger-rna-gave-us-covid-19-vaccine-will-it-treat-diseases-too?>)

In this article, the authors describe how messenger RNA (mRNA) was, prior to the recent success of two COVID-19 vaccines, a completely unproven medical technology that could end up being used to deliver both vaccines and drugs.

Key Quote: *“One mRNA sequence might mend a damaged heart by producing a protein that stimulates blood vessel growth. Another might encode a missing enzyme to reverse a rare genetic disease. Now, the vaccine wins have created a “tsunami” of enthusiasm around the concept...”*

Message in a bottle

Although dozens of trials are testing messenger RNA to arm the immune system against viruses or cancer, only a few companies have launched small clinical trials of other therapies—such as mRNA to replace missing or defective proteins. Here are some.

Condition	Protein encoded by mRNA	Route of administration	Sponsoring company
Cystic fibrosis	CFTR, which maintains fluid balance across membranes	Inhaled	Translate Bio
Heart failure	VEGF-A, which stimulates blood vessel growth	Epicardial injection	AstraZeneca

- *Team behind Oxford Covid jab start final stage of malaria vaccine trials.*
(<https://www.theguardian.com/world/2020/dec/05/team-behind-oxford-covid-jab-start-final-stage-of-malaria-vaccine-trials>)

According to this article, early results from the malaria vaccine trials have been promising and could be in use by 2024 if the final human trials are successful.

Key Quote: *“A lot more people will die in Africa this year from malaria than will die from Covid. I don’t mean twice as many, probably 10 times,” Hill said. The vaccine “is going to be available in very large amounts, it works pretty well. And it’s going to be very low priced.”*

- A novel concept for one universal (flu) vaccine candidate has now passed its first test in a small clinical trial (<https://www.sciencemag.org/news/2020/12/innovative-universal-flu-vaccine-shows-promises-it-first-clinical-test>)
- SpaceX submits paperwork for 30,000 more Starlink satellites. (<https://spacenews.com/spacex-submits-paperwork-for-30000-more-starlink-satellites/>)

The Starlink program by SpaceX (another one of Elon Musk’s ventures) continues to show progress. The program aims to provide high speed, satellite-based, internet connectivity to the entire world. This is especially important for developing nations and people who live in very remote locations that don’t have access to traditional broadband internet.

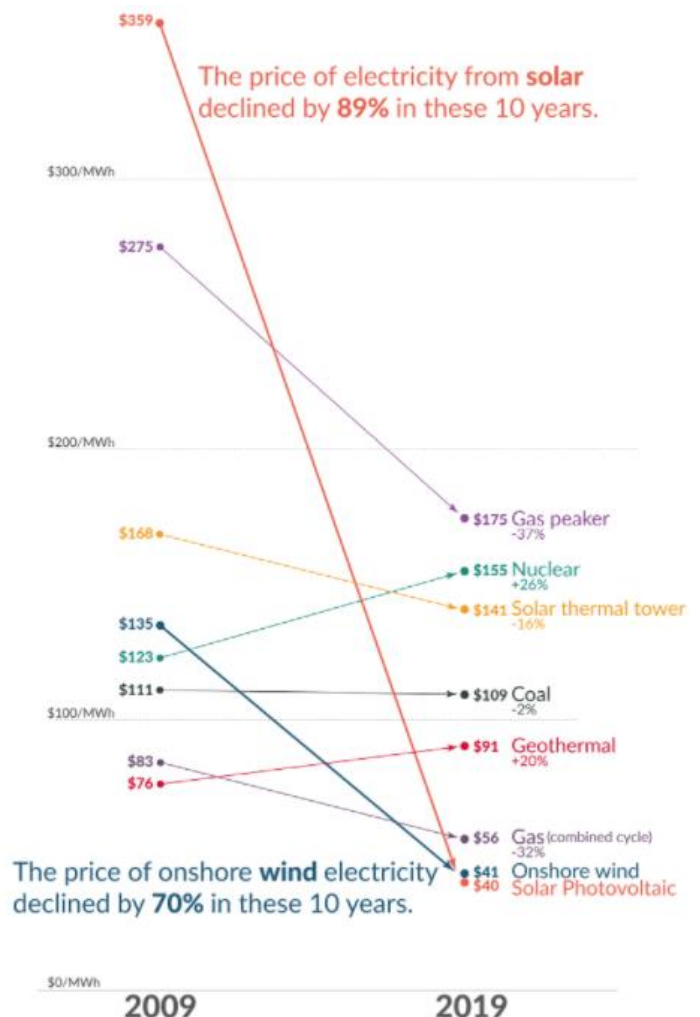
Key Quote: “SpaceX, which is already planning the world’s largest low-Earth-orbit broadband constellation by far, filed paperwork in recent weeks for up to 30,000 additional Starlink satellites on top of the 12,000 already approved by the U.S. Federal Communications Commission.”

- ‘The game has changed.’ (<https://www.sciencemag.org/news/2020/11/game-has-changed-ai-triumphs-solving-protein-structures>)

Key Quote: Artificial intelligence (AI) has solved one of biology’s grand challenges: predicting how proteins curl up from a linear chain of amino acids into 3D shapes that allow them to carry out life’s tasks... the DeepMind method will have far-reaching effects, among them dramatically speeding the creation of new medications.

- Why I’m so excited about solar and batteries: “Atoms” technologies might bring back fast productivity growth. (<https://noahpinion.substack.com/p/why-im-so-excited-about-solar-and>)

This article provides more information about the stunning decline in the cost of solar and wind energy during the last decade. Solar and onshore wind are now more cost effective than traditional energy sources.



Data: Lazard Levelized Cost of Energy Analysis, Version 13.0
 OurWorldInData.org – Research and data to make progress against the world’s largest problems. Licensed under CC-BY by the author Max Roser.

Todd Degelman MBA, Founder & Vice-Chairman & Chad Pruden PFP®, CIM®
Degelman Pruden Group, Wellington-Altus Private Wealth
1360 – 410 22nd St East, Saskatoon SK, S7K 5T6
Tel: 306-657-4400 / 1-866-844-4400 / Fax: 306-657-4410
todd.degelman@wprivate.ca / chad.pruden@wprivate.ca / <https://advisor.wellington-altus.ca/degelmanprudengroup/>



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