CUMBERLAND
Private Wealth

2020 Year End Review

GLOBAL EQUITY AND INTERNATIONAL STRATEGIES

Looking back on 2020, it can be described as a roller-coaster year and one that many people are happy to put behind them. The year began with COVID-19 and it ended with a vaccine, which is one of the fastest ever produced as measured from the time of development to distribution. The stock market, as measured by the MSCI World Index, collapsed by approximately 35% from its pre-pandemic high in February, and then rebounded by nearly 70% to reach a new peak in December. All of this happened over an 11-month period and thankfully it ended on a positive note with help from government stimulus packages, backstops from the Fed, and the resiliency of the capital markets.

Market Review

Despite a very difficult start to the year, global equity markets rose significantly after putting in a bottom in late March. However, there was a very wide divergence in the performance among sectors and the different geographic regions around the world.

A number of stock market indices were up significantly such as the S&P 500 (+16.3%), the MSCI World Index (+14.1%), and the MSCI Emerging Markets Index (+15.8%). But not all stock markets generated double-digit returns. Some markets generated low single digit returns such as Canada's TSX Composite Index, which ended the year with a gain of +2.2%. Meanwhile, several markets around the world generated negative returns during 2020. This includes the FTSE 100 Index in the United Kingdom (-14.3%), the CAC 40 in France (-7.1%), and the Borsa Italiana in Italy (-5.4%).

The performance among industry sectors tells a similar story in terms of the wide divergence. If there is one sector that benefitted disproportionately from COVID-19, it was the Technology sector. This was reflected in the performance of the Nasdaq Composite Index, which increased by a whopping 43.6% during 2020! Although the strong market rebound benefitted some cyclical sectors, the returns within the economically sensitive industry sectors varied significantly. For example, Consumer Discretionary (+32.1%) and Materials (+18.1%) generating strong gains while Energy (-37.3%) and Financials (-4.1%) lagged significantly.

Portfolio Review

Portfolio activity was busy during the fourth quarter as we added 4 new holdings to the Global Equity strategy. A business description for each of the new holdings follows:

1) **Analog Devices** is one of the world's leading analog integrated circuit and power management semi-conductor companies. Its analog chips help bridge the physical world into digital by sensing and processing waveforms such as speech, music, video, and more. Their products are an integral part of many exciting new technology developments such as industrial automation, autonomous vehicles, and vehicle electrification; with many years of growth ahead as they increase their exposure to these growing markets. In addition to their organic growth opportunity, Analog Devices has successfully grown its business through acquisitions. Throughout its history, the company has acquired companies with leading positions in related products and has been able to create shareholder value through both cost and revenue synergies. Its latest acquisition, Maxim Integrated, is expected to close in 2021 and it will deepen its leading position in power management chips - giving it increased exposure to automotive and data center markets.

2) **Intuit** is a leading provider of business and financial management solutions for small businesses, consumers, accounting professionals, and financial institutions. The company is best known for its flagship products QuickBooks, TurboTax, and Quicken. Intuit was founded in 1983 and is headquartered in Mountain View, California. Throughout its history, Intuit has fostered a culture of innovation and vision. The company also aspires to be at the forefront of the technology curve. In recent years, the company has successfully transitioned over 400 of its applications to the cloud. This provides Intuit with a dataset that can provide unique insights as it leverages its artificial intelligence and machine learning capabilities. The company is well positioned for growth given that the majority of small businesses in the United States still don't use any accounting software and the majority of US citizens still pay professionals to help file their taxes.

3) Founded in 1866, **Sherwin-Williams** is a global leader in the manufacture, distribution, and sale of paints, coatings, and related products to professional, industrial, commercial, and retail customers. The company sells its products through a chain of more than 4,900 company operated stores. The company also sells its products through leading mass merchandisers, home centers, independent paint dealers, hardware stores, automotive retailers, and industrial distributors. The company's crown jewel is the North American paint store network, which caters primarily to professional painting contractors. This store network continues to expand and it generates very attractive returns on invested capital. The company enjoys strong pricing power and there is an opportunity to improve the margins from the businesses acquired from Valspar. The company is benefitting from the strength in the US residential housing market and is also starting to see a recovery in its industrial end-markets as the global economy recovers from COVID-19.

4) **Schneider Electric** is a global leader in electrical distribution, automation, and energy management products. The company operates through its Low Voltage, Medium Voltage, Secure Power, and Industrial

Automation segments. Schneider is exposed to four main end-markets including non-residential & residential buildings, industrial & machines, utilities & infrastructure, and data centres & networks. The company is well positioned to help address one of the world's biggest challenges. Over the next 40 years energy consumption is expected to grow by 50% yet there is a goal to cut carbon emissions by half to address global climate change. Schneider's energy efficiency and automation products will play a key role in addressing this global challenge. Schneider Electric is a well-run company that has created significant value for its shareholders over a long period of time and the company is also well positioned from an ESG perspective.

During the fourth quarter, we implemented a 30% hedge against the US dollar. The currency hedge was put in place given our belief that the Canadian dollar is likely to appreciate against the US dollar over the next 6-12 months. Global manufacturing PMI data has been quite strong in recent months as the global economy continues to recover from COVID-19. In addition, there has been a significant increase in the price for a wide range of commodities (copper, nickel, iron ore, etc.) over the last 3-6 months. In previous cycles, these types of developments have typically been associated with a strengthening of the Canadian dollar. As seen in the chart below, the Canadian dollar has appreciated materially against the US dollar during previous global economic recoveries.

CAD/USD

Source: Tradingview.com

From 2003-2007, the Canadian dollar appreciated by nearly 70% as the global economy recovered from the recession of the early 2000's. During the years following the 2008-09 Financial Crisis, the Canadian dollar appreciated by more than 30%. Given that we are in the early stages of the recovery from the COVID-19 downturn, we believe the Canadian dollar is going to appreciate against the US dollar so that is our rationale for implementing the currency hedge.

Outlook

As we look ahead to 2021, we are reflecting on what has occurred during the very unusual recession of 2020. The severity of the GDP declines and job losses in the latest recession have not been seen since the 1930's. This would normally imply very strong headwinds for an economic recovery. Although the decline in GDP and jobs was severe, there were some offsetting factors. For example, in the United States disposable income actually increased in the same month that 20 million jobs were lost. Furthermore, disposable income has not at any point dropped below the pre-pandemic level given the unprecedented stimulus measures that were implemented. GDP bounced back after two quarters, and defaults in the banking system have been minimal given the support that central banks and governments provided to the credit markets.

The flood of liquidity provided by central banks during the pandemic pushed real yields into negative territory. This encouraged investors to take more risk which led to a surge in global stock markets. The approval of the vaccines at the beginning of November propelled the markets even higher. The result is that some stock markets like the S&P 500 are expensive by some historical measures such as the 12-month forward P/E ratio. On the other hand, real bond yields are still so low that there is no attractive alternative to risky assets. From our vantage point, we see a strong global economic recovery in 2021 with one important caveat. The vaccines must work as advertised with the 90%+ effectiveness rate that was demonstrated during the clinical trials. Given the low interest rate environment, ongoing stimulus measures, huge pent-up demand from consumers, and highly effective vaccines, we expect a strong rebound in the global economy that will become increasingly obvious as 2021 progresses.

If there was one key takeaway from 2020, it would be the resiliency of the stock market. This was on full display last year and it is something to keep in mind. Markets go up over the long term. However, from time to time there will be corrections and sometimes there will be market panics. Investors with a long-term investment horizon should use these periodic drawdowns as buying opportunities. As seen in the chart below, bull markets last much longer than bear markets and the returns generated during bull markets significantly outweigh the drawdowns experienced during bear markets.

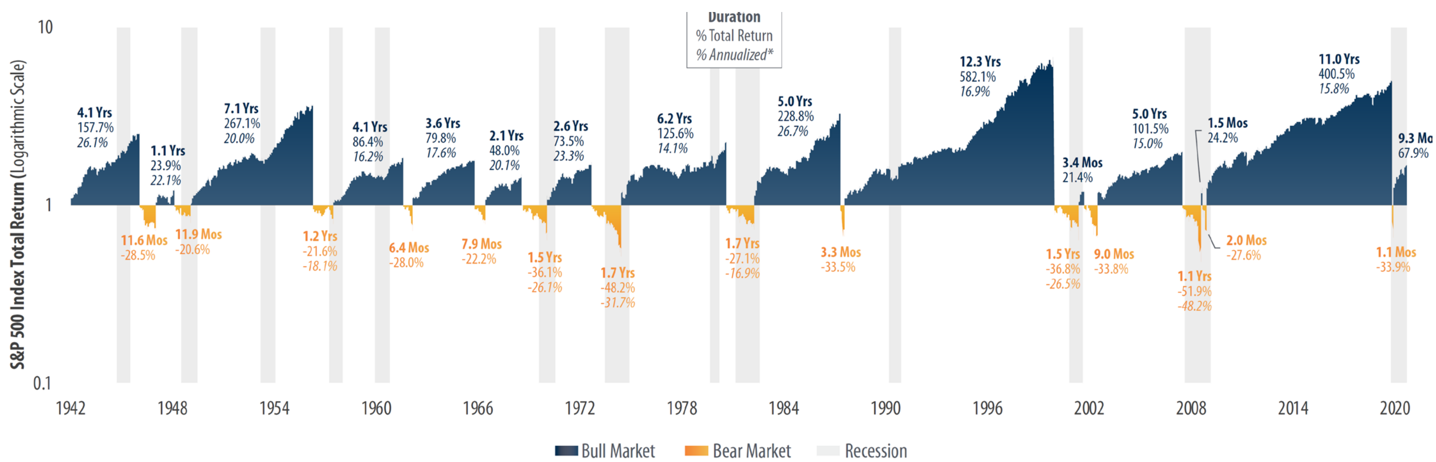
History of U.S. Bear & Bull Markets

1926-March 31, 2020

This chart shows daily historical performance of the S&P 500 Index throughout the U.S. Bull and Bear Markets since 1942. We believe looking at the history of the market's expansions and recessions helps to gain a fresh perspective on the benefits of investing for the long-term.

- The average Bull Market period lasted 4.4 years with an average cumulative total return of 152.6%.
- The average Bear Market period lasted 11.3 months with an average cumulative loss of -32.1%.

BULL	BEAR
From the lowest close reached after the market has fallen 20% or more, to the next market high.	When the index closes at least 20% down from its previous high close, through the lowest close reached after it has fallen 20% or more.



Source: Source: PDS Planning, First Trust Advisors L.P., Bloomberg. Daily returns from 4/29/1942 - 12/31/2020

In conclusion, we are cautiously optimistic on global equity markets as we begin the New Year. And we are even more optimistic with respect to the companies that we own in our portfolio. Our global equity portfolios continue to be constructed with high quality companies that are well positioned to compound the value of their businesses in the years ahead.

Phil D'Iorio
Lead Manager,
Cumberland* Global and International Equities
January 6, 2021

*Cumberland refers to Cumberland Private Wealth Management Inc. (CPWM) and Cumberland Investment Counsel Inc. (CIC). CIC acts as sub-advisor to certain CPWM investment mandates including the CPWM Global and International mandates with Phil D'Iorio as its lead Portfolio Manager. Phil D'Iorio is a Portfolio Manager at CIC.