

SURVEY: Advisors Optimistic, Investors Cautious on Q4 2020 Market Outlook

After months of COVID-19 market turbulence, advisors and investors diverge on outlook for final quarter

TORONTO – October 16, 2020 – After three quarters of COVID-19-driven volatility and economic uncertainty in 2020, advisors are optimistic about the prospects of a broader market recovery, while investors remain cautious looking toward the final months of the year, according to the fourth-quarter 2020 Advisor and Investor Sentiment Surveys (“**Q4 Surveys**”) from Horizons ETFs Management (Canada) Inc. (“**Horizons ETFs**”).

Every quarter, Horizons ETFs surveys investors and investment advisors for their outlook on expected returns for 14 distinct asset classes. These expectations are expressed in terms of bullish, bearish or neutral sentiment. The Q4 Surveys cover the period beginning October 1, 2020, and ending December 31, 2020.

Canadian Equities and the Dollar

In Q3 2020, Canada’s major equities benchmark – the S&P/TSX 60™ Index – posted a moderate gain of +3.54%. Looking toward Q4 2020, advisors have interpreted that growth as a sign of things to come, increasing their bullishness by 16 percentage points to an overwhelming 61% - their second highest rated measured asset class this quarter. Meanwhile, investors remain wary on domestic expectations, with bearishness still outstripping bullishness by one percentage point at 38% overall.

Despite colder temperatures on the horizon, both advisors and investors don’t see Canadian Energy, as represented by the S&P/TSX Capped Energy™ Index, heating up in Q4 2020, following a -14.91% drop in Q3 2020 – the largest performance decline of all asset classes measured last quarter. In response, advisor bullishness dropped 10 percentage points, resulting in an equal split of bullishness and bearishness. Investors were once again more pessimistic: bearishness increased by 8 percentage points to an overwhelming 51% bearishness overall.

Financials, as represented by the S&P/TSX Capped Financials™ Index, recorded a +2.78% gain in Q3 2020. Advisor confidence on Canadian Financials grew by 5 percentage points to 46% bullishness overall, while investors decreased their bullishness by 2 percentage points to 30%, with a 43% bearishness rating overall on the Canadian banks.

While both advisors and investors remain bearish on the outlook for the Canadian dollar vs. the U.S. dollar, positive sentiment is growing: advisors increased their bullish outlook by 2 percentage while investors’ faith in the Loonie was more pronounced with a 5 percentage point gain. The positive sentiment increases put both advisor and investor’s bullishness remains in close contention to overall bearishness, at 31% bullishness to 32% bearishness, respectively.



“While COVID-19’s market impact over Q3 was more muted than in Q2, the prospect of a new spike in cases and additional lockdown policy initiatives has many Canadians worried about the broader impacts on the country’s economic future,” said Steve Hawkins, President and CEO of Horizons ETFs. *“The divergence between advisors and investors is interesting and could be explained by advisor fixation on market performance, while investors are ‘baking in’ their personal experiences with unemployment, gas consumption, mortgage deferrals and other timely economic indicators into their outlook equation.”*

U.S. and International Equities

U.S. equity performance in Q3 2020 appeared to confirm the existence of a ‘V-shaped recovery’, as the markets, as represented by the S&P 500™ Index and the NASDAQ-100® Index, posted gains of +8.47% and +12.42%, respectively.

Advisors affirmed their belief in the United States’ prospects by increasing their bullishness in the S&P 500 by 12 percentage points to 60% overall, while fortifying their already overweight bullishness in the NASDAQ by 4 additional percentage points, to a 64% bullishness weighting.

While still bullish overall, investors once again were more hesitant: they did not record any sentiment gain on the S&P 500, leaving it at a flat 43% bullishness. On the NASDAQ, their outlook slid one percentage point to 48% bullishness overall.

International Equities, as represented by the MSCI Emerging Markets Index, also recorded stronger performance than previous measured quarters with a performance gain of +8.73% during Q3 2020. Advisors were also overwhelmingly bullish on this category, adding 17 percentage points of bullishness for an overall 59% bullishness – their largest sentiment jump of any category this quarter. Investors shed their bearish attitudes and increased their bullishness by 7 percentage points to 41% - four percentage points ahead the category’s bears.

“A large part of the COVID-19 market recovery we witnessed over the last quarter was the result of the continued growth and dominance of tech companies, which are overwhelmingly U.S.-domiciled,” said Mr. Hawkins. *“Strong efforts internationally to combat the virus, develop vaccines and stimulate economies have also buoyed emerging markets’ prospects, including China and India.”*

Commodities

After extreme volatility in Crude Oil Futures earlier in the year, it appears that both Canadian advisors and investors are concerned once again about the potential ramifications of more lockdowns on the price of crude oil. While the commodity achieved a modest 2.42% gain in Q3 2020, advisors and investors have both significantly decreased their bullish attitudes, with advisors reducing their bullishness by 12 percentage points to 39% bullishness overall and investors moving into overall bearish territory with a 14 percentage point drop to 35% bullishness.

Of the 14 asset classes measured in the Q4 2020 Surveys, Natural Gas Futures were the strongest performing in Q3 2020, with a 44.32% performance gain. Accordingly, both advisors and investors elevated their bullish sentiment in the commodity, with advisors increasing positive sentiment by 4 percentage points to 44% overall, and investors by 21 percentage points to 54% bullishness overall – their largest category gain this quarter.

“According to the International Energy Agency, the pandemic has led to the largest drop in oil demand in history, as many have opted to work-from-home instead of commuting, and air travel has fallen off significantly,” said Mr. Hawkins. *“Add to that an increasing focus on renewable energy, electric vehicles and reduced support for Canada’s oil sands industry, and it’s easy to see why both advisors and investors are skeptical about the future of crude oil.”*

Defensive Asset Classes: Gold, Silver and Fixed Income

Despite stronger equity performance in Q3 2020, traditionally defensive asset classes, including Gold Bullion and Silver Bullion, reported healthy performance gains, with gold generating a +5.89% uptick and silver with a commanding +27.62% swing.

Advisors increased their bullishness on Gold Bullion by 5 percentage points to 59% overall, while investors jumped 6 percentage points to 65% — their most bullish asset class. Silver Bullion largely followed suit, with advisors increasing their bullishness by 2 percentage points to 50% and investors by 10 percentage points to 60%.

After continued positive equity performance and low interest rates, both advisors and investors are unenthused with the prospects of fixed income. On U.S. Treasuries, as represented by the Solactive 7-10 Year Treasury Bond Index, investors decreased their bullishness by 6 percentage points to just 20% - their lowest for any category. Advisors were even more pessimistic, reducing their outlook by 4 percentage points to 14% bullishness.

Marijuana

Marijuana companies, as represented by the North American Marijuana Index, continued their multi-quarter declines through Q3 2020, falling -2.63% through that period. Advisors once again reduced their positive outlook for the budding sector by 9 percentage points to just 23% bullishness, compared to an overall 44% bearishness. While dropping their bullishness by 6 percentage points, investors remained slightly bullish on cannabis, with a 40% rating overall.

“As a young industry, Canada’s licensed producers and cannabis companies have had to learn to navigate these difficult times to stay afloat, while having less access to the capital markets to raise cash and wait things out” said Mr. Hawkins. *“Despite this, sales continue to increase here in Canada and there is the potential for significant marijuana reform and growth in the United States with the increasing possibility of a Democrat Presidential win in November, which could provide strong momentum for the sector going into 2021.”*



HORIZONS ETFs
by Mirae Asset

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Horizons ETFs Management (Canada) Inc. is an innovative financial services company and offers one of the largest suites of exchange traded funds in Canada. The Horizons ETFs product family includes a broadly diversified range of solutions for investors of all experience levels to meet their investment objectives in a variety of market conditions. Horizons ETFs has approximately \$14.9 billion of assets under management and 93 ETFs listed on major Canadian stock exchanges, as at September 30, 2020.

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