

SURVEY: Investors and Advisors at Odds in 2021 Financial Markets Outlook

With 2020 over, investors and advisors have reversed their outlooks heading into the New Year

TORONTO – January 21, 2021 – After the end to the economically and politically turbulent first year of the new decade, investors and advisors have very divergent views on their outlooks for the quarter ahead, according to the first-quarter 2021 Advisor and Investor Sentiment Surveys (“**Q1 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 Q1 Surveys cover the period beginning January 1, 2021, and ending March 31, 2021.

Canadian Equities and the Dollar

Canada’s major equities benchmark – the S&P/TSX 60™ Index – grew +6.98% in Q4 2020. In response, investors awarded it one of their largest quarter-over-quarter increases in bullish sentiment during the Q1 Surveys, increasing their confidence by 19 percentage points to 56% overall. Advisors on the other hand remained doubtful about the new year’s prospects for Canadian equities and reduced their bullish outlook by 13 percentage points to 48% overall.

Energy stocks, as represented by the S&P/TSX Capped Energy™ Index, delivered a 39.91% return in the fourth quarter as global demand started to recover and prospects for increased energy consumption improved as vaccines started to be rolled out globally. Investors signaled a significant increase in bullish sentiment on the prospects of Canadian Energy and increased their bullishness by 25 percentage points to 52% bullishness overall – their largest quarter-over-quarter sentiment growth, as measured by the Q1 Surveys. Advisors also saw potential for Canadian Energy to heat up as well, increasing their bullishness by 3 percentage points to 39% overall, while still remaining overall neutral on the sector.

Also buoyed by strong end-of-year reporting and optimism about the vaccine rollout, Financials, as represented by the S&P/TSX Capped Financials™ Index, achieved an impressive +15.40% gain in Q4 2020. Once again, investor bullishness marched in-step with performance, with a 22 percentage point increase in bullishness to 52% overall, and dragging the overall sentiment out of the bearish territory recorded last quarter. Advisors remained skeptical and bullish sentiment within this group actually declined by 1 percentage point to 45%, opting instead to redistribute their sentiment largely from a bearish to neutral position overall.

One metric that investors and advisors agreed upon was the outlook for the Canadian dollar vs. the U.S. dollar. Despite only a +4.61% gain in the Loonie’s value relative to the U.S. dollar, both investors and advisors exited last quarter’s bearish sentiment position, with advisors adding 6 percentage points to reach 37% bullishness overall, while advisors added 10 percentage points for a total bullishness rating of 41%.

“With 2020 in the rearview mirror, it’s clear that many Canadian investors are optimistic about the New Year ahead for our country, whereas Advisors are clearly entering 2021 with a cautious tone,” said Mark Noble, Executive Vice-President of ETF Strategy at Horizons ETFs. *“Following continued impressive gains across a number of Canadian equity sectors during Q4 2020, it appears that investors are responding in-kind to the late rally. Despite more caution, advisors are still primarily bullish on the prospects of a Canadian recovery but might be taking the view that valuations have run a bit ahead of an actual recovery.”*

U.S. and International Equities

U.S. equity performance in Q4 2020 continued its remarkable ascent from their Q1 2020 lows with the S&P 500™ Index posting an +11.69% gain in Q4 2020, while the tech-dominated NASDAQ-100® Index added another +12.44%.

In our Q1 Surveys, investors demonstrated strong confidence in both U.S. indices, increasing their bullishness by 12 percentage points to 55% on the S&P 500 and 11 percentage points to 59% bullishness on the NASDAQ-100.

Meanwhile, advisors were more conflicted on their outlook. After identifying the NASDAQ-100 as their top bullish index for Q4 2020, advisors retracted their confidence in the index by 16 percentage points to 48% overall. Looking ahead to Q1 2021, of the 14 indices and asset classes measured, advisors highlighted they were most confident in the S&P 500, increasing their bullish conviction by 9 percentage points to 69% overall.

International Equities, as represented by the MSCI Emerging Markets Index, also recorded a strong performance in Q4 2020 with a gain of +19.34%. Investors saw opportunity in global markets, increasing their bullishness by 18 percentage points to 59% overall. Advisors, previously at 59% bullishness last quarter, instead retracted their confidence slightly at 2 percentage points, while remaining overwhelmingly bullish at 57% overall.

“Beyond the COVID-19 pandemic, one of the themes that 2020 will be remembered for is the acceleration and adoption of disruptive technologies that catalyzed the market growth of U.S. and global tech companies,” said Mr. Noble. *“It is interesting to note that the NASDAQ-100 was consistently one of the top-ranking indices for advisors through much of 2020, and this quarter represented a stark reversal in that sentiment. This may underpin a belief amongst advisors that the cyclical sectors that really struggled in 2020 might be poised to outperform the technology-heavy NASDAQ-100, as the world hopefully embarks on a global recovery from the COVID-19 Pandemic.”*

Commodities

While 2020 was marked by unprecedented and extreme volatility in crude oil futures in the early part of the year, it appears fears have dissipated for investors as they marked a 12 percentage point rise in bullishness on Crude Oil Futures. Advisors did not agree: instead, decreasing their bullishness by 2 percentage points, they moved into an overall bearish sentiment position, despite a +20.64% performance gain in Crude Oil Futures.

Historically, Natural Gas Futures typically see a period of relative seasonal strength in the first quarter of a year, particularly during January and February. Despite that seasonal phenomenon, both investors and advisors were united in their rebuke of the commodity, with investors minimizing their bullishness by 6 percentage points to 48% bullishness overall, while advisors withdrew by 13 percentage points to 31% bullishness; like Crude Oil Futures, leaving them firmly in an overall bearish position. In Q4 2020, Natural Gas Futures posted a modest +0.47% performance gain.

“Another investment story that 2020 will be remembered for is the first instance of negatively priced crude oil futures in history – something many never thought was possible,” said Mr. Noble. *“However, with mass*

vaccination rollouts beginning globally, there is an increasing optimism in a return to some semblance of normal in 2021 and with it, a demand for oil to fuel the economic renewal.”

Defensive Asset Classes: Gold, Silver and Fixed Income

While Gold Bullion typically holds the spotlight among precious metals, it was Silver Bullion that shone in Q4 2020, with the metal achieving a +20.64% performance gain in the quarter, compared to Gold Bullion’s modest +0.66% gain.

In response, investors decreased their bullishness on Gold Bullion by 9 percentage points to 57% overall, while advisors withdrew 26 percentage points to 33%, pushing their stance into an overall bearish position. Despite its Q4 2020 performance, Silver Bullion also saw a decline in bullish sentiment, with advisors decreasing their bullishness by 29 percentage points to just 31% and investors decreasing 3 percentage points to 57%.

Amid low yield and robust equity markets, advisors and investors continue to be unenthused with the prospects of U.S. Treasuries, as represented by the Solactive 7-10 Year Treasury Bond Index. Both investors and advisors saved their lowest sentiment scores for the index, which posted a negative performance of -1.29% in Q4 2020, with investors reducing their bullishness by 2 percentage points to 18% overall, while advisors removed 6 percentage points to sit at 8% bullishness overall.

Marijuana

After multi-quarter declines, Marijuana companies, as represented by the North American Marijuana Index, proved to be the best performing asset class of those measured, achieving a +50.29% performance gain in Q4 2020. Following a 20 percentage point gain in bullishness, Marijuana finished as the asset class with the highest bullish sentiment among investors at 60%. Similarly, advisors also saw reason to increase their favorability amid the sector’s momentum, adding 10 percentage points to their bullishness to 33%, moving from an overall bearish position to a neutral stance.

“Marijuana-focused equities have rallied strongly in the last few months and appear to have carried this momentum into 2021,” said Mr. Noble. *“With the ascendance of President Joe Biden and Vice President Kamala Harris to the White House, in conjunction with a now Democrat-controlled House and Senate, the stars might be aligned for the passage of key legislation, like the MORE Act, which could potentially lead to federal marijuana legalization in the United States. A fully-legalized U.S. market could dramatically increase the revenue growth potential for Marijuana businesses located in North America.”*

About Horizons ETFs Management (Canada) Inc. (www.HorizonsETFs.com)

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 currently has over \$17 billion of assets under management and 93 ETFs listed on major Canadian stock exchanges.

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