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UNIT TRUST CORPORATION

ADVISORY SERVICES DEPARTMENT

Newsletter

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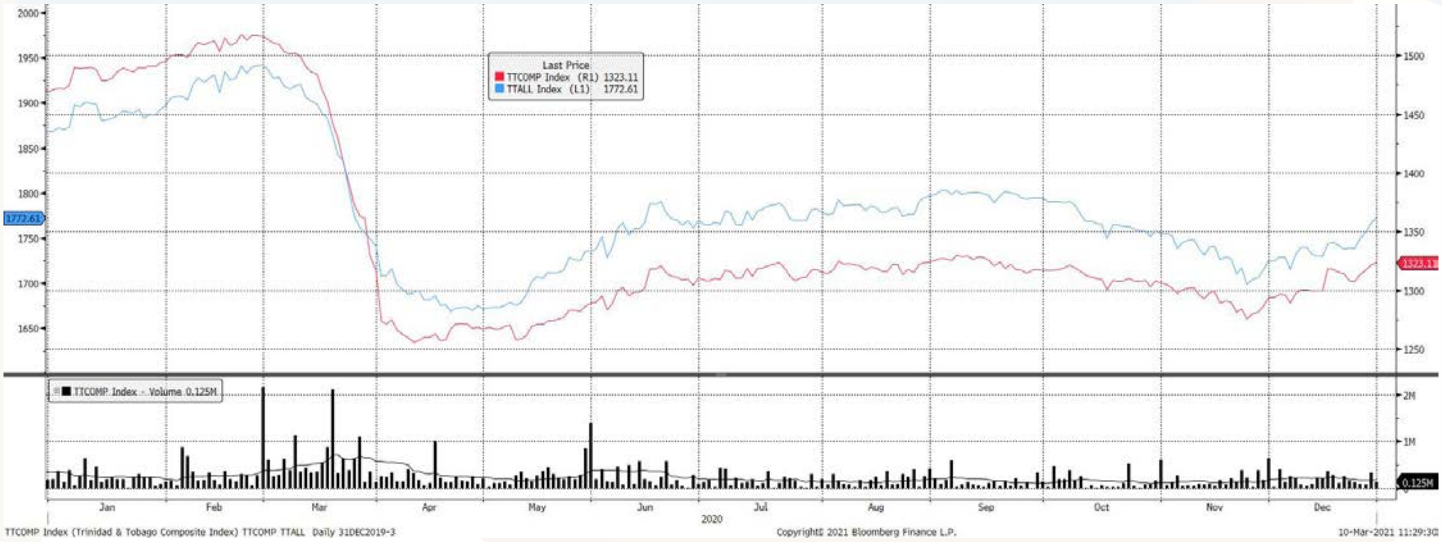
FINANCIAL MARKETS IN 2021: WHAT TO EXPECT?

The year 2020 will go down in the record books as quite a remarkable year worldwide for both individuals and financial markets alike. The 2019 novel Coronavirus (COVID-19) took the world by storm and was a major disruptor to the status quo. The forced closure of businesses and schools resulted in a "new normal" in the way people and businesses function. In this issue of our quarterly ***Newsletter***, we touch on the financial markets at home here in T&T and in the US and look at what 2021 may have in store for markets.

T&T MARKET RECAP AND OUTLOOK

All three major local stock market indices finished down in 2020. The T&T Composite Index (all companies on the local stock market) fell 9.9%, the All T&T Index (only local companies) fell 5.2% and the Cross Listed Index (only regional companies) closed 18.4% lower as at the end of 2020. The T&T Composite Index (which includes all local and cross-listed companies) opened 2020 at 1,468 and reached a yearly high of 1,518 before declining rapidly as the pandemic took hold to reach a low of 1,266 on April 9, 2020 and went on to recover by year end, closing at 1,323. **Graph 1** looks at the T&T Composite and All T&T indices for 2020.

Graph 1: Composite and All T&T Indices 2020



Source: Bloomberg

The top advances and declines in 2020 on the local stock market are shown in **Table 1** below.

Table 1: 2020 Top Advances and Top Declines

TOP ADVANCES	Annual Change	TOP DECLINES	Annual Change
National Flour Mills	59.3%	Guardian Media Ltd.	-54.4%
Trinidad Cement Ltd.	25.0%	National Enterprises Ltd.	-45.7%
Ansa Merchant Bank Ltd.	11.5%	One Caribbean Media Ltd.	-43.1%
Republic Financial Holdings	2.9%	T&T NGL Ltd.	-29.1%
Angostura Holdings Ltd.	1.2%	Unilever Caribbean Ltd.	-27.6%

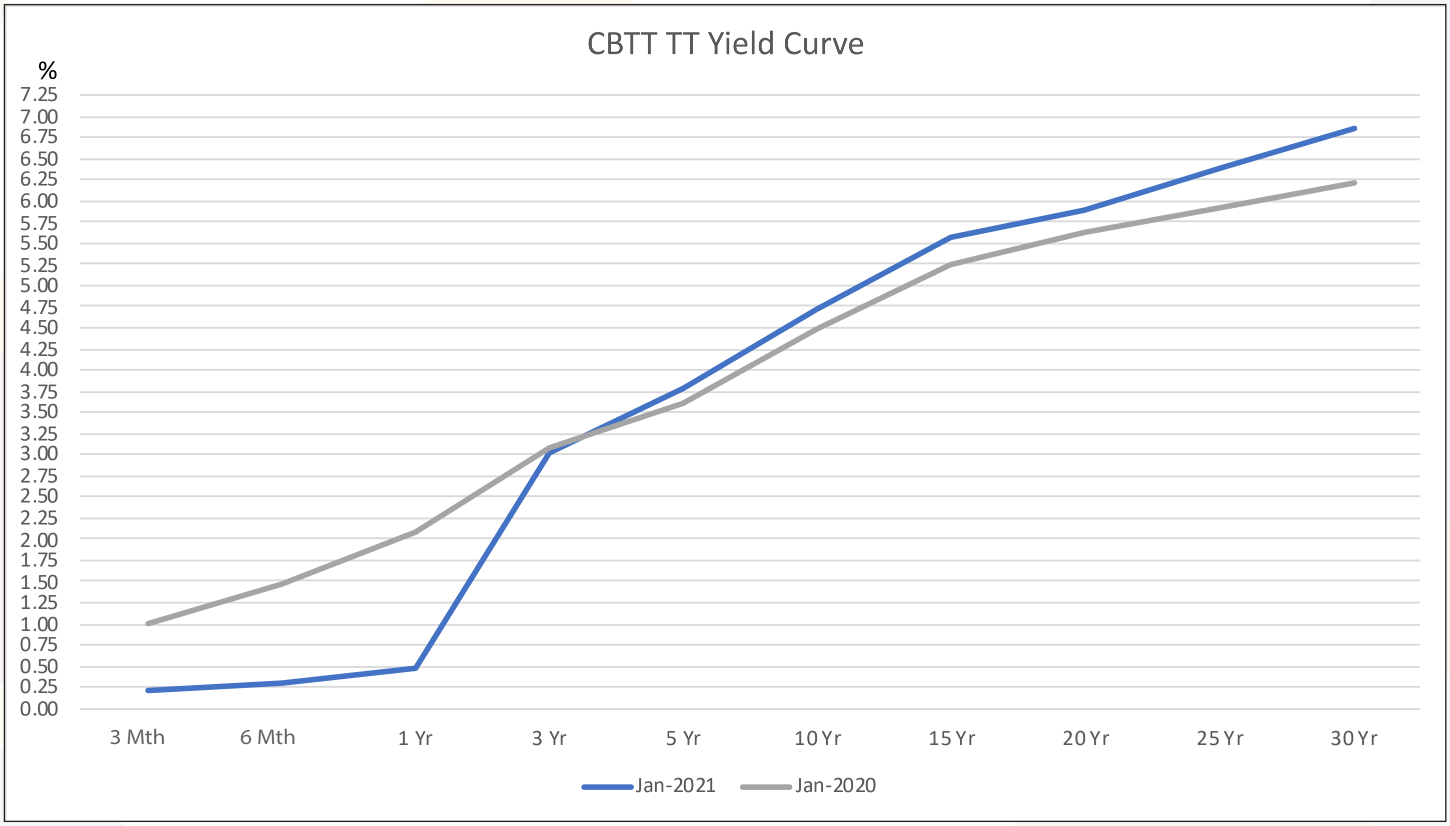
Source: Trinidad and Tobago Stock Exchange

According to the Central Bank of Trinidad and Tobago, real economic activity decreased by 8.7% in the third quarter ending September 2020 with the Energy sector contracting 20.1% and the Non-Energy sector declining 1.5%. There was, however, growth in the Construction sector of 12.4%. There continues to be a significant decline in the production of natural gas and related energy sector products due to the coronavirus outbreak. COVID lockdowns and other restrictions led to a falloff in demand for energy. As a result, much lower revenues were collected in the first quarter (October 2020 to December 2020) of fiscal year 2021 on account of lower energy production and lower international energy prices. There was some recovery in international energy prices as at February 2021 as COVID-19 vaccines are rolled out and global economic engines restart.

Inflation remains relatively subdued with headline inflation at 0.8% in December 2020. Food inflation though, rose to 4.5% in December 2020 from 2.3% in July 2020. The coronavirus led to substantial labour market slack throughout 2020. This slack is a measure of the quantity of labour that could be employed productively but is idle, according to the Central Bank. In March of 2020, Standard and Poor's lowered T&T's sovereign rating to BBB- from BBB citing lower forecasted oil and gas prices which will cut T&T's revenues which in turn will lead to heightened levels of borrowings, increasing government debt.

The interest rate environment saw deep cuts in 2020 as the Central Bank took measures to stimulate the economy. The repo rate was cut by 1.5% to 3.5% in March 2020 and the primary reserve requirement on commercial bank deposits was lowered to 14% from 17%. This resulted in increased liquidity in the system and lower borrowing as well as saving rates. **Graph 2** below shows the Central Bank's yield curve for the months of January 2020 and January 2021. From the graph, it can be seen how much lower short-term rates are in 2021 compared to 2020 because of high levels of liquidity in the system. On the long end of the curve, the sovereign rating comes into play as we are seeing higher rates in 2021 compared to 2020. Higher rates usually indicate higher risk.

Graph 2: Central Bank of Trinidad and Tobago (CBTT) Yield Curve



Source: Trinidad and Tobago Central Bank

Entering 2021, the local economy is faced with many headwinds given the trends seen in the macroeconomic indicators discussed earlier. The rollout of the vaccination programme throughout the year and lifting of COVID-19 restrictions should result in improved economic activity in 2021. The IMF is forecasting GDP growth for Trinidad and Tobago of 2.6% in 2021. In this environment, investors should adopt a stock-picking approach, conducting thorough analysis of a company's financial statements and seeking out companies that are expected to perform well in a challenging economic environment.

US MARKETS RECAP AND OUTLOOK

US financial markets see-sawed in 2020 as news of the spread of the Coronavirus took hold. The S&P 500 opened the year at 3,231, reached a low of 2,237 in March as fear gripped the markets before recovering with many ups and downs in between to close the year at 3,756, a yearly return of 16.3%. See **Graph 3** below for the S&P 500 performance in 2020.

Graph 3: S&P 500 Performance 2020

Source: Bloomberg

Of the 11 S&P 500 sectors, the top five performing sectors were Information Technology which was up 42.2%, followed by Consumer Discretionary up 37.1%, Communications Services up 22.2%, Materials up 18.1% and Industrials up 9.0%. Given the shift towards work from home, it's no surprise that the Information Technology sector saw the highest gains in 2020. Four sectors finished lower in 2020; led by Energy, down 37.3%, followed by the Real Estate, Financials, and Utilities sectors down 5.2%, 4.1% and 2.8% respectively, See **Table 2** on page 5 for sector returns. With the closure of borders and businesses having to find non-traditional ways to ensure business continuity, measures such as work from home were implemented. Such measures significantly reduced commuting, and oil and gas consumption declined as a result. This was the main contributor to the decline in the Energy sector in 2020.

Table 2: S&P Sector Returns 2020

View ● Members ○ Groups Period Cust 12/31/19 - 12/31/20 Total Return Currency LCL

Movers All

Negative Price Return	Groups (11)	Return	Positive Price Return
	S&P 500 ECO SECTORS IDX	16.26%	
	All Groups		
	1) S&P 500 INFO TECH INDEX	42.21%	
	2) S&P 500 CONS DISCRET IDX	32.07%	
	3) S&P 500 COMM SVC	22.18%	
	4) S&P 500 MATERIALS INDEX	18.11%	
	5) S&P 500 HEALTH CARE IDX	11.43%	
	6) S&P 500 INDUSTRIALS IDX	9.01%	
	7) S&P 500 CONS STAPLES IDX	7.63%	
	8) S&P 500 UTILITIES INDEX	-2.83%	
	9) S&P 500 FINANCIALS INDEX	-4.10%	
	10) S&P 500 REAL ESTATE IDX	-5.17%	
	11) S&P 500 ENERGY INDEX	-37.31%	

Source: Bloomberg

According to the IMF, the US economy contracted by an estimated 3.5% in 2020 and is expected to show growth of 5.1% in 2021 as coronavirus vaccines are rolled out extensively across the country. Newly elected President Joe Biden has already proposed a US$1.9 trillion stimulus package to help ease the economic fallout that is taking place. The unemployment rate is expected to come down slightly from 8.1% in 2020 to 7.3% in 2021. Given the high levels of fiscal and monetary stimulus, inflation expectations are rising with the IMF forecasting a 2.8% inflation rate for 2021 compared to the 1.2% estimate for 2020.

For the 2021 year to date period ended February 28, the S&P 500 is up 1.5% led by the Energy, Financials and Communication Services sectors. Of the 11 sectors, seven are up while four are down, consumer staples and Utilities led the declines, see **Table 3** below for sector returns.

Table 3: S&P Sector Returns 2021 YTD as at February 28, 2021

View ● Members ○ Groups Period Cust 12/31/20 - 02/28/21 Total Return Currency LCL

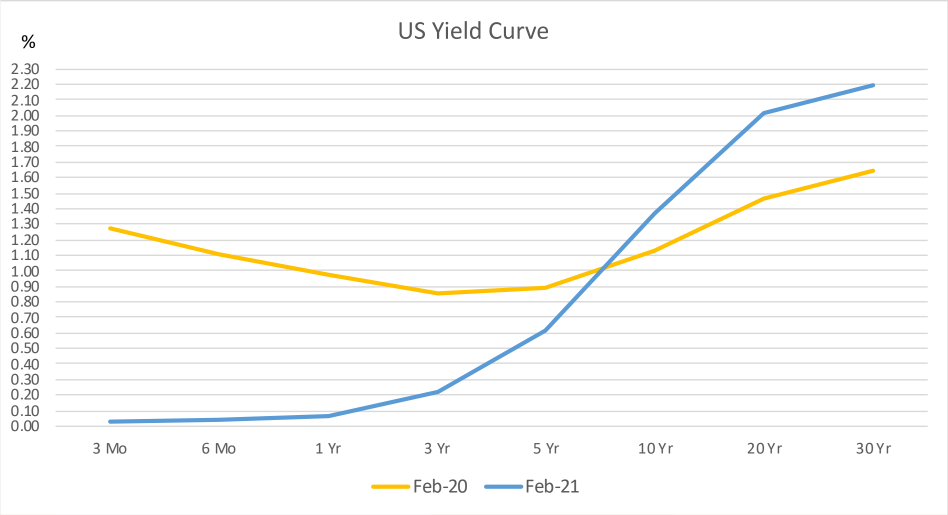
Movers All

Negative Price Return	Groups (11)	Return	Positive Price Return
	S&P 500 ECO SECTORS IDX	1.47%	
	All Groups		
	1) S&P 500 ENERGY INDEX	25.88%	
	2) S&P 500 FINANCIALS INDEX	9.22%	
	3) S&P 500 COMM SVC	4.58%	
	4) S&P 500 INDUSTRIALS IDX	2.00%	
	5) S&P 500 REAL ESTATE IDX	1.91%	
	6) S&P 500 MATERIALS INDEX	1.18%	
	7) S&P 500 INFO TECH INDEX	0.09%	
	8) S&P 500 CONS DISCRET IDX	-0.62%	
	9) S&P 500 HEALTH CARE IDX	-0.96%	
	10) S&P 500 CONS STAPLES IDX	-6.74%	
	11) S&P 500 UTILITIES INDEX	-7.43%	

Source: Bloomberg

The Federal Open Market Committee (US Central Bank) has maintained the target range for the federal funds rate at 0% to 0.25% since March 2020 in light of the effects of the coronavirus crisis on the economy. The Committee expects it will be appropriate to maintain this target range until labour market conditions have reached levels consistent with maximum employment and inflation has risen to 2% or more for some time. **Graph 4** below looks at the US yield curve in February 2020 and February 2021. Rates are much lower in the short tenors of up to one year in comparison to February 2020 as a result of much lower fed funds rate. There is yield pick up on the longer end of the curve when compared to February 2020 as the recovery commences and signs of inflation appear.

Graph 4: US Department of Treasury Yield Curve



Source: US Department of Treasury

Now that several vaccines (Pfizer, Moderna and AstraZeneca/Oxford) have been approved and introduced, the outlook is positive as businesses can resume to some extent. This has resulted in an uptick in demand for oil. The Energy and Financials sectors took a beating in 2020 and may benefit from the positive outlook for the US economy in 2021. While the broad markets are expected to rally in light of the economic recovery, the upside maybe limited, and stock picking remains vital.

SUMMARY

The outlook for 2021 will be heavily based on the international rollout of the COVID-19 vaccination plan. As vaccination rates increase, it is anticipated that countries will begin to lift lockdown restrictions and mobility will increase. The increase in mobility may in turn aid in revitalizing consumption and driving economic activity internationally. Given that the vaccine does not yet provide immunity, the COVID-19 virus will still be a factor in how business is conducted. Certain sectors may benefit more than others from the “new normal”. As an investor, it would be wise to assess the environment and determine what sectors will benefit in the medium to long term from the shifts that arose due to the pandemic and position your portfolios accordingly.

INVESTMENT TIPS FOR STOCK MARKET INVESTORS

MAKE INVESTING A HABIT

Start with a small amount and gradually add more as you become knowledgeable about the market and what factors affect market performance.

PICK GOOD COMPANIES

There are many companies to choose from in varying sectors. Understand what drives a company’s ability to generate revenues and profits, its place in the overall industry, its competitors and its long-term prospects.

DO NOT BE EMOTIONAL

The stock market tends to move up and down frequently and you may be tempted to sell on down days. Be confident and trust that your research on your picks will meet your targeted return.

DIVERSIFY

Spread your investments across sectors. In so doing, if one sector does not perform well and another does, your investment is preserved.

KEEP INFORMED

Monitor and read up on your holdings. There are a lot of resources available so that you can keep up with market trends and economic events.

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About the Advisory Services Department

The Advisory Services Department of the Trinidad and Tobago Unit Trust Corporation was established to serve our valued clients seeking financial and investment advice and solutions from a trusted service provider. We will assist you in enhancing your personal wealth and financial well-being by providing you with financial counselling, investment advice and solutions.

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