Global Markets Review

It has been one year since COVID-19 was declared a global pandemic. Global stock markets extended the recovery seen since November last year to close at all-time highs during the first quarter of 2021. All in all, global markets finished the quarter with solid performance, especially for pro-cyclical sectors, as several of them enjoyed double digit returns. The MSCI World Index gained 5.0% with the Energy sector the best performing sector, gaining 22.2% during the quarter; Financials was the second-best performing sector, outperforming the MSCI World Index by 8.3%. In North America, the S&P 500 was up 6.2% led by gains from the Energy sector, while the S&P/TSX Composite was up 8.1%, with Heath Care and Energy as the top performing sectors. In Europe, the STOXX 600 was up 8.4% for the quarter. Italy and France had the best performance, where the FTSE MIB and CAC 40 were up 11.3% and 9.6%, respectively. Germany's DAX gained 9.4%. Spain and U.K. also finished the quarter with solid returns as the IBEX 35 and FTSE 100 increased 6.7% and 5.0%, respectively.

During the quarter, global economies continued the path to recovery while certain parts of the world combated a third wave of COVID-19. We saw sequential improvement in manufacturing production as the March PMI reached a record high of 64.7 in the U.S., the unemployment rate continued declining during the first quarter. In the U.S., Democrats gained control of both the Congress and the White House for the first time since 2011. Election of Joe Biden as the 45th president of the United States paved the way for further fiscal stimulus. Biden's sharp focus on immunization efforts in combination with unprecedented fiscal stimulus pushed stock markets to new highs in March. At the same time, as a reflection of the improved growth outlook, global yield curves steepened and the U.S. 10-year treasury yield recovered to above 1.7%. Cyclical parts of the economy led the equity market rally, with Energy, Financials, Industrials and Materials gaining the most, while defensive sectors such as Consumer Staples and Utilities lagged. Performance of Information Technology stocks was lackluster overall due to investor sentiment shifting away from large capitalization growth names during the quarter. Risk appetites continue to favor pro-cyclical stocks as global economies pick up its pace.

Effective central bank and government policies played an essential role in the recovery of global equities. In North America, both the Federal Reserve and the Bank of Canada (BoC) remained highly accommodative and kept interest rate unchanged during the first quarter. In March, President Biden signed a US$1.9 trillion pandemic relief bill, titled the American Rescue Plan, into law. The plan includes additional stimulus cheques, enhanced unemployment aids, rental assistance and childcare support among other assistance. During the most recent FOMC meeting in March, the Fed saw Q1 2021 GDP expanding at a faster pace than Q4 of 2020 as well as improvement in labor market conditions. Consumer spending also fared better than Q4 of last year. In Canada, GDP growth in Q1 of 2021 is expected to be positive rather than the contraction projected back in January. While higher commodity prices and improvement in demand brightened the prospect of a recovery, employment levels remain well below pre-COVID levels. As such, the BoC expect to hold policy interest rates at the current level until at least 2023.

In Europe, the European Central Bank (ECB) kept the benchmark interest rate unchanged at -0.50%. ECB's president Christine Lagarde noted the uncertainty surrounding Europe's economic outlook due to the ambiguous dynamics of the pandemic and the unpredictable speed of inoculation campaigns. The Governing Council is continuing the current pace of purchase under the pandemic emergency purchase programme (PEPP) in the amount of EUR1,850 billion until at least the end of March 2022. Purchases under the asset purchase programme (APP) will continue at a monthly pace of EUR20 billion. The ECB projects an annual real GDP growth of 4% and an annual inflation rate of 1.5% in 2021.

At the end of the first quarter, the number of confirmed infections worldwide exceeded 134 million, about one and a half times greater than the number of infections at the end of 2020. On the other hand, global vaccination efforts are well underway, with the U.S. having administered 171 million doses of the vaccine as of the first week of April. According to the latest World Economic Outlook update issued by the International Monetary Fund (IMF) in April 2021, the global economy is projected to grow 6% in 2021, up from the previous forecast of 5.2%. The contraction of 2020 was also smaller than the previous projection due to outsized growth in the second half of 2020 driven by easing of lock-down measures. However, there still remains a high degree of uncertainty surrounding the global economic outlook; such as whether the new COVID-19 strains are susceptible to current vaccines, capacity adjustments in the economy and effectiveness of global policies.

Looking forward to the rest of 2021, we believe the rotation into pro-cyclical sectors is set to continue. First, wide COVID-19 vaccine coverage should allow societies to gradually normalize over the course of the year. Second, the Biden administration is laser-focused on boosting the economy through the American Rescue Plan and the proposed US$2.25 trillion infrastructure plan since his election, which should be supportive of further economic recovery. Third, the personal savings rate is sitting at the highest rate in the past decade. Consumers have a strong propensity to spend, which in turn should fuel economic growth. Overall, we are optimistic about equity performance heading the upcoming quarter. U.S. large capitalization stocks are likely to participate in the market rally but not necessarily lead the performance. Pro-cyclical sectors should extend their leadership that we saw since November into the upcoming quarters.

Portfolio Review:

Global Dividend Growth Split Corp. (the "Fund") units were up 5.8% for the first quarter of 2021, which drove a return of 10.4% on the Class A shares for the quarter. The unit return was roughly in-line with the MSCI World High Dividend Yield Index, which was up 6.1% over the same period.

The Fund benefited from its overweight positions in Information Technology and Financials. Within the Information Technology sector, semiconductor players including ASML, KLA Corp and Taiwan Semiconductor all had exceptional returns during the quarter. Supply chain issues and spikes in consumer demand as a result of the pandemic have translated into a major supply shortage, which is set to benefit semiconductor equipment players over the short to medium term. Financials has seen significant improvement in fundamentals as first, bank loan losses have likely peaked, and second, regulators have started to allow financial institutions to return capital to shareholders.

Offsetting some of the gains from our Information Technology and Financials calls were our overweight positions in Industrials and Materials. Both sectors were heavily impacted by the COVID-19 pandemic but saw significant fund inflows during the quarter. Positive news around the rollout of vaccines have alleviated some pressure in subsectors such as travel, machinery, and industrial conglomerates. Subsectors that were most severely impacted by the pandemic are set to see the largest earnings revisions as they lap weak earnings results from last year. We are bullish on both of these sectors heading into the rest of 2021. Underweight positions in Utilities were also a deterrence to the Fund's gains. Renewable players had solid performance at the beginning of the year, but performance lagged for the rest of the quarter as the U.S. 10-year treasury yield rose. We expect Utilities to lag other pro-cyclical sectors when investor sentiment is focused on the re-opening.

Alongside the rollout of COVID-19 vaccines, we increased the Fund's allocations to Materials, Consumer Discretionary and Industrials. Exposure to Real Estate and Health Care were trimmed. Our bullish outlook for 2021 led us to overweight pro-cyclical sectors and underweight more defensive sectors in the stock market. Base metal and industrial demand should recover at a faster pace during the recovery phase. Real Estate tend to underperform during periods of rising 10-year treasury yields. We are cautious on the sector overall but see attractive investment opportunities in retail REITs. It is of our view that Office REITs' vacancy rates have yet to peak. We believe these changes position the Fund well to benefit from the cyclical tailwind in 2021.

Laura Lau, SVP & CIO

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Annual Compound Returns[1]	1-YR	Since Inception[2]
Global Dividend Growth Split Corp. - Class A	84.3%	10.1%
MSCI World High Dividend Yield Index	35.7%	7.8%
Global Dividend Growth Split Corp. - Preferred	5.1%	5.1%
S&P/TSX Preferred Share Index	49.7%	3.2%
Global Dividend Growth Split Corp. - Unit	36.3%	7.5%

(1) Returns are for the periods ended March 31, 2021. The table shows the Fund's compound returns on a Class A share, Preferred share and unit for each period indicated, compared with the MSCI World High Dividend Yield Index ("MSCI High Dividend Index") and the S&P/TSX Preferred Share Index ("Preferred Share Index") (together the "Indices"). The MSCI High Dividend Index targets companies from the MSCI Index (excluding Real Estate Investment Trusts) with high dividend income and quality characteristics and includes companies that have higher than average dividend yields that are expected to be both sustainable and persistent. The Preferred Share Index tracks the performance, on a market weight basis, of a broad index of preferred shares trading on the TSX that met the criteria relating to size, liquidity and issuer rating. The Fund invests in an actively managed portfolio. It is therefore not expected the Fund's performance will mirror those of the Indices which have more diversified portfolios. The Indices are calculated without the deduction of management fees, fund expenses and trading commissions whereas the performance of the Fund is calculated after deducting such fees and expenses. Further, the performance of the Fund's Class A shares is impacted by the leverage provided by the Fund's Preferred shares

(2) Inception date June 15, 2018.

BROMPTON FUNDS

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