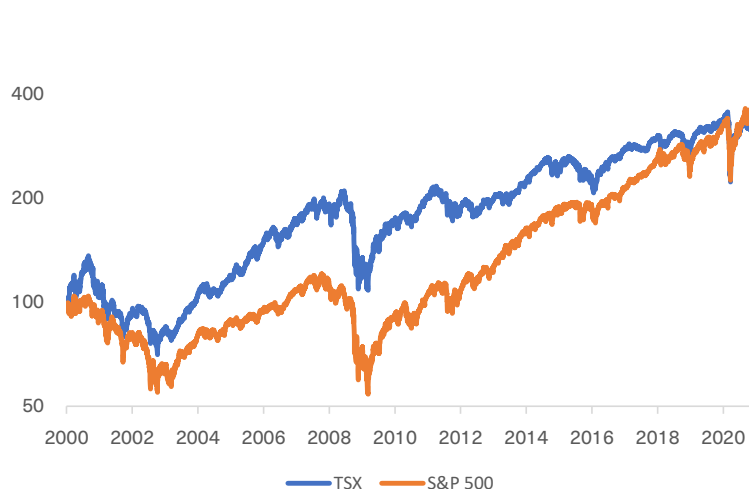


Several recent events have sparked a renewed interest in equities with many stock markets around the world, including the MSCI World Index and the S&P 500 Index (the “S&P 500”), trading to new all-time highs in November after the U.S. election and the announcements of positive vaccine results from Pfizer and Moderna. However, Canada has lagged with the S&P/TSX Composite Index (the “TSX”) remaining below its all-time high that was reached in February 2020.

This is a trend that we have seen over the better part of the past decade where the TSX has underperformed the S&P 500. Figure 1a shows the performance of these two markets going back to the beginning of 2000, while Figure 1b shows the relative performance of the TSX compared to the S&P 500 over the same time frame. Figure 1b clearly shows that Canadian stocks have underperformed their U.S. counterparts for most of the 2010s; however, this is after the Canadian market had outperformed for most of the 2000s.

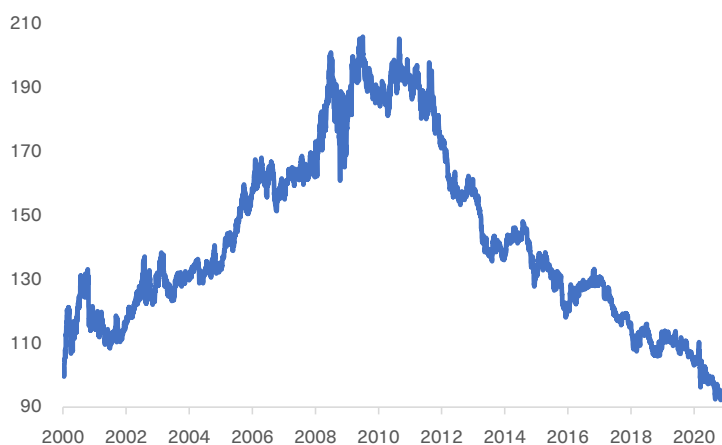
Figure 1a – TSX vs S&P 500



Source: Bloomberg as of November 25, 2020

(Data are on a total return basis and indexed to 100 as of December 31, 1999)

Figure 1b – TSX/S&P 500 Relative Performance



Source: Bloomberg as of November 25, 2020

(Data are on a total return basis and indexed to 100 as of December 31, 1999)

We believe that this trend is poised to change and that market conditions favour Canadian stocks outperforming again as we look out to 2021. Canadian stocks are cheap – very cheap. Figure 2 shows the relative valuation of the TSX compared to the S&P 500 using 12-month forward Price/Earnings multiples. Canadian stocks currently trade at a discount of 21.4% to the U.S., which is near the 2008 lows. In fact, from 2002 through 2019 there were only 3 trading days on which the TSX traded at a discount to the S&P 500 of 20% or more, and all of these occurred in the fourth quarter of 2008. While the sample size is small, on average the TSX has outperformed the S&P 500 by 15.5 percentage points looking forward 12 months from when it traded at a 20%+ discount. So far in 2020 (through 11/25) there have been 41 such trading days, and we believe the current discount of 21.4% is too cheap to ignore.

Figure 2 – TSX/S&P 500 Relative Valuation



Source: Bloomberg as of November 25, 2020

There are also a number of fundamental factors that favour the Canadian market at this time. The recent news from Pfizer and Moderna that their COVID-19 vaccines showed greater than 90% efficacy in large trials is very bullish for the global economy and markets in our view. With these vaccines coming in 2021, and with generally strong consumer balance sheets buoyed by continued fiscal stimulus acting as a bridge until the vaccines get distributed, we believe that we are likely to see turbocharged economic growth in 2021, which should in turn lead to very strong earnings growth.

This news has driven the beginning of a shift from growth stocks to value stocks and cyclical sectors, which is a trend that should continue if we see this strong GDP growth materialize. This is positive for the Canadian market, which has a higher weighting to these stocks and sectors – for example financials, energy, industrials, and materials – than the U.S. market. When combined with the near record valuation discount, we believe that the Canadian market is poised to outperform the U.S. as we head into 2021.

Brompton's Approach

Several of our split share funds focus on the Canadian market including Dividend Growth Split Corp., which is an actively managed portfolio of primarily large cap Canadian equities with high dividend growth rates and current yields.

Fund Name	Class A Ticker
Dividend Growth Split Corp.	DGS
Brompton Split Banc Corp.	SBC
Brompton Lifeco Split Corp.	LCS
Life & Banc Split Corp.	LBS
Brompton Oil Split Corp.	OSP

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