First Quarter Investment Commentary 2021

It was over a year ago that we stared into the abyss after the World Health Organization (WHO) declared the COVID-19 outbreak a pandemic, with the global economy heading into full lockdown mode shortly after. The Canadian market return for the month of March 2020 was just under 18% and the year over year return was just under 21%. Since then markets have completely recovered and provided very constructive returns as at the end of March 2021. Investors have almost always been rewarded to keep invested during market corrections and this last year was no exception.

While the performances of almost most benchmarks have been extremely positive we note that in the case of the US and Canadian markets these positive returns have been contributed to by a few stocks and have not been broad base index recoveries. Most of the index return over the last twelve months are the result of a very low starting base at the end of March 2020. More on benchmarks below.

The global economy is projected to accelerate at its fastest pace in several decades powered by record stimulus, solid progress on COVID-19 vaccinations and as consumers across most of the developed world economies are well positioned to boost their consumption following a period of elevated savings. Consistent with this view, the IMF has raised their outlook for global growth from their October projections, which reflects additional fiscal support in a few large economies and in particular the US. For 2021 and 2022, the IMF is now projecting global growth to accelerate by 6% in 2021, moderating to 4.4% in 2022. However, we caution that the strength of the forecasted recovery will vary across countries, which will be highly dependent on the severity of the health crisis locally, the extent of domestic disruptions to economic activity, the exposure to cross-border spillovers, and the effectiveness of policy support to limit persistent damage.

The IMF is currently forecasting the US to lead the recovery across the advanced economies in 2021/2022 with year-over-year growth of 6.4% and 3.5%, respectively, with a sooner-than-expected return to end-of-2019 activity levels by H1 2021. The current median consensus forecast for Canadian real GDP growth is 5.0% for 2021 and 3.9% in 2022, which is more than double the long-term historical growth rate of approximately 2% over the past 30 years. In emerging markets and developing economies, China is expected to lead the way with 8.4% and 5.6% growth in 2021 and 2022, respectively.

While we expect the slow progress on vaccinations and renewed lockdowns following the third wave of COVID-19 will likely hold back the economic recovery in the first half of 2021, we believe robust fiscal support provided to date, highly accommodative monetary policy, and strong gains in commodity prices, will bode well for the outlook in H2/2021.

US and Canadian corporate earnings are also expected to rebound strongly in 2021 and 2022 from the lows in 2020. Companies are benefiting from a strong recovery in spending and employment trends, coupled with strong fiscal and monetary support from policymakers

We believe the economic backdrop remains robust, with equity fundamentals poised to surge higher with valuations attractive relative to historical estimates and forward earnings growth expectations well above long-term historical averages. Given this view, we believe that while we will experience volatility especially during the first half of the year, the fundamentals and economic cycles suggest a constructive year and that equities remain well-positioned to generate strong double-digit growth. With China and emerging markets growing faster than other countries we believe these markets may provide better relative returns over the next eighteen months and we have therefore increased our exposure to these markets.

Benchmarks are a measurement tool to determine relative performance of portfolios against the markets. We note that they however have no risk mitigation properties and as we have experienced in the past few years the performance of a particular benchmark is contributed to by a few stocks or a few sectors. This alone increases volatility. As prudent portfolio managers we manage portfolios similar to pension plan professional managers which is to match the portfolio with liabilities that include risk mitigation strategies. For our clients this means matching cash flow needs and personal investment objectives while reducing volatility in order that risk tolerance can be accommodated and personal benchmarks achieved. As a result when the markets corrected in March our clients did not experience the very negative market returns as there was risk mitigation protection on the portfolios and nor did our clients have to sell to produce income or capital for their needs as these amounts were protected. These strategies allow us to be stewards of your capital.

We remain committed to balancing portfolios with a good diverse group of holdings in the long-run that are never overinvested in one particular area. We believe portfolios are well invested for the current market environment, and we continue to monitor the global economic backdrop, as well as Canadian, US and global markets for both risks to current holdings and opportunities for new investments.

We are always here to discuss any concerns or questions you may have please do not hesitate to contact any one of us. Keep safe and keep well.

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