QUARTERLY COMMENTARY

SPRING 2021

Ginny Arnott-Wood
BA, CFP, CIM
Wealth Advisor &
Associate Portfolio Manager
905-333-1920
ginny.arnott-wood@raymondjames.ca

Laurie Smuk, B.Sc
Administrative Assistant
905-333-1955
laurie.smuk@raymondjames.ca

Arnott-Wood
Wealth Advisory of
Raymond James Ltd.
1455 Lakeshore Rd., Suite 204S,
Burlington, Ont. L7S 2J1
www.raymondjames.ca/ginnyarnottwood/

Unpredictable as the Weather

As I write this piece the weather is typical of southern Ontario in late April: sunny, breezy, and around 15°C. Leaves have sprouted and the daffodils are resplendent. Two days ago, however, we had a significant snowfall – approximately 20 cm fell, making the scenery appear like a Christmas card. It is hard to imagine this today, since the snow has all melted, and the birds and plants seem to be resuming their activity as if nothing had happened.

I cannot help thinking that the stock market often acts like the weather. Over the past three months we have seen the markets continue to rise, both in Canada and the US, on the strength of central banks' trillions of dollars of support for those still affected by the Covid-19 pandemic, and optimism that the acceleration of vaccine rollouts will get us through this mess. Corporate earnings have been stronger than we could have imagined a year ago, particularly for those businesses that have benefitted from the "stay-at-home" phenomenon. As businesses gradually re-open, we expect this trend to continue. Pent-up demand for everything, from travel and hospitality to the growth of more sustainable products like electric vehicles and clean energy, should drive many investments higher over the next months and years.

For market context, here are the numbers this quarter:

	2021 Q1	1 yr. return	2 Yr. return	5 Yr. return
S&P/TSX composite:	7.3%	39.8%	7.8%	6.7%
Dow Jones Industrial Avg.:	7.8%	50.5%	12.8%	13.3%
S&P 500:	5.8%	53.7%	18.4%	14.0%
NASDAQ:	2.8%	72.0%	30.9%	22.2%

As you see from this chart, the upward trend does not move in a straight line. The 1-year return is based on the March 2020 low, as the market plummeted when the world first locked down. Returns averaged over two and five years illustrate how the volatility flattens out over time. Beyond extraordinary events like a global pandemic, there will be gyrations in the markets based on short-term news and events, especially when expectations of market participants (both the pros and the amateurs) are not met or exceeded. Some days we hear that inflation (and possibly interest rates) are poised to rise – and the market sells off. On other days we hear of record earnings from North American banks because they didn't have many loan defaults after all – and the market cheers.

There are an infinite number of reasons that can result in market volatility, yet over the longer term good quality companies continue to provide shareholder value, which ultimately results in the building of wealth. And, for me and many investors, "quality" does not just mean profitable, but also how a company does business: how they treat everyone from their employees, customers, communities, suppliers, the environment, as well as their shareholders. This is the ethos of "responsible investing", a growing focus on how a business affects all its stakeholders.

Like the meteorologist that studies the daily movement of weather patterns, I spend a lot of my time doing research to find investments that can help my clients optimize their wealth. The details may not be of interest to many, and the daily volatility can be unnerving. The important thing to remember is that, just as spring follows winter, eventually the nice weather will get here. Likewise, by investing in quality companies that strive to solve problems as well as deliver profits, we can all be part of building a better world. We might not be able to predict exactly when things will improve, but we want to be part of it when it gets here. Barring something completely unforeseen, the investment horizon continues to look promising.

Happy spring! I hope that, by the time I write next quarter's commentary most of us will be vaccinated, we'll be able to move around more freely, and the nice weather will be here. Meanwhile, I don't think I'll switch over my snow tires just yet…

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