CIBC Wood Gundy | R&R Investment Partners

R&R Report
March 2021

Conversations with Clients

Over the last month we have had many conversations with clients and we thought we would highlight a few topics that are currently top of mind for all of us.

What is Going on with Oil and Gas Stocks?

Even if the world were to go 100% renewable, the transition could take decades, so energy is rebounding and the market for it can run for some time. It is important to note that a lot of protesters probably drive a vehicle with an internal combustion engine to get to pro-climate protest rallies, and this conflict of interest is seen everywhere. In fact, the governor of Michigan, after trying to block Enbridge Line 5, has now called for a state of emergency to ensure they have enough fuel to heat homes! Interesting how the realities of life like freezing to death can change one's perspective from stopping a pipeline to "we don't have enough energy to heat our homes!"

With a combination of a long-term secular trend to renewables, traditional energy stocks being heavily oversold, investment in new production falling, and low interest rates, we may have cyclical strength in energy for some time. It should also be kept in mind that batteries, windmills and electric cars require metals and mining in their production, so these industries will not go away any time soon either. Remember, in the long-term, earnings are what drive stock prices, and we do not expect this to change, so pay little heed to politicians who change their views at the drop of a hat to get votes, stay true to following earnings, dividend growth and stay diversified.

We expect that any strategy that is focused on non-cyclical companies (banks, utilities, grocery, health care, pipelines) will not keep up in a cyclical rally, but nor should we try to make it. However, in a few of our mandates that hold multi-asset classes we have added emerging markets, international value, and some energy exposure by selling US large cap equites, we think this was just a sensible rebalance.

The Canadian Dollar

A lot of investors are surprised with the Canadian dollar's strength despite all the economic problems that we have in this country. Which raises the question, is it Canadian dollar strength or US dollar weakness? Either way, the Canadian dollar is strengthening vs the US dollar and this has happened before when commodities gain strength. We hedged most of our US dollar stock and bond exposure last year and will continue to do so to insulate US investment returns from an appreciating Canadian dollar.

Stock Market Correction

Clients are concerned that we are due for a stock market correction and typically ask us whether we think there is one forthcoming. We think the answer is yes, and that investors should expect a pullback. In fact, investors should always expect a stock market pullback, just like in Calgary where we should always expect at least one or two Chinooks over the winter.

How does one best prepare for regular market pullbacks?

1. If you are retired keep two or three years of fixed and recurring expenses in cash
2. If you are working, or have surplus cash, consider investing when the media tells you not to, when they say it's only going to get worse, i.e. invest when unsure (we understand, this is easier said than done, but just think of it as the market offering bargains on the purchase of really great companies, see chart to the right)
3. If you are highly concentrated in high growth areas that have had run ups in price you are very happy about, to the point of being giddy, that is the signal that it is a great time to take some money off the table (see chart to the right)

Source: talkmarkets.com

To be clear, we are not predicting a correction at a specific point in the future, we just know they come with frequent regularity (and at varying magnitudes) and are a completely normal part of the market's contraction cycle.

We thank you for your trust.

Randy and Ian

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