PRIVATE WEALTH MANAGEMENT

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MARCH 2021 MARKET UPDATE

Welcome to spring – Almost.

The financial markets were volatile in February. Where the equity and fixed income markets started the month strong and positive, the second half of February saw weakness and nervousness. Of some surprise is that the selloff did not begin in the equities market, it began in the bond market. Concerns over the amount of debt governments are taking on, and thoughts of higher inflation appearing sooner than expected, resulted in longer-term bond prices declining and yields going up. Recognize that when interest rates are discussed, there are a number of different interest rates. We most often look at the interest rate level that is set by the Bank of Canada or U.S. Federal Reserve.

This interest rate is a very short-term borrowing rate. It does impact the rate received on GICs, bank interest etc. The long-term bond interest rate is set by the market. While we do not see the Bank of Canada rate changing any time soon, the long-term bond market rates have been increasing.

For equities, Canada's TSX300 finally had a month where it outperformed the U.S. equity markets. The TSX300 was up 4.1% in February while the DOW Jones was up 3.2%, the S&P500 up 2.6% and NASDAQ up 0.9%. The weakness late in February was led by those sectors that had outperformed in the latter part of 2020. The technology sector, and renewable energy sectors are examples of where some profit taking occurred and brought down the price levels. These sectors were also areas where significant investments occurred in 2020 though ETFs, mutual funds and private equity investments. With the current weakness in renewables, comes some possible investment opportunities looking forward. Some of the strength in the Canadian markets in February came from previous underperforming sectors such as energy, energy infrastructure, and banks.

With the change in political leadership in the U.S., there were many in Canada who expected great changes in the U.S. economic relationship with Canada. Such high hopes do not always work out. Whether looking at the immediate cancellation of the Keystone XL pipeline or the re-establishment of the "Buy America" programs, we see that our reliance on our southern neighbor for support and assistance is often ill-founded.

Just as we have seen with Canada's Covid vaccine supply issues coming in large part to our lack of domestic manufacturing, our glaring reliance on other countries to supply us with the things we want comes to the forefront of discussion. Canada needs to re-build a manufacturing presence where not only do we supply domestically, but develop an ability to sell finished products globally.

Every country needs to be able to make money by selling goods and serves in order to improve its standard of living. A country can sell what it makes, grows, or possesses. In Canada, we have resources. We have limited manufacturing. We can, and do, have a services sector that participates globally. If Canada does not want, or have the ability, to sell our oil, natural gas, lumber products, metals, then we must have the ability to manufacture "things" to sell to the world. There are several barriers to our success which we cannot control. The second largest land mass country on earth with only 36 million people. Combined with our geography we face a number of logistical hurdles. The current high price of the Canadian dollar hurts us as well. A cheaper Canadian dollar would be helpful. Still, Canada's level of productivity lags that of many other developed nations. This needs to change. Our political leadership needs to focus on providing business growth opportunities that would allow us to develop Canada into a manufacturing hub. Otherwise, we will continue to head down that pathway of being a store owner who can only sell goods to the employees. That store owner's future is in jeopardy.

Okay, enough gloom. The outlook for our "return to normal" economically and socially gets closer every day. A third vaccine approved in Canada this past week. A fourth and fifth vaccine are soon with their approval. Some of us may have already been able to get their shot in the arm. CIBC Economists expects that Canadians have saved about $120 billion over the past year. The question for self-discussion if you have some of these excess savings is – what will you do with that money in the next 6 -9 months once we have all been vaccinated and society opens up in Canada and abroad?

Stay safe, stay healthy and always remain optimistic yet cautious.

Best regards,
CIBC Wood Gundy

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