The Krygier Report

An exclusive newsletter from Mark J. Krygier, Vice President & Portfolio Manager | September 2021 www.krygierwealthmanagement.ca

Mark J. Krygier
Vice-President, Portfolio Manager & Wealth Advisor
416-733-5750
mark.krygier@rbc.com

Avital Pearlston
Associate Wealth Advisor
416-733-5751
avital.pearlston@rbc.com

Irene Hama
Associate
416-733-5752
irene.hama@rbc.com

Jessica Y. Liang
Associate
416-733-5749
jessica.liang@rbc.com

Anecdotal prognostication…

One year ago, as we entered the first fall and winter season of the Covid pandemic, I distinctly remember the sounds of resigned disappointment of client after client telling me that they have cancelled their plans to travel to Florida, or other warm destinations. Several clients, each with a group of friends with whom they have travelled for many years, told me, “All of our friends have cancelled their plans for travelling this year.” The other common topic of discussion was how much money is building up in people’s bank accounts, as nobody was spending on restaurants, entertainment or other leisure activities, all victims of the Covid induced forced economic closures. Many clients to whom we send regular monthly deposits from the income generated on their investments told us, “stop the monthly payments as we don’t need it”, and in fact many sent us money back to reinvest. Without getting into the merits of whether or not such closures made sense, fast forward to this year, as we enter the fall and winter season. All I hear people talking about is that they and “all of their friends” are heading south for the winter, or how much they can’t wait to “get out” and travel somewhere. And as much as many of us enjoyed saving the commute time to work, many are also itching to get back into an office setting with a more professional working environment than the kitchen table. Pre-bookings at hotels, casinos, air travel, have started to pick-up, and despite periodic set-backs every time the latest “variant” hits the headlines, it isn’t too hard to figure out which direction all of this is going. The mantra of “shop ‘till you drop” seems inevitable.

So consider what could derail plans for this spending and travel nirvana? Covid ’23? ’24? An economic collapse and a drastic rise in unemployment? A complete lockdown on the import of goods from China and other sources of manufactured goods? Interest rates rising dramatically, thereby impacting the cost of borrowing for big ticket items, such as homes and automobiles. Firstly, there is no historical precedent for viruses to continue ad infinitum. Despite the fear-mongering of many a would be political leader, this too shall pass. Secondly, with all the money being “pumped” into the system, it is highly unlikely an economic collapse is imminent. Thirdly, despite the belligerence of the Chinese government, and the push-back by the U.S. against China’s predatory trade tactics, it is highly improbable that the “engine” of world growth will be completely banished from international trade, following decades of providing the world first with a source of cheap manufacturing and evolving into a massive potential market for many global companies, including many American companies, such as Starbucks, Nike, Disney and General Motors. Finally, as to fears of a rapid rise in interest rates, the biggest debtors of all are governments – so there is certainly no immediate concern for pressure being placed on Central bankers (like the U.S. “Fed”) to raise rates and therefore borrowing costs anytime soon. Jerome Powell, the head of the U.S. Fed recently commented that, "There's no reason to believe the fundamental disinflationary forces - that have been with us for some time - have suddenly turned." Whether or not one agrees with Mr. Powell, the message is clear vis-à-vis interest rates: lower for longer.

So how can investors take advantage of this expected boom in the return to normalcy “on steroids”? I think the first thing is to ignore Covid dominated themes – that is clearly looking backwards and no way to invest for the future. “Zoom” – it’s a great technology which most of us have used or even relied upon over the past 18 months, but it has almost no “barrier to entry” and instead it has lots of deep-pocketed competitors, such as Microsoft and Google with comparable services. “Amazon” took on-line shopping to a new level – but the stock is lower than it was in September 2020, indicating that its hyper-growth days are likely behind it. “Peloton” introduced a great bike which was bought en masse as gyms were closed, except that given the choice of exercising outside or in one’s basement and I think many a Peloton will become an expensive place to hang one’s pants, much like the treadmills of old. Instead, consider owning stocks of companies and landlords with commercial tenants that cater to an “in-person” experience. The second thing is to consider how a spike in demand for travel will impact the price of items like jet fuel and gasoline. Consider owning stocks in the companies that produce or distribute that fuel? Think about it, every time you pay more at the pumps you are adding profits to the oil companies which should translate into higher share prices and increasing dividends, so what better way to “hedge” that price increase going forward. As demand for electric cars continues to increase, whether by consumer populism or government directed subsidies, think about companies that produce the materials necessary for such vehicles or even of the charging stations which will need to be built. As mentioned before, electric cars use five times as much copper as conventional vehicles. Democratic leaders in the U.S. are intent on spending massively on infrastructure, perhaps to ensure they don’t lose the mid-term elections in late 2021, and therefore control of the political and economic agenda, as did the previous Democratic President Barak Obama. Consider what will happen to the price of steel, aluminum, coal and iron ore, all of which are necessary to produce the materials needed for infrastructure, as a result of such increased spending.

Bottom line

Investing does not have to consist of “reinventing the wheel.” The key is to avoid staring at the current headlines, as when you read about the “top performing” or “worst performing” stocks, firstly you are not the only one, and secondly you are reading about yesterday’s winners and losers. Be forward thinking, and consider the broader ramifications of changing behaviours. Finally, human capacity for adapting and moving forward is unlimited, in particular in the face of a need for creating normalcy. Enjoy the rest of the warm weather and continue to invest for a better future!

Global benchmarks
As at August 31, 2021 (Canadian $ Returns – except where noted)

Asset class	YTD	1 year	3 years
S&P/TSX Composite T/R (Canada)	20.2%	28.2%	11.6%
S&P 500 TR - US$	21.6%	31.2%	18.1%
NASDAQ Composite - US$	18.4%	29.6%	23.5%
MSCI Europe Index Price Return	12.4%	22.2%	5.8%
MSCI Emerging Markets	0.4%	14.9%	6.2%
China S.E Shanghai A Price Return	1.1%	2.1%	7.0%
MSCI World Index Price Return	15.7%	23.7%	11.8

Asset class	YTD	1 year	3 years
30-year U.S. T-Bond - US$	-5.4%	-8.8%	9.8%
10-year U.S. T-Bond - US$	-2.8%	-4.5%	6.4%
Long GOC Bond (2051)	-11.4%	-12.0%	4.7%
10-year GOC Bond	-3.6%	-3.9%	4.6%
5-year GOC Bond	-1.0%	-0.9%	3.5%
3-month CDN T-bill	0.1%	0.1%	1.0%
US$/CDN$ (1.2614)	-0.9%	-3.3%	-1.1%

Source: RBC Capital Markets Quantitative Research

For past copies of ***The Krygier Report*** visit
www.krygierwealthmanagement.ca.

Wealth Management
Dominion Securities