



Wealth Management  
Dominion Securities

# 2021 Q1 Commentary



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## Jon Mitchell, Portfolio Manager

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### The times, they are a-changin'

Come gather 'round people  
Wherever you roam  
And admit that the waters  
Around you have grown  
And accept it that soon  
You'll be drenched to the bone  
If your time to you is worth savin'  
And you better start swimmin'  
Or you'll sink like a stone  
For the times they are a-changin'

Come writers and critics  
Who prophesize with your pen  
And keep your eyes wide  
The chance won't come again  
And don't speak too soon  
For the wheel's still in spin  
And there's no tellin' who  
That it's namin'  
For the loser now  
Will be later to win  
For the times they are a-changin'

The line it is drawn  
The curse it is cast  
The slow one now  
Will later be fast  
As the present now  
Will later be past  
The order is rapidly fadin'  
And the first one now  
Will later be last  
For the times they are a-changin'

— Bob Dylan, released in 1964 on his debut album,

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We are on the cusp of the greatest experiment ever involving the human race, and the next year will be the focal point of tremendous change. Never before in history has the pronouncement been made to vaccinate “everyone in the world.” That is the first challenge, given the scale of the issue, the logistical challenges and the disparity between the rich and poor nations in accessing billions of doses of vaccines.

The second and more concerning issue is that of “vaccine passports,” which will be given out to those who have been vaccinated and presumably stored on some central database, and accessed with your smart phone. It is one thing to require a vaccine record to travel internationally to a country that had diseases not present in Canada, something I had to provide to Bolivia when I travelled there three times (a yellow fever vaccine card was required, for example). It is quite another issue to have to show your vaccine passport app on your phone in order to go to a restaurant, concert, hockey game, or your grandchild’s school play or graduation. Will this be a temporary passport or a permanent one? Will you have to be re-vaccinated each year, so that your vaccine passport remains valid and up-to-date? Will the vaccine passport data (your health data) be shared with other entities (bank, health insurer, employer)?

Vaccine passports seem to be taking a political tone as well, with prominent Republican states like Florida, Texas and South Dakota coming out decidedly against the “requirement to show proof of vaccine to simply be able to participate in normal society” (as Florida Governor Rick DeSantis recently said in a news conference), while states like New York and countries like Israel and Denmark are in the midst of initiating their phone-based “green passports” that allow vaccinated people to attend theatres, concerts or work out in a gym, while refusing to let non-vaccinated people take part.

### Medical update

There remains some debate over the “safety and effectiveness” of the vaccines, given that all of the vaccines in use currently have been subject to an Emergency Use Authorization (EUA) from the Food and Drug Administration (FDA) and have not been fully approved, after “substantial evidence” that the drug is effective for its intended use, and the benefits of the drug outweigh



its risks. Typically, this process takes years, but given the pandemic situation, the EUA option was the only choice for the FDA. There are a lot of studies to be done regarding the longevity of the vaccines (how long do they last?), their effectiveness against the growing number of COVID-19 variants, whether you can still contract the virus despite being vaccinated (termed a “breakthrough case”) and whether you can transmit the virus to others after being vaccinated (termed “sterilizing immunity”). Finally, there is a debate about whether those who have contracted the virus and gotten well should even be vaccinated at all (do they have “natural immunity”?).<sup>1</sup>

Concurrent with the vaccine development (there are over 64 vaccine candidates in development), there are also therapeutic treatments, which are designed to treat people infected with the virus, either as an outpatient or in a hospital setting. The FDA has approved several monoclonal antibodies for treating COVID-19, including one developed by a Canadian firm (AbCellera) called bamlanivimab.<sup>2</sup>

Monoclonal antibodies are laboratory-produced molecules that act as substitute antibodies that can restore, enhance or mimic the immune system’s attack on cells. Monoclonal antibodies may block the virus that causes COVID-19 from attaching to human cells, thereby making it more difficult for the virus to reproduce and cause harm. A BC biotech firm is seeking approval from the federal government for emergency use of its SaNOTize nasal spray, which has been found to reduce COVID-19 levels by 95% within 24 hours, and by more more than 99% in under three days.

Overall, approximately 24% of Canadians have had at least one dose of a vaccine as of April 18, 2021,<sup>3</sup> which is ahead of large European countries such as Germany, France, Italy and Spain. What is not known at this point is the percentage of Canadians that have already been exposed to the virus and who may have natural immunity. Generally, the goal is to get to a combination of those who have natural immunity and those with vaccinations to a level of at least 70% in order to achieve herd immunity.<sup>4</sup> What we have seen lately in Canada is a noticeable decline in the amount of daily deaths, which have declined from about 150 per day in January 2021 to about 50 per day, currently.<sup>5</sup> I would suggest this is largely due to the high percentage of seniors who have been fully vaccinated, as they received priority, given their vulnerability to adverse outcomes with the virus.

Based on the latest meta studies published by the World Health Organization, the infection fatality rate of COVID-19 is in the range of 0.15% and 0.27%. Flipped around, that makes the average survival rate between 99.73% to 99.85%.<sup>6</sup>

### Social behaviour

There is growing unease with the status quo, it seems. It seems that temporary restrictions are becoming more entrenched, and there is a growing chasm in public opinion, at least here in Alberta, where 42% of the population believes the current restrictions do not go far enough, 45% argue that the restrictions already go too far and only 12% believe that the restrictions are appropriate.<sup>7</sup> It does not appear that “we are all in this together,”

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which is one of the oft-repeated lines from all levels of government.

Meanwhile, the restrictions seem to be getting tighter here in Canada due to mounting cases and hospitalizations in our largest province (Ontario). Closure of interprovincial borders has occurred there, and the possibility of air travel restrictions are looming (flights inbound from India and Pakistan have been stopped for 30 days, effective April 22). Police in Ontario and Quebec have been given the authority to stop any vehicle and ask the driver where he or she is going, however, there are a growing number of police forces that have come out publicly to say that they will not be enforcing these measures.<sup>8</sup>

Looking to the U.S., which is quite a bit ahead of Canada with their vaccinations and natural immunity, things are already starting to return to “normal life” in many states. Sixteen states have lifted their mandatory mask bylaws.<sup>9</sup> U.S. air travel is starting to pick up significantly, and is back to about two-thirds of what it was in 2019.<sup>10</sup> This may give us some idea of what to expect in the next few months, as Canada catches up to the U.S. with their vaccination coverage.

Again, the spring weather allows us all to get outside and enjoy the fresh air. The virus does not do well in sunlight, and we are still permitted to gather in small groups outside. Still, the toll of customer-facing businesses like tourism,

restaurants, gyms, entertainment and others are still reeling from the on-again / off-again restrictions. On average, Ontario small businesses have taken on \$207,000 in COVID-19 related debt. The Canadian Federation of Independent Business is a good source of information of how the restrictions are impacting small businesses in Canada.<sup>11</sup>

**Federal budget: highlights**

On Monday, April 19, Finance Minister Chrystia Freeland tabled the long-awaited federal budget, more than two years after the last full budget. We have published a report on the various elements of the budget, which you can find on my website. In general terms, there were few tax increases, with the exception of a new luxury tax on expensive cars, boats and airplanes, a 1% annual tax on unoccupied residential property owned by non-residents of Canada, both of which are effective as of January 1, 2022, in addition to a proposal for a “Digital Service Tax” of 3% earned by large businesses, foreign or domestic, from online businesses transacted by Canadian residents.

The main focus of the budget, which tapped out at 724 pages, is massive spending, partly to allow Canadians that have been most impacted financially by COVID-19 to come out on the other side of the pandemic (through the extension of a number of existing support programs and employment insurance measures), and to introduce new programs such as a national child care initiative, which is

designed to lower the cost of daycare by 2025 to \$10 per day. There were some benefits to seniors and students, as well as tax relief for those who collected COVID-19-related benefits in 2020, and assorted incentives towards clean energy equipment and zero-emission technology.

Yes, those figures in the table at left are in the billions. For 2021–2022, we have a \$154.7-billion projected deficit, or close to the total of all of the annual deficits during the Liberal government from 2015–2019. By the end of these projections, the total federal national debt will reach \$1.5 trillion. Does that figure bother you as much as it bothers me? What do you think will happen to our economy, our currency and the level of services if interest rates were to move up by a few percentage points? It seems to me that this federal budget is geared towards a fall election, with some program for every age group. I expect the next federal budget to have the more serious tax measures that will be required at some point to pay down this enormous debt.

<b>The Numbers</b>	
The Government's fiscal position includes the following projected surplus/deficit:	
Year	Surplus/(Deficit) in billions
2020 - 2021	(\$354.2)
2021 - 2022	(\$154.7)
2022 - 2023	(\$59.7)
2023 - 2024	(\$51.0)
2024 - 2025	(\$35.8)
2025 - 2026	(\$30.7)

**Investment observations**

**Monty Python and inflation:**

I was listening to one of my weekly financial podcasts (*The Sherman Show* – you can listen to the full podcast at the link below<sup>12</sup>) while out walking Marley recently, and the guest (Louis Gave of Gavekal Research) was trying to impress upon the host (Jeffrey Sherman of DoubleLine Capital) why inflation is coming in the not-too-distant future. He used a scene from *The Life of Brian* as an example, in which the commandos were sitting around a table with their leader Reg, arguing about just what the Romans had done for them. One by one, they pipe up with an idea: “the aqueduct!”; “the sanitation!”; “the roads (that was obvious!)”; irrigation; medicine; education; public health; wine; public baths; law and order. Reg concludes the discussion by saying, “All right, but apart from the

sanitation, the medicine, education, wine, public order, irrigation, roads, a fresh water system, and public health, what have the Romans ever done for us?!” Louis Gave’s parallel dialogue goes like this: “Aside from rising oil prices, aside from rising metals prices, aside from rising food prices, aside from the fact that you can’t get any semi-conductors, aside from the fact that second-hand used car and home inventories are at record lows in the U.S., aside from the fact that the broad money supply has increased by 26% in the past year, apart from the fact that the government budget deficits are growing faster than they ever have, why should I worry about inflation?!”

**Oh, Canada!**

In my last commentary, I dipped my toe in the water and indicated that we could be on the cusp of a change in market

leadership, which had been dominated for a decade by large-cap U.S. and global technology leaders, or the large-cap growth stocks. In the Q1 table at the end of this commentary, the TSX actually bested the Nasdaq by close to 7%. Meanwhile, the beleaguered energy sector in Canada gained a stunning 20% in Q1. If inflation is coming, then the TSX sectors, such as energy, materials and precious metals are setting up for out-performance. Rob Taylor from Canoe Financial had a recent note on the change underway, in which he states:

“Growth has outperformed for almost 40 years on the back of falling rates. It will be interesting to see what happens next. Rates collapsed with COVID-19, but have quickly recaptured their former range. We believe that we are early in a cyclical recovery, and rates and inflation are set to move higher in the short term. However, if rates prove to have a longer-

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term bottom, there could be structural implications for market leadership. If inflationary pressures build, commodities could provide a good hedge to financial assets going forward, which will have implications on market leadership and asset allocation.”

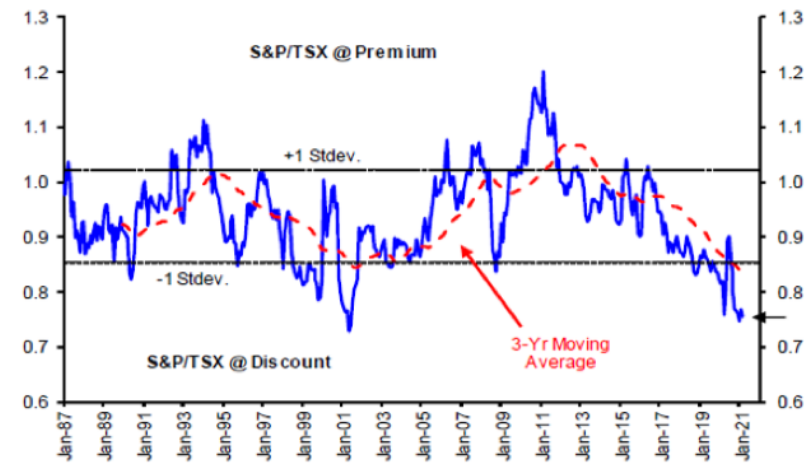
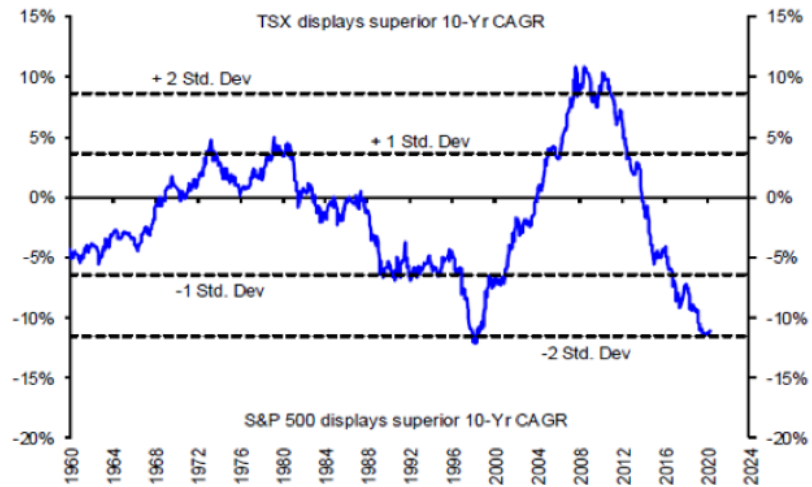
He continued:

**Getting excited about Canada**

*Canada has underperformed the U.S. for the better part of a decade. Canada's 10-year compound annual growth rate (CAGR) versus the U.S.'s is back to its 1999 lows, while its relative valuation differential is nearing its widest discount in two decades (see below). We expect the commodity-heavy TSX to outperform the U.S. as the economic recovery continues to unfold. We're already seeing foreign flows starting to pick up.*

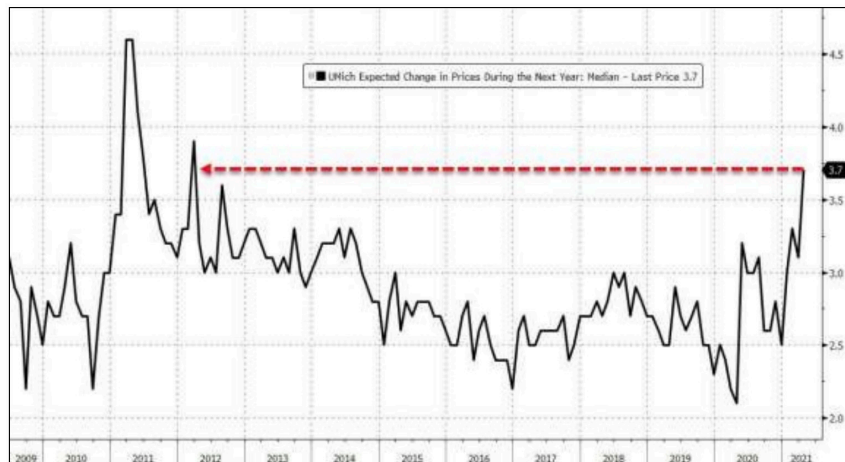
Why would you buy bonds? This is a question that is getting asked a lot these days. The pandemic forced central banks to lower interest rates dramatically, down to levels between 0% and 0.25% as a way of cushioning the blow to an economy that ground dramatically to a halt last March 2020. Meanwhile, the U.S., China and other Asian countries are beginning to re-open, and as noted earlier, massive swaths of the commodity complex have seen dramatic price increases in the past 6–9 months. The yield on the 10-year U.S. Treasury bond went from 0.92% at year's end to 1.72% at the end of March 2021. That is a major increase on a relative basis.

The expectation for inflation in the next year has moved from 2.5% at the end of the year to 3.7%. So, after subtracting the expected inflation, the U.S. 10-year Treasury bond is yielding, after inflation, to around -2%. I continue to gravitate our client's fixed income allocation toward corporate bonds, high-yield bonds and select preferred shares that have exposure to rising interest rates or relatively short-term maturities.



Source: Canoe Financial

**Inflation Expectations**



Source: chartsandmarkets.com, “Pivotal Events” by Bob Hoye, April 22, 2021



### Notable quotes

“The power to question is the basis of all human progress.”

– Indira Gandhi

“Inflation is when you pay fifteen dollars for the ten-dollar haircut you used to get for five dollars, when you had hair.”

– Sam Ewing

“In the absence of the gold standard, there is no way to protect savings from confiscation through inflation. There is no safe store of value.”

– Former Federal Reserve Chairman Alan Greenspan

“To deny people their human rights is to challenge their very humanity.”

– Nelson Mandela

### Books I’ve read recently

Plutocrats – The Rise of the New Global Super-Rich and the Fall of Everyone Else, by Chrystia Freeland (Canada’s Finance Minister)

Do Something! 365 Ways You Can Strengthen Canada, by Preston Manning

The Great Inflation and Its Aftermath: The Past and Future of American Affluence, by Robert J. Samuelson

Virus Mania, by Torsten Engelbrecht, Dr. Claus Kohnlein, MD, Dr. Samantha Bailey, MD and Dr. Stefano Scoglio, Bsc, PhD



### Team updates

- Some of the team are back working in the office again, in a safe, socially distanced manner. Jon can get out for a few walks around the trails with some of the colleagues in the afternoon. He still has to walk Marley the dog when he gets home, though.
- We continue to use Webex for our client meetings, which is a secure system run by Cisco. If you are interested in meeting with Jon over Webex, please let one of us know. We are getting pretty proficient with it now.

- Pauline is getting ready for her second knee surgery (the other one) sometime this year.
- Jon wrapped up his local ski hill season in March, clocking in with 27 visits since November. He managed to get in a couple of days in the mountains in Jasper just before Easter.
- Our team will be changing in the next few months, as Tina has announced her retirement from RBC Dominion Securities as of July 31, 2021. Stay tuned for more updates on this news.
- As always, we are open to speaking to any of your friends that may benefit from a second opinion on their investments or current wealth plan.

- Finally, we would like to recommend that you circle back to our website from time to time, as we are using that as one of our primary points of contact to post salient articles on our firm’s views, along with details on relevant government programs and announcements. You can access it here: [ca.rbcwealthmanagement.com/jon.mitchell/](http://ca.rbcwealthmanagement.com/jon.mitchell/)

Again, stay safe and take care. We have a lot to be thankful for, living in Canada. Do your best to enjoy the positive moments each day, and please support your local businesses whenever you can.

Below is a table of the performance of various sectors of the market in the 1st quarter of 2021, and for the 2021 results / 3-year rolling periods.

Investment index	Q1 2021 return	2021 YTD return	3-year compound return
S&P/ TSX composite index	8.1 %	8.1 %	10.2 %
S&P 500 (C\$)	4.7 %	4.7 %	15.8 %
NASDAQ comp (C\$)	1.4 %	1.4 %	22.3 %
Short-term comp bond index	-0.6 %	-0.6 %	3.8 %
iShares U.S. High Yield Bond Index ETF (XHY, C\$ Hedged)	0.3 %	0.3 %	4.7 %
US\$ / C\$	-1.4 %	-1.4 %	-0.8 %
Gold bullion (C\$)	-8.1 %	-8.1 %	10.1 %
Global gold mining index (XGD – C\$)	-9.1 %	-9.1 %	15.7 %

<sup>1</sup> Medscape, "COVID-19 Treatment: Investigational Drugs and Other Therapies," Scott J Bergman, PharmD, FCCP, FIDSA, BCPS, BCIDP, Apr 30, 2021. <https://emedicine.medscape.com/article/2500116-overview>

<sup>2</sup> U.S. Food & Drug Administration, "Understanding the Regulatory Terminology of Potential Preventions and Treatments for COVID-19," October 22, 2020. <https://www.fda.gov/consumers/consumer-updates/understanding-regulatory-terminology-potential-preventions-and-treatments-covid-19>

<sup>3</sup> Our World in Data Statistics and Research, "Coronavirus (COVID-19) Vaccinations," <https://ourworldindata.org/covid-vaccinations>

<sup>4</sup> Johns Hopkins Bloomberg School of Public Health, "What is Herd Immunity and How Can We Achieve It With COVID-19?" by Gypsyamber D'Souza and David Dowdy, April 6, 2021. <https://www.jhsph.edu/covid-19/articles/achieving-herd-immunity-with-covid19.html>

<sup>5</sup> Departments of Medicine, of Epidemiology and Population Health, of Biomedical Data Science, and of Statistics, and Meta-Research Innovation Center at Stanford (METRICS), Stanford University, "Reconciling estimates of global spread and infection fatality rates of COVID-19: An overview of systematic evaluations," by John P.A. Ioannidis, March 14, 2021. <https://onlinelibrary.wiley.com/doi/epdf/10.1111/eci.13554>

<sup>6</sup> World Health Organization, "Infection fatality rate of COVID-19 inferred from seroprevalence data," by John P.A. Ioannidis, October 14, 2020. <https://www.who.int/bulletin/volumes/99/1/20-265892/en/>

<sup>7</sup> Edmonton Journal, "Albertans divided on COVID-19 response, while 75 per cent disapprove of Kenney's handling: poll," by Lisa Johnson, April 9, 2021. <https://edmontonjournal.com/news/politics/albertans-divided-on-covid-19-response-while-75-per-cent-disapprove-of-kenneys-handling-poll>

<sup>8</sup> National Post, "Many Ontario police forces refuse power under new COVID-19 orders to enforce random stops," The Canadian Press, April 17, 2021. <https://nationalpost.com/news/ontarians-waking-up-to-tough-new-pandemic-restrictions>

<sup>9</sup> Transportation Security Administration, "TSA checkpoint travel numbers (current year(s) versus prior year/same weekday)," as of May 4, 2021. <https://www.tsa.gov/coronavirus/passenger-throughput>

<sup>10</sup> AARP, "State-by-State Guide to Face Mask Requirements," by Andy Markowitz, May 4, 2021. <https://www.aarp.org/health/healthy-living/info-2020/states-mask-mandates-coronavirus.html>

<sup>11</sup> CFIB, "Small business wants rapid testing, not lockdowns in order to fight a third wave," April 1, 2021. <https://www.cfib-fcei.ca/en/media/news-releases/small-business-wants-rapid-testing-not-lockdowns-order-fight-third-wave>

<sup>12</sup> The Sherman Show: <https://www.youtube.com/watch?v=1S22ke60Cdk>



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