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Imagine

Imagine there's no heaven
It's easy if you try
No hell below us
Above us only sky

Imagine all the people
Living for today,
Imagine there's no countries
It isn't hard to do

Nothing to kill or die for
And no religion too
Imagine all the people
Living life in peace

You may say I'm a dreamer
But I'm not the only one
I hope someday you'll join us
And the world will be as one

Imagine no possessions
I wonder if you can
No need for greed or hunger
A brotherhood of man

Imagine all the people
Sharing all the world, you
You may say I'm a dreamer
But I'm not the only one
I hope someday you'll join us
And the world will live as one

Released by John Lennon
in September 1971

In my view, the poignant song “Imagine” strives to pull back the layers of complexity, unfairness, inequity and injustice to unveil the essence of humanity: harmony, peace, community and sharing. Today, we are so far from that utopia it seems. In a few weeks, Canadians who, for whatever reason, remain unvaccinated, will be unable to travel by air within Canada or outside of the country, may be fired or put on indefinite unpaid leave from their employer, or forced to leave their university program.

Over the summer, in dialoguing with friends, clients, neighbours, and just people I bumped into, it was clear that the COVID-19 vaccination was becoming an issue that was impacting family relationships, friendships, businesses, churches and many other organizations. When Premier Kenney and Health Minister Shandro proudly announced on July 1, 2021, that Alberta was “open for summer,” I soon remarked to my wife that we would be “closed for fall.” Citing rising COVID-19 cases and extreme demands on hospitals, Alberta imposed restrictions again on September 15, including the

announcement of the Restrictions Exemption Program. This initiative was another way of implementing a vaccination passport program, which Premier Kenney had vehemently stated he would never allow in Alberta. Virtually every province in Canada now has a program that only allows fully vaccinated people access to restaurants, gyms, nightclubs, movies, concerts and sporting events. Our society is becoming segregated between the vaccinated and the unvaccinated.

Meanwhile the Scandinavian countries of Sweden, Norway and Denmark have lifted all COVID-19 restrictions, with some experts indicating that COVID-19 will be part of society for years to come. All three countries had very high vaccination rates,¹ however, not unlike the rates of Ontario and Quebec, which have both implemented passport programs.

The United States, which has a vaccination rate of just 56% of eligible individuals, is seeing more resistance to the vaccine mandates recently announced by President

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Biden for employers with more than 100 employees. Many Republican states (known as “red states”) are passing their own orders forbidding mandatory vaccination for state employers. A lot of the professions where the mandates have been imposed would be considered essential services: health care workers, police and fire departments, air traffic controllers. The next few weeks will be instrumental in seeing whether some compromises can be reached to avoid large layoffs of these essential workers, both in Canada and the U.S.

Medical update

There is some additional information that I have not seen widely broadcast. A recent study by the Center for Disease Control (CDC), which focused on the effectiveness of Pfizer-BioNTech and Moderna vaccines against the Delta variant among nursing home residents, showed that effectiveness levels of the mRNA vaccines had declined from 74.7% early in the vaccination program (March-May 2021) to 53.1% (June-July 2021) when the Delta variant predominated.² In a related report, Israel has re-instated its “Green Pass” as its cases have increased significantly this summer as the Delta variant hit, and recently required all citizens to take a third dose (booster) of the Pfizer vaccine in order to enjoy the privileges available through the Green Pass.³ As of early October, more than 70% of the 588 serious coronavirus cases in Israeli hospitals were unvaccinated.⁴

There remain instances in which the virus spreads among the vaccinated population. A CDC report that chronicled an outbreak of COVID-19 in Barnstable County, Massachusetts, and identified 469 cases of COVID-19 (Delta variant) associated with multiple summer events and large public gatherings. Approximately three-quarters of the cases (346, or 74%) occurred in fully vaccinated persons and 79% of the fully vaccinated were symptomatic.⁵ I wonder how the jam-packed NHL hockey arenas will fare if we were to see the same impact of the Delta variant as they witnessed in Barnstable County this summer.

A few weeks ago, Merck announced that they had filed for Emergency Use Authorization of an oral antiviral drug to be administered to symptomatic COVID-19 patients as an early treatment. Merck’s data shows that molnupiravir reduces the likelihood of hospitalization by more than 50%.⁶ Scott Gottlieb, the former chair of the U.S. Food and Drug Administration (FDA) and currently a director of Pfizer Inc., declared that molnupiravir is going to be a “game changer.” Said Gottlieb on CNBC: “For an oral pill to have this kind of effect... is quite profound.”⁷

In my Q1 Commentary, I had brought attention to a small Canadian company, SaNOTize, that had developed a nasal spray that had a very high response in neutralizing the COVID-19 virus. In August, SaNOTize Research and Development Corp. and Indian company, Glenmark Pharmaceuticals, a research-led, global integrated pharmaceutical company, announced an exclusive long-term strategic partnership to manufacture, market and distribute SaNOTize’s breakthrough Nitric Oxide Nasal Spray (NONS) for COVID-19 treatment, in India and other Asian markets including Singapore, Malaysia, Hong Kong, Taiwan, Nepal, Brunei, Cambodia, Laos, Myanmar, Sri Lanka, Timor-Leste, and Vietnam. In early July 2021, Glenmark presented a proposal to the Subject Expert Committee of India’s Central Drugs Standard Control Organisation (CDSCO) for emergency approval for the import and marketing of the nasal spray. The committee has recommended a Phase III clinical trial to be conducted in Indian patients in the weeks to follow. The Phase III clinical trial for NONS is expected to be completed, followed by commercial launch, by the fourth quarter of calendar year 2021.⁸

Social behaviour and election update

Well, that was some election... \$600 million later and virtually zero change in the number of seats of any party. On the Friday before the election was called, the Treasury Board of Canada announced that all federal employees and those in the regulated transportation sector (planes, trains, boats) would require mandatory COVID-19 vaccinations. This has set off similar mandates for federally regulated entities, such as major Canadian banks and insurers, as well as many municipal and provincial governments, and universities and colleges. For travel (both domestic and international), a negative PCR COVID-19 test alone is no longer considered an option.⁹

As I am writing this, the federal government is launching a QR code smart phone app for domestic and international travel. As well, most provinces are implementing their QR code systems for provincial vaccination passports, which will allow vaccinated residents to participate in activities such as dining, entertainment, gym workouts, recreation, school activities, weddings and funerals. As seen in Israel, these QR apps will only work for fully vaccinated individuals. The question is, will mandated semi-annual booster shots be required for the QR app to continue to flash green?

Canada has yet to move toward a natural immunity option, which would grant individuals who have recovered from COVID-19 a similar passport for six months.

The European Union has adopted this option for its residents. The UK is in advanced talks with the EU in joining their travel vaccination passport system.¹⁰ The world-renowned Cleveland Clinic did a study from December 2020 to April 2021 that looked at the benefits of vaccination for those individuals who had previously contracted the virus. The research paper, which had a sample size of over 50,000, concluded that there was no additional benefit from the vaccines for those who had recovered from initial strains of COVID-19, and that vaccine supplies should be allocated to those with no prior exposure to the virus.¹¹ However, it’s important to note that this study was completed before the Delta variant was as widespread, so we don’t know how the variant may have affected the results.

Getting back to the 44th Parliament of Canada, one of the key issues that clients should be aware of, in my opinion, is that the next federal budget is not going to be at all like the last budget. Given the deficit and debts Canada is facing, we should expect large tax increases in the next budget, including a hike in the GST rate and a higher inclusion rate of capital gains (currently only 50% of capital gains are taxable).

Investment observations

As the TSX sets a new all-time high (over 21,100), most investors are feeling fairly good about the state of their affairs. At the same time, the consumer price index reached a level of 4.4% year-over-year growth for September, the highest measure of inflation since 2003. Here are a few examples of the real costs of things most people consume: gasoline (up 44% so far this year), major appliances (up 12% year-over-year to July, with laundry appliances up 19%)¹², used car prices (up 32% year-over-year to August)¹³ and natural gas (up 114% so far this year).

In a conversation I had with one of my farmer friends, he told me the price of urea had increased in May from \$590 a tonne to \$960 a tonne today, and that his supplier had warned him it could be as high as \$1,400 a tonne next spring. Even the unloved commodity of uranium spiked 66% in less than two months this summer.

As I stressed in the last commentary, the higher inflation moves, the more pressure there will be on central banks to raise interest rates. Out of the blue, the Scotiabank chief economist forecast that the Bank of Canada would need to raise interest rates eight times (0.25% each time) by the end of 2023.¹⁴ If that prediction is true, it would move the overnight interest rate to 2.25% or 0.50% higher than prior to the pandemic.

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Inflation can take on a life of its own if enough consumers believe it is starting to spiral out of control. Demand gets drawn forward as consumers start to believe that if they don't buy what is on the shelves today, it will only be more expensive next month. Wage pressure starts to grow, which, in turn, feeds higher demands. Many of our clients lived through this in the 1970s. So whether this is indeed "transitory" or "secular" will only be known with the passage of time.

Another major event taking place in the past few months concerned China Evergrande, one of the largest property developers in China. A recent article in a German publication, *Dei Weltwoche*, provides some insight into the impact of the Chinese real estate market on their economy.

"There is little doubt that the real estate bubble is the single greatest problem facing the Chinese economy. Moreover, it is no longer just an economic problem as it is exacerbating growing income inequality as well as depressing birth rate. This is why, at the start of 2020, Beijing introduced a slew of policies designed to clamp down on real estate speculation by tightening credit availability to developers and households alike. These policies have resulted in a sharp slowdown in real-estate-related lending that in turn has precipitated a sharp slowdown in home sales and housing starts. This is what triggered the problems at China Evergrande and other developers."

"Does this mean that the Chinese economy is set to collapse soon? I don't think so. Many commentators have been comparing China Evergrande with Lehman Brothers. I think the differences between them are more important than the similarities. Lehman collapsed the way it did was because the U.S. government decided not to intervene out of concerns about moral hazard. Moral hazard is irrelevant in the case of China Evergrande given its largest creditors are state-owned banks. This means any losses that the banks cannot

absorb with their capital would have to be anyway fiscalized by the central government (like with many of the unviable local government projects a few years ago). Therefore, nationalization of China Evergrande is the most obvious solution to the problem. What about the growing debt burden of the Chinese government? The experience of the U.S. and Japan has shown that large government debt is not a problem (at least not in the short-term), as long as inflation remains low so that interest rates and debt servicing costs stay low. Arguably, China can cope with even more debt than the U.S. and Japan, given its extremely high domestic saving rate, controls on capital outflows, large current account surplus, and the fact that very little of Chinese debt is held by foreign investors. While the Chinese economy is not going to collapse, it is set to slow and possibly by a lot. The Chinese economy has become so dependent on real estate that a sustained clamp down on real estate will hurt. Given much of household wealth is tied to real estate, consumer confidence is turning down and so has retail sales growth. Against this backdrop, it should not be taken for granted that Beijing's 5% medium-term growth target is attainable, especially given the negative demographic picture. Financial markets are focused on the first order effect of the slowdown of the Chinese real estate market. I fear the second order effects could be more important than expected, with American and European consumer brands with significant exposures to China being especially vulnerable. China is 18% of global GDP but has been contributing 50% of global GDP growth over the past 10 years. A slowdown in China will be increasingly felt around the world in 2022."¹⁵

The returns of the quarter are set out in the table at the end of the commentary. Nice to see the TSX still in the pole position so far this year!

Notable quotes

"When the government fears the people, there is liberty. When the people fear the government, there is tyranny."

– Thomas Jefferson

"Those who would give up essential Liberty, to purchase a little temporary Safety, deserve neither Liberty nor Safety."

– Benjamin Franklin

"Central bankers always try to avoid their last big mistake. So every time there's the threat of a contraction in the economy, they'll over stimulate the economy, by printing too much money. The result will be a rising roller coaster of inflation, with each high and low being higher than the preceding one."

– Milton Friedman

"It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is most adaptable to change."

– Charles Darwin



Books I've read recently

What Really Happened in Wuhan: A Virus Like No Other, Countless Infections, Millions of Deaths, by Sharri Markson

Beyond Order: 12 More Rules for Life, by Jordan B. Peterson

The Person and the Common Good, by Jacques Maritain

Team updates

- With the increased COVID-19 cases in Alberta in August and September, our Alberta offices moved to remote work protocols on September 20, 2021. We will wait and see when the province removes its emergency health order.
- We continue to use Webex for our client meetings until further notice.
- All of us (James, Pauline and I) enjoyed some vacation time over the past three months. Tina is really enjoying her retirement too!

- Jon wound up his camping season in Unity, SK, on October 8, getting an extra 10 days more this year due to the favourable weather.
- As always, we are open to speaking to any of your friends who 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/.

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 third quarter of 2021, and for the 2021 results / three-year rolling periods.

Investment index	Q3 2021 return	2021 YTD return	3-year compound return
S&P/ TSX composite index	0.2 %	17.5 %	11.1 %
S&P 500 (C\$)	2.9 %	15.4 %	15.3 %
NASDAQ comp (C\$)	1.9 %	11.6 %	20.8 %
Short-term comp bond index	0.1 %	-0.4 %	3.1 %
iShares U.S. High Yield Bond Index ETF (XHY, C\$ Hedged)	0.5 %	3.1 %	4.5 %
US\$ / C\$	2.3 %	-0.4 %	-0.6 %
Gold bullion (C\$)	1.0 %	-7.5 %	13.0 %
Global gold mining index (XGD – C\$)	-10.1 %	-15.3 %	20.3 %

¹ Med Page Today, “How did Scandinavians get their pre-pandemic lives back?” October 11, 2021. <https://www.medpagetoday.com/special-reports/exclusives/94965>

² Centers for Disease Control and Prevention, “Effectiveness of Pfizer-BioNTech and Moderna Vaccines in Preventing SARS-CoV-2 Infection Among Nursing Home Residents Before and During Widespread Circulation of the SARS-CoV-2 B.1.617.2 (Delta) Variant — National Healthcare Safety Network, March 1–August 1, 2021 | MMWR (cdc.gov).”, August 27, 2021. <https://www.cdc.gov/mmwr/volumes/70/wr/mm7034e3.htm>

³ Global News, “Israel adds COVID-19 booster shot requirement to its vaccine passport,” October 3, 2021. <https://globalnews.ca/news/8239533/israel-covid-green-pass-booster-shot/>

⁴ CTV News, “Israel tightens COVID-19 ‘Green Pass’ rules, sparking protest,” October 3, 2021. <https://www.ctvnews.ca/health/coronavirus/israel-tightens-covid-19-green-pass-rules-sparking-protest-1.5609153>

⁵ Centers for Disease Control and Prevention, “Outbreak of SARS-CoV-2 Infections, Including COVID-19 Vaccine Breakthrough Infections, Associated with Large Public Gatherings — Barnstable County, Massachusetts, July 2021 | MMWR (cdc.gov).”, August 6, 2021.

⁶ CNN, “Merck seeks FDA emergency use authorization for antiviral COVID-19 treatment molnupiravir,” October 11, 2021. <https://www.cnn.com/2021/10/11/health/molnupiravir-covid-19-antiviral-merck-request/index.html>

⁷ CNN, “COVID-19 antiviral pill could be a game changer, but vaccines are still America’s way out of the pandemic, experts say,” October 2, 2021. <https://www.cnn.com/2021/10/02/health/us-coronavirus-saturday/index.html>

⁸ Business Wire, “SaNOTize inks agreement with Indian biotech Glenmark to commercialize Nitric Oxide Nasal Spray for COVID-19 treatment in India and other Asian markets,” August 2, 2021. <https://www.businesswire.com/news/home/20210802005236/en/SaNOTize-inks-agreement-with-Indian-biotech-Glenmark-to-commercialize-Nitric-Oxide-Nasal-Spray-for-COVID-19-treatment-in-India-and-other-Asian-markets>

⁹ Government of Canada, “Government of Canada to require vaccination of federal workforce and federally regulated transportation sector,” August 13, 2021. <https://www.canada.ca/en/treasury-board-secretariat/news/2021/08/government-of-canada-to-require-vaccination-of-federal-workforce-and-federally-regulated-transportation-sector.html>

¹⁰ The Telegraph, “UK on brink of joining EU COVID vaccine passport scheme,” September 24, 2021. <https://www.telegraph.co.uk/global-health/science-and-disease/uk-brink-joining-eu-passport-scheme-sources-confirm-nhs-system/>

¹¹ medRxiv, “Necessity of COVID-19 vaccination in previously infected individuals,” June 5, 2021. <https://www.medrxiv.org/content/10.1101/2021.06.01.21258176v2>

¹² FOXBusiness, “Inflation hits home appliance industry, consumers pay up,” August 11, 2021. <https://www.foxbusiness.com/economy/consumers-slapped-with-home-appliance-price-hikes-as-input-costs-soar>

¹³ The New York Times, “Wall Street scans the lots as used cars prod inflation,” September 27, 2021. <https://www.nytimes.com/2021/09/27/business/used-cars-inflation.html>

¹⁴ Bloomberg, “Scotiabank sees eight Bank of Canada rate hikes by end of 2023,” October 20, 2021. <https://www.bloomberg.com/news/articles/2021-10-20/scotiabank-sees-eight-bank-of-canada-rate-hikes-by-end-of-2023>

¹⁵ The David L. Fingold Blog, “When the Dragon stops spitting fire,” October 16, 2021. https://dynamic.ca/content/dam/docs/marketing/commentaries/value-equity/best-of-fin-blog/Best-of-FinBlog-432-Industry_Adv.pdf



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