GLOBAL Insight WEEKLY

Perspectives from the Global Portfolio Advisory Committee February 11, 2021

A “meme stock” moment, or more?

Kelly Bogdanova – San Francisco

Amid the postmortem on the GameStop saga, some investor unease is lingering. We do think the episode is indicative of a megashift at play—one that is bigger than the stock market. But at the same time, we don’t think the meme stock phenomenon is a serious threat to traditional investment portfolios.

GameStop shares have come back to earth, reaching an intraday high of $483 in late January but closing at $51.10 per share today, and other stocks that were caught up in this whirlwind have retreated as well.

Yet we get the sense there is still some unease among individual investors about what happened, and about the risks that this may pose for the overall market. Some are wondering, does this episode indicate there is something bigger going on? After all, another group of small so-called “meme stocks” have pushed higher in recent trading sessions.

To this we say yes, there is definitely something bigger afoot—much, much bigger.

However, the root cause is not necessarily top of mind and is not even market-related. Moreover, we don’t think the phenomenon is a serious threat to traditional investment portfolios.

A 21st century twist on the short squeeze

First, consider how the GameStop episode played out: It was a classic, painful short squeeze, but it unfolded in a novel and dramatic fashion.

Short squeezes have happened for many decades, and some of the most high-profile episodes even go way back to the Roaring 1920s when the total value of the stock market was much smaller. Many readers’ eyes would glaze over if we go into the details of how shorting works and how short squeezes play out, so we will forgo the particulars. (A simplistic definition from Investopedia is in the chart on the next page.)

The difference this go-around is the GameStop short squeeze unfolded in a unique way.

The proliferation and wide use of internet chat boards—in this case on the Reddit platform, primarily—opened the door for individual investors to communicate about their stock ideas and strategies to each other in real time.

Once they caught on that GameStop shares were heavily shorted (and therefore were vulnerable to a short squeeze), they bought the stock, effectively forcing many of the short sellers, including large hedge funds, to remove their short positions and buy shares, which then fueled a massive surge in price—and big losses for some hedge funds.

While any major short squeeze would probably gain press attention, this short squeeze was outsized as the stock surged 2,300 percent in just 11 trading sessions. Importantly, this drama exposed a development that had not been widely noticed before—some investors are using digital chat and other internet tools to form

For perspectives on the week from our regional analysts, please see pages 3–4.

stock strategies. This short squeeze involved individual investors, some of whom are new to stock picking.

Winds of digital change

We think the far more important consideration is the root cause of this episode.

From our vantage point, the much bigger phenomenon that's going on both underneath and above the surface is a megashift within society—the shift into the age of digitization.

The grip that digital technologies now have on day-to-day life has been accelerated by the sudden COVID-19 lockdowns and the tech tools that have facilitated working and living at home nearly 24/7.

This megashift, or period of megachange that some might describe as a new epoch, is not unlike those that occurred during the past 150 years. Think back to the megashift in the late 19th century when the agriculture-based economy transformed into the industrial age, or the megashift in transportation that was brought about by the steam engine and railroad system, or the megashift in international relations that was born out of the ashes of World War II as well as the additional shift after the Soviet Union's collapse.

These and other megashifts impacted economic, governmental, technological, and cultural trends. They transformed immigration and internal migration patterns, societal norms, religious traditions, and more. They had life-altering and even civilization-altering implications.

Today's digitization megashift is moving society at lightning speed through the proliferation of artificial intelligence (AI) and digital tracking, the advent of "smart cities," new personal and business banking technologies, new currency structures (think cryptocurrencies), the convergence of the technology and health care industries, and a myriad of other technologies, some of which even raise ethical and moral dilemmas.

To us, the meme stock chat board phenomenon and greater participation of individual investors in markets are very small outgrowths of the digitization megashift.

Keep your eyes on the long run

What does this mean for investment portfolios?

In the narrow scope of meme stocks and heightened investor communication about stocks and investment strategies, we think digitization will further increase the participation of individual investors in equity markets and that this participation will be more active.

Some individual investors are now more research-oriented, are more focused on individual stocks rather than indexes, and are embracing the options markets. Just like any new investment cycle, some are diligently doing their homework, while others are trying to ride the bull market wave the "easy" way (which rarely works in the long run).

We think the participation of individual investors will grow in number and influence, at least until the next deep and lengthy bear market takes root. In the interim, this doesn't mean that more GameStop-like episodes will automatically occur and it doesn't mean they won't. We don't count out additional bouts of market volatility related to meme stocks.

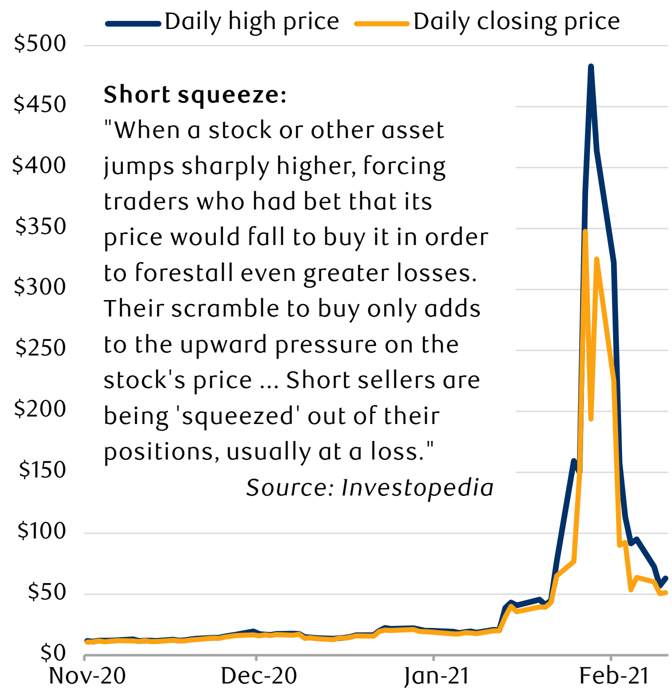
There are a number of regulatory issues raised by the GameStop/meme phenomenon, and we think regulators likely will be slow to act. Rule-making authorities tend to be reactive and lag technological innovations and trends. Bloomberg's regulatory and governmental analysts, for example, believe it could take up to a year for new regulations to emerge that will address this situation, and even then, they doubt there will be sweeping rule changes.

Overall, the meme stock phenomenon is unlikely to have a major impact on traditional, long-term-oriented investment portfolios, in our view. We think the specific episodes and related volatility will come and go.

But the megashift into the digital age is already having a major impact on our lives and we expect this will only accelerate. We think the broader digitization trends and the technological and lifestyle changes they inspire will impact investment portfolios and returns far, far more than the meme stock phenomenon.

What goes up during a short squeeze can come crashing down

GameStop (GME) daily high and closing price per share



Source - RBC Wealth Management, Bloomberg, Investopedia; data through 2/10/21

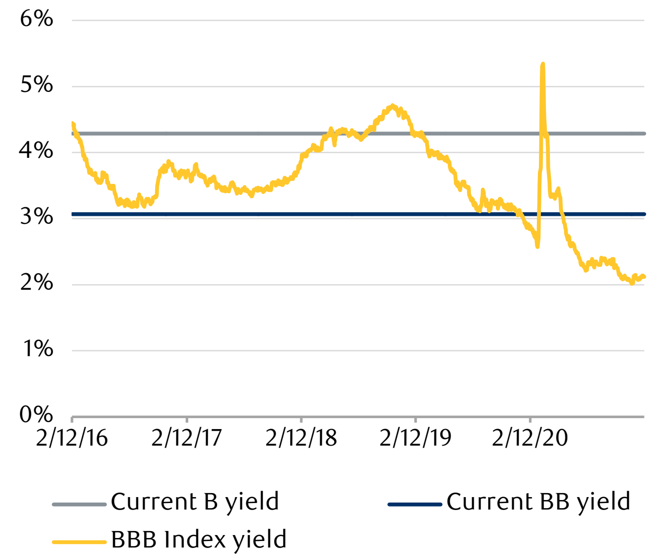
UNITED STATES

Atul Bhatia, CFA – Minneapolis

- **Poor economic data underscored the likelihood for additional years of accommodative monetary policy**, as nonfarm payrolls for December and January showed a net loss of 178,000 jobs; all told, the pandemic has seen almost 10 million jobs disappear from the U.S. economy. With the Fed focused on a jobs recovery as a precursor to tightening monetary policy, the employment report heightened the prospects for a multiyear period of near zero policy rates.
- **The Fed's other focus area of inflation is similarly unlikely to spur central bank action; January consumer prices rose only 1.4% compared to 2020**. Despite benign current inflation, markets continue to believe in the Fed's ability to eventually manufacture higher prices. One of the most popular market-based indicators predicts annual inflation over a five-year period starting five years in the future. That measure—which is closely watched by the Fed—is at 2.4%, the highest level since 2018.
- **The Treasury Department is planning to temporarily reduce its issuance of debt maturing in under a year**, choosing to draw down its existing $1.6 trillion cash holdings. Demand remains strong for short-term obligations and the move could see upcoming auction yields drop to 0%. Although the Treasury Department does not sell bills at negative yields as a matter of policy, secondary market yields can, and have, gone negative; any small dip below zero on bill rates this time should be temporary, in our view.
- **Accommodative monetary policy, potential for fiscal stimulus, and optimism on pent-up consumer spending have combined to boost demand for riskier sections of the corporate bond market**. The benchmark yield on debt from issuers rated CCC—one category above default—has declined from 10% in late October 2020 to just over 6.2% this week. The rally pushed yields on the broader high-yield corporate bond index below 4% this week for the first time ever. Pricing on sub-investment-grade debt now rivals historical levels for BBB bonds, the lowest-rated segment of investment grade.

High-yield in name only

Current sub-investment-grade yields compared to historical BBB levels



Source - RBC Wealth Management, Bloomberg; data through 2/9/21

CANADA

Mikhial Pasic, CFA – Vancouver; Richard Tan, CFA – Toronto

- **In the first six weeks of 2021, the S&P/TSX Composite Index has rallied about 6%,** driven by healthy gains in all sectors with the exception of Consumer Staples. Generally speaking, the Consumer Staples sector is often associated with more stable businesses (e.g. grocers) and therefore could be expected to offer less upside to an acceleration in economic growth, all else equal. **The issue of inflation has become topical once again** given the availability of inexpensive capital, global stimulus measures, and pent-up demand. As a result, we believe some investors have reduced their exposure to certain asset classes (e.g. fixed income) due to perceived limited upside, and/or have gone up the risk curve to protect their purchasing power. One **investment theme** that has grown in popularity is investing into **companies with large and growing total addressable markets**, even if it means foregoing short-term profits. Investments in Canadian Health Care and Technology stocks are examples of this trend, and these also happen to be the best performing sectors year to date. Valuations for these sectors are elevated and tend to be more volatile, and therefore such investments require a higher risk appetite, in our view.
- **The preferred share market is up roughly 3% in February as a pair of insurance companies issued a preferred share equivalent product to institutional investors** this week. In our view, this development is supportive of the preferred share market from a supply-demand perspective because the proceeds from these offerings will likely be used to redeem existing preferred shares, and this in turn could spur reinvestment demand for other issues. Moreover, we believe the tax-deductible nature of the new structure is appealing to issuers because it helps lower their funding costs and reduces the likelihood of subsequent preferred share issuance. **As this new market has taken shape since last summer, issuance costs have declined by more than 1%,** further increasing the likelihood of redemption for a growing portion of the preferred share market.

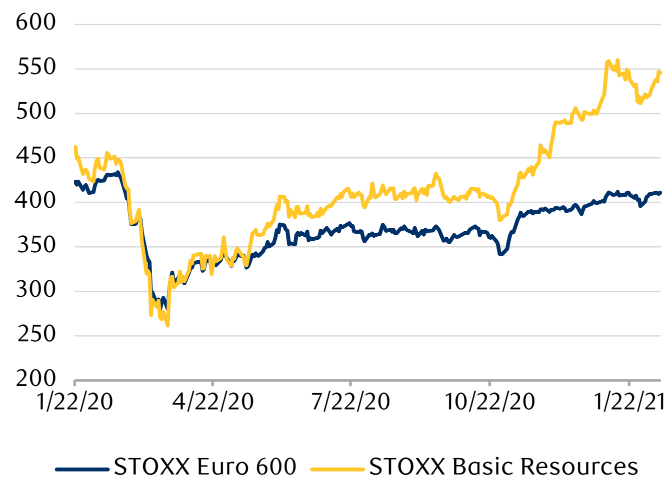
EUROPE

Thomas McGarrity, CFA – London

- **The STOXX Europe 600 Index was broadly flat during the week**. The basic resources subsector (e.g., miners) outperformed, up over 3%, as base metal prices rose and inflation expectations continued to creep higher alongside optimism seemingly growing around fiscal stimulus plans in the U.S. and slowing COVID-19 infection rates globally. **Despite a strong run in recent months, we believe the miners remain on sound footing and the outlook for the next six to 12 months appears positive**. The miners are seeing upward revisions to consensus estimates for FY2021 earnings and we believe forthcoming results from the space could lead to further earnings upgrades, while high metal prices should translate into high shareholder payouts in the form of special dividends and/or share buybacks during 2021, in our view.
- **The Technology sector also outperformed**, helped by Dialog Semiconductor, a supplier to the likes of Apple and Samsung, announcing it was being acquired by Japan's Renesas Electronics at a 20% premium to its share price on Feb. 5. Payments firm Adyen also gained over 15% during the week following its Q4 results beating consensus estimates. Adyen is one of the top 10 performers within the STOXX Europe 600 Index over the past 12 months, up almost 150% as the company has benefitted from the shift to e-commerce during the pandemic.
- Pharmaceutical group **AstraZeneca reported full-year results for 2020. Product sales grew 10% y/y**, while its core earnings per share rose 15%, driven primarily by the performance of its oncology medicines, where sales jumped 23%. In 2021, the company expects total revenue to increase by a low-teens percentage.
- **Royal Dutch Shell hosted a Capital Markets Day to set out its plans for how it will achieve its target to be a net-zero carbon emissions energy business by 2050**. Shell confirmed that its total oil production has begun its long-term decline, having peaked in 2019, while it will submit an "Energy Transition Plan" for an advisory shareholder vote at its annual general meeting every year, the first in the Energy sector to do so.

Basic Resources outperforming broader index

Higher metals prices may lead to continued gains for subsector



Source - RBC Wealth Management, Bloomberg; data as of 8:50 am ET 2/11/21

ASIA PACIFIC

Jasmine Duan – Hong Kong & Nicholas Gwee, CFA – Singapore

- **The Asia-Pacific equity market traded mostly higher during a holiday-shortened week**. The rally is being led by China, where overall sentiment remains upbeat on the back of falling COVID-19 infection rates, expanding vaccination programs, and prospects of another large U.S. economic stimulus package. Most Asian markets are closed for the next few days due to the Lunar New Year celebrations.
- U.S. President Joe Biden had his first official phone call with Chinese President Xi Jinping to discuss their nations' bilateral relationship. While wishing Xi a happy Lunar New Year, **Biden also raised concerns about Beijing's economic practices, human rights abuses, and increasingly assertive actions in the region**. Separately, according to the White House, the Biden administration is reviewing actions put in place by former President Donald Trump in multiple spheres, and existing tariffs on Chinese goods will remain as is for now.
- **China rolled out rules intended to root out monopolistic practices in the internet industry**. The regulations, now in effect, ban sharing sensitive consumer data, forming alliances to squeeze out smaller rivals, and using below-cost services to drive out competitors. We think the move serves as a reminder, especially for the dominant players, that the government is now closely watching the space.
- **Hong Kong's stock market turnover dropped to HK$150 billion (US$19 billion)** on Feb. 9, 18% below this year's previously slowest day. Observers have broadly anticipated the slowdown, as trading links with the mainland closed ahead of the Lunar New Year holiday. Southbound activity has fueled a trading surge in Hong Kong, with net purchases by Chinese investors already at more than half of the full-year record from 2020.
- **TikTok's sale to Oracle (ORCL US) and Walmart (WMT US) has been shelved indefinitely**, per an unconfirmed Wall Street Journal report, as Biden undertakes a broad review of his predecessor's efforts to address potential security risks from Chinese tech companies.

MARKET Scorecard

Data as of February 11, 2021

Equities (local currency)	Level	MTD	YTD	1 yr	2 yr
S&P 500	3,916.38	5.4%	4.3%	16.6%	44.5%
Dow Industrials (DJIA)	31,430.70	4.8%	2.7%	7.4%	25.5%
Nasdaq	14,025.77	7.3%	8.8%	45.5%	91.9%
Russell 2000	2,285.32	10.2%	15.7%	36.2%	50.5%
S&P/TSX Comp	18,392.99	6.1%	5.5%	3.5%	18.1%
FTSE All-Share	3,726.46	2.3%	1.4%	-10.6%	-4.5%
STOXX Europe 600	411.35	3.9%	3.1%	-4.0%	13.9%
EURO STOXX 50	3,671.68	5.5%	3.4%	-4.0%	16.0%
Hang Seng	30,173.57	6.7%	10.8%	9.4%	7.2%
Shanghai Comp	3,655.09	4.9%	5.2%	26.0%	37.7%
Nikkei 225	29,562.93	6.9%	7.7%	24.8%	45.4%
India Sensex	51,531.52	11.3%	7.9%	25.0%	41.6%
Singapore Straits Times	2,925.48	0.8%	2.9%	-7.9%	-8.8%
Brazil Ibovespa	119,299.80	3.7%	0.2%	3.4%	26.4%
Mexican Bolsa IPC	44,060.09	2.5%	0.0%	-2.1%	1.8%
Gov't bonds (bps change)	**Yield**	**MTD**	**YTD**	**1 yr**	**2 yr**
U.S. 10-Yr Treasury	1.163%	9.8	25.0	-43.7	-149.0
Canada 10-Yr	0.998%	10.9	32.1	-35.9	-90.6
UK 10-Yr	0.470%	14.3	27.3	-9.9	-71.0
Germany 10-Yr	-0.458%	6.0	11.1	-6.7	-57.8
Fixed income (returns)	**Yield**	**MTD**	**YTD**	**1 yr**	**2 yr**
U.S. Aggregate	1.19%	-0.1%	-0.8%	4.7%	18.9%
U.S. Investment-Grade Corp	1.86%	0.0%	-1.3%	6.0%	25.4%
U.S. High-Yield Corp	3.95%	1.0%	1.3%	7.5%	18.9%
Commodities (USD)	**Price**	**MTD**	**YTD**	**1 yr**	**2 yr**
Gold (spot $/oz)	1,826.33	-1.2%	-3.8%	16.5%	39.6%
Silver (spot $/oz)	27.00	0.1%	2.3%	53.0%	71.9%
Copper ($/metric ton)	8,303.00	5.6%	7.1%	44.9%	35.3%
Oil (WTI spot/bbl)	58.24	11.6%	20.0%	16.6%	11.1%
Oil (Brent spot/bbl)	60.87	8.9%	17.5%	12.7%	-1.0%
Natural Gas ($/mmBtu)	2.85	11.2%	12.3%	59.5%	7.9%
Currencies	**Rate**	**MTD**	**YTD**	**1 yr**	**2 yr**
U.S. Dollar Index	90.4000	-0.2%	0.5%	-8.4%	-6.9%
CAD/USD	0.7873	0.6%	0.3%	4.6%	4.7%
USD/CAD	1.2701	-0.6%	-0.2%	-4.4%	-4.5%
EUR/USD	1.2132	0.0%	-0.7%	11.1%	7.6%
GBP/USD	1.3815	0.8%	1.1%	6.7%	7.5%
AUD/USD	0.7755	1.5%	0.8%	15.5%	9.8%
USD/JPY	104.7400	0.1%	1.4%	-4.6%	-5.1%
EUR/JPY	127.0700	0.0%	0.7%	6.0%	2.1%
EUR/GBP	0.8782	-0.8%	-1.7%	4.2%	0.2%
EUR/CHF	1.0797	-0.1%	-0.1%	1.4%	-4.6%
USD/SGD	1.3247	-0.3%	0.2%	-4.5%	-2.7%
USD/CNY	6.4583	0.5%	-1.1%	-7.0%	-4.9%
USD/MXN	19.9585	-3.0%	0.2%	7.0%	3.4%
USD/BRL	5.3854	-1.6%	3.6%	42.5%	43.4%

Equity returns do not include dividends, except for the Brazilian Ibovespa. Bond yields in local currencies. Copper Index data and U.S. fixed income returns as of Wednesday's close. Dollar Index measures USD vs. six major currencies. Currency rates reflect market convention (CAD/USD is the exception). Currency returns quoted in terms of the first currency in each pairing.

Examples of how to interpret currency data: CAD/USD 0.78 means 1 Canadian dollar will buy 0.78 U.S. dollar. CAD/USD 0.3% return means the Canadian dollar rose 0.3% vs. the U.S. dollar year to date. USD/JPY 104.74 means 1 U.S. dollar will buy 104.74 yen. USD/JPY 1.4% return means the U.S. dollar rose 1.4% vs. the yen year to date.

Source - Bloomberg; data as of 4:35 pm ET 2/11/21.

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As of December 31, 2020

			Investment Banking Services Provided During Past 12 Months	
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Buy [Outperform]	828	54.83	299	36.11
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Sell [Underperform]	67	4.44	12	17.91

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