COOPER WEALTH MANAGEMENT
RBC Dominion Securities
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THOUGHTS FROM HOME

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Markets in Bloom

"To everything there is a season and a time for every purpose under Heaven."

- Ecclesiastes 3:1-8

With the pending spring, change is in the air. In the equity markets, change is the catalyst that forces us to examine our outlook and investment choices on a regular basis. This month, we will focus on changes in the world scene and equity markets to help inform our investment path going forward. Here are some of the key issues we are looking at:

1) Covid-19 and Vaccines - The changes to this story still seem too slow as we pass the first anniversary of the pandemic but progress is being made. As of March 30 in the U.S., 53.4 million people or 16.28% of the population is fully vaccinated and a total of 94.6 million or 29.26% have received at least one shot, with over 3 million doses now being administered daily. The one drawback is the U.S. still had 62,045 new cases on March 30th. We will continue to hope the case count soon begins to drop. Meanwhile, the U.S. plans to have most of their population vaccinated by the end of May, freeing up significant resources for the rest of the world. Unfortunately, the season of Covid will be with us for a while yet.

2) Global reopening and the outlook for oil - As the global economy begins to reopen, the pent up demand for consumer goods has put enormous pressure on the global supply chain. In the U.S., customers are waiting for up to a year for things like furniture and appliances. A freighter stuck in Suez Canal for a week disrupted billions of dollars of global trade. With this huge demand, the global economy is poised for a strong recovery with a hint of inflation possible as transportation costs rise.

As for oil, demand globally dropped by 9% in 2020, the first drop in demand ever. This drop is basically accounted for by the drop in demand for jet fuel. By 2022, we expect global travel to pick up to a significant degree and there could even be a shortage of jet fuel in the coming months, depending on how quickly the pandemic is resolved. Jet fuel prices surged 14% last month alone. Combined with the transportation demand, this should serve to keep oil prices in their current range and allow well managed companies to return to profitability.

3) Stimulus, Interest rates and Inflation - The U.S. government has just announced an infrastructure spending bill of $2 trillion, sparking further concerns about inflation. With rising inflation, the next worry is rising interest rates. The yield on the 10 year U.S. Treasury bond spiked as high as 1.75% before dropping back to 1.68%. Given how long infrastructure takes to build, we do not believe this bill will have any material inflationary impact any time soon. Further, despite a projected global growth rate of over 6% for this year, inflation has stubbornly remained below 2% and we expect that trend to continue.

4) First quarter earnings are due to be reported shortly - Earnings for the first quarter have a low benchmark to beat based on last year's numbers so expectations are earnings will come in higher than estimates, which will be additional support for share prices. Investors will be looking for dividend increases and higher earnings projections. Given the robust recovery underway, anything less would be viewed poorly. Of the trend of the last three quarters continues, we should be in store for another positive month.

With these ideas in mind, here is how we are proceeding:

1) The market is moving ahead, regardless of Covid concerns. Banks, commodities and other value plays have continued to rally but technology companies are also starting to rise again. We continue to maintain our balance between value and growth stocks, looking to capture the best of both worlds.

2) While it is still too early to move into oil stocks, the firming price of oil will help our pipeline names (Enbridge, Pembina) while we continue to collect over 7% dividends. Our transportation names (CN, Cargojet) should also benefit from the strong demand for shipping and Cargojet recently deepening their relationship with Amazon.

3) We expect U.S. interest rates to remain near current levels as there is still over $18 trillion of global debt outstanding which should help maintain demand for U.S Treasuries. We believe any inflation pressures will be short lived and largely held in check by global competition. The good news for the banking sector is that the steepening of the U.S. yield curve will help to boost earnings. For the banks in general, all the major institutions now have excess capital and once the Covid crisis has passed, it is expected they will be allowed to raise dividends and buy back shares, which will send prices higher.

4) Earnings season is our favourite season of all. This quarter, analysts are optimistic that a majority of companies will exceed estimates, setting up a favourable market backdrop for the quarter ahead. We continue to stay fully invested and will make any changes as necessary.

Spring is a time of renewal and change. As vaccines continue, our hopes for a return to our normal lives grow. While we must remain patient, there is definitely reason for optimism. For the market, change happens every day but for now, most changes seem to be heading in the right direction. Enjoy the spring and stay healthy!

As always, thoughts, feedback, comments or concerns are always welcome.

Yours truly,

Trevor, Walter and the Cooper Wealth Management Team