COOPER WEALTH MANAGEMENT
RBC Dominion Securities
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THOUGHTS FROM HOME

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Lights! Camera! Overreaction!

"The stock market is the story of cycles and of the human behaviour that is responsible for overreactions in both directions."
- Seth Klarman, Hedge Fund Manager and Author

The media spotlight has cycled back and forth over a number of stories this past month, with the market overreacting just as quickly. From early month optimism over corporate earnings to late month inflation worries, we had all the elements of a great Hollywood movie. As we go through the major themes, we will discuss our view of the current market cycle moving forward:

1) As predicted, the GameStop saga, soon to be an actual movie, began to unwind with the stock dropping from a high of $483 to $101.74 at month end. What makes this drama even more tragic is that the stock was down in the $50 range and heading lower, when it spiked up in another round of small investors buying to over $150 before settling down. Wall St. professionals value this stock in the $10 range so it seems most likely these speculators are going to lose more money. If you go to see a movie a second time, the ending does not change.

2) The Covid-19 drama continues on but the story has been improving. New daily cases dropped from 130,000 per day to approximately 50,000, with over 1.3 million Americans getting their first or second shot daily, and total vaccines administered of 70.5 million. In a late month plot twist, new U.S. cases rose for about a week and concerns began to rise about variant strains. However, the Johnson and Johnson vaccine was then approved and Merck has also stepped in to help make even more vaccines. Stay tuned. We still expect a positive outcome but this will be playing for a few months yet.

3) Towards the end of the month, the new hit was a short term spike in the U.S. 10 year rate from 1.1% to a high of 1.6%. While the absolute rise may not seem like much, it is a large percentage point move for yields, which fuelled inflation concerns. This lead to an overreaction sell-off among high growth names such as Tesla, and technology in general.

4) As technology sold off, the market began to cycle into economic recovery stage stocks such as banks, industrials and energy. At this point, we feel the highest volatility names such as Shopify and Tesla will sell off further in favour of sectors that were hardest hit by the pandemic. There will also be continued pressure on recently issued technology high flyers as approximately $180 billion worth of these shares becomes unlocked and the founding shareholders are allowed to sell. Oil and pipeline stocks have started to recover but still offer attractive valuations.

In light of these issues, here's how we are proceeding:

1) GameStop was an exceptional situation that we do not believe can be duplicated any time soon. As a result, the market is safe for now from a large man made sell-off due to a short squeeze.

2) The Johnson and Johnson & Merck news is a potential game changer in the fight against Covid. This means the U.S. could have enough vaccines in place by the end of May to vaccinate the entire U.S. adult population. This could definitely accelerate the global recovery and be very positive for markets. To take advantage of this cycle, we eliminated some defensive names such as Loblaws and Choice Properties and added industrial growth names such as Boeing and Magna at favourable prices.

3) Concerns have arisen about possible inflation and higher interest rates due to the high level of U.S. economic stimulus and the reopening of the global economy. Our view is that the vast pool of liquidity available globally, along with over $15 trillion of global debt still trading at negative interest rates, will keep a lid on any major rise in U.S. rates. Further, the U.S. Federal Reserve has

pledged not to move rates higher until unemployment has recovered to pre-Covid levels. This still leaves a clear path for equities to advance.

4) We continue to maintain our U.S. equity weighting but may reduce our technology positions in order to rotate into more economically sensitive sectors such as oil, pipelines and industrials. The long term investment thesis for technology is intact but selectivity will become even more important, particularly as many of the former market darling new issues will likely have a difficult quarter until their stock is absorbed by the market.

Overall, the three keys to this market remain, the speed of the vaccine roll out, keeping interest rates around current levels and how well the market absorbs the new issue stock coming out soon. Investors lately have tended to overreact to every news story and we believe that will continue until the Covid situation is closer to resolution. We will continue to focus on looking for attractive investment opportunities as the stampeding investing public make them available. Until next month, stay well.

As always, questions, comments and concerns are welcome.

Yours truly,

Trevor, Walter and the Cooper Wealth Management team