A VERY GOOD WEEK FOR STOCKS

Spurred on by Monday's promising vaccine test results produced by the biotech company **Moderna,** equities began the week strong and never really let up. By Friday, many major markets had reversed completely last week's losses, and a number of sectors and stocks posted the highest closes since the lows reached late March.

Leader of the pack was the **Dow Jones Transportation sector** up over 9%, perhaps encouraged that as more of the US economy opens up going into the Memorial Day weekend, it will mean better days ahead for airlines and cruise ships. Broader based indices, such as the **S&P500 Industrials and smaller company Russell 2000**, also had weekly gains north of 6%. The continuing rally in oil helped the beaten-up **US energy sector** rise 6.11% and some encouraging signs of new home sales rebounding had the **S&P500 Real Estate sector** up over 5.5%. **Global equity markets** did not disappoint with Germany's DAX gaining 5.8% and both France and the UK bourses ending the week higher by some 3% plus. Our TSX gained only 1.88% as our major sectors, being financials and energy, did not seem to share the rest of the world's enthusiasm.

A large part of investors **renewed confidence** may well be the willingness of central banks to do whatever is needed to support economies during this pandemic. We all know that the ultimate cost in countries yearly deficits and overall debt will be immense, however it is worth remembering though that currently <u>very low interest rates mean the cost of carrying this added burden is not great</u>.

As an example: The US Treasury issued 20-year bonds last week (the first 20-year issuance in 34 years!!) and the interest rate at issue was only 1.213%. Thus, the annual interest expense is $12.1 million for each $1 billion borrowed. If we compare that to existing 20-year bonds (actually issued in 2010 as 30-year bonds) they have an annual interest expense of $43.8 million for each $1 billion. <u>*Thus, the interest burden on new 20-yr is 72% lower than existing bonds.*</u> That is a massive decrease in interest borrowing costs. The Covid-19 induced plunge in US interest rates has dramatically lowered the long-term borrowing costs of the US government. In fact, the CBO (Congressional Budget Office) projects that, despite a $3.6 trillion stimulus plan, **total US debt service cost is actually set to fall in the next decade**. It is almost "free money". I am sure a similar case can be made for Canada and other countries where yields are close to, or even below, zero.

On a side note, while interest rates are projected to stay low for many months, I do predict that consumers are going to see notable inflation in many sectors, such as food, personal care, entertainment and travel in the months ahead. **Also prepare yourself for a new buzzword -** ***Revenge Spending*****!**

The week was not all perfect: Beijing decided to impose a new national security law on Hong Kong and President Trump stated the US would address this move "very strongly" while still continuing his claims that China was responsible for

disinformation and lax in allowing the pandemic to spread. Not surprisingly, Chinese and Hong Kong shares did not take part in the week's strong rally. There is still no clear path (other than a vaccine) how to get economies back to where they were just a couple of months ago, or how many small businesses or restaurants will survive?

And to add that **Déjà Vu** feeling to it all - Argentina defaulted on its sovereign debt for the *NINTH* time in its history.