SAVED AT THE BELL

Until an hour before Friday's closing bell, last week appeared to be a second consecutive challenging week for investors. While the USA was reporting sterling work in its race to vaccinate, Europe and Canada were far behind, and rising caseloads imply another possible wave of Covid-19 infections and further months of economic strangling shutdowns.

American investors contemplated the **impact of long-term interest rates** continuing to rise and with this the **risk of much higher inflation** than forecast. In addition, Washington was talking about **raising taxes** and a seemingly less "pro-capitalist" agenda vs. the 2020 White House. Adding to the uncertainty was more news on **supply chain shortages** and price increases. Honda, last Wednesday, said all of its plants in Canada and the U.S. will experience production cuts as it contends with a semiconductor shortage that's hit automakers the world over. New home builders are being challenged as the cost of inputs has surged, not only for lumber but also copper, brick, insulation, drywall and PVC pipe are all costing more, forcing everyone from paint and flooring manufacturers to homebuilders to raise prices. Analysis suggests this has already pushed the cost of a single-family home up some US$24,000.

There's **lots to worry** about and to further add to the volatility – quarterly rebalancing. Those with good memories will recall that one year ago I wrote that one of the reasons I expected a strong market rebound was the forced need of balanced mutual funds and pension portfolios to rebalance after the rapid and steep fall in stock prices in March 2020.

I commented, *"Balanced Portfolios: Many pension and mutual fund portfolios are required by mandate to maintain a fixed balance between fixed income (bonds) and equities – for example, a 50-50 or 60-40 mix. The large and rapid decline in share prices has meant a potential rebalance of around 20% re-allocation of a portfolio's value from bonds into stocks. Timing is unknown (most are monthly or quarterly), but ultimately this has to be done: so a potential source of significant buying at some point in the future. JP Morgan, when analysing the global value of 60-40 mutual funds, estimates some $300 billion of stocks will need to be purchased. US-defined benefit plans add up to another $400 billion. Similarly, there are many other similar investment mandates worldwide."*

Well, **one year later** we have the exact opposite – **equity markets rose strongly in the first quarter,** whilst bonds fell in value as interest rates moved sharply higher. Again, analysis suggests that as much as $600 billion or more needs to move out of shares into bonds in order for balanced mandate portfolios to be “on side” by month-end. Some rebalancing may have already occurred, but be prepared for more volatility and selling in over-owned stock sectors as we approach March 31st.

Nevertheless, US markets ended a volatile week with an across-the-board surge upwards into the closing bell Friday. As always, market pundits scrambled for answers, with the top contenders being President Biden’s doubling of the U.S. vaccine rollout target and the Federal Reserve’s decision to free US banks from restrictions on dividends and buybacks. Also hinting at a spending boom ahead, the Consumer Sentiment Index for March rose to 84.9, from a preliminary reading of 83.0, the highest since March 2020.

As most of the good economic and vaccination news was US centric, not surprisingly, their equity markets were the week’s standouts.

The biggest sector winners were Real Estate, Consumer Staples, and Energy – all higher by 3% or more. But other than the Technology and the WFH (Work from home) company-heavy Nasdaq, all sectors witnessed nice gains, as did the S&P500 and the Dow Jones Industrial Average. On the losing side were most global markets and currencies. Our TSX fell half a percent, weekly declines in oil and gold prices having a negative impact.

It is a holiday-shortened week and, as I noted above, quarterly rebalancing may have an exaggerated effect on price movements. Rising COVID cases will, I am sure, also be at the forefront of International and Canadian news.