THE 'OH-NO' TEAM EDGES AHEAD

My commentary last week was on the tug of war between the ***FOMO*** (Fear of Missing Out) investors sending markets higher and the "***Oh No***" group warning of renewed Covid cases as more of the US (and Canada) relaxed restrictions and higher transmissible variants gain the upper hand.

The action last week was virtually all to the downside, as most global stock and bond markets ended the week lower. The biggest losing sectors were both the over-loved (and over-owned) 2020 winners of technology and e-commerce stocks, but also this year's leaders, financials, energy and manufacturing shares.

However, for the year-to-date, most worldwide stock markets are notably higher, as are commodities, on indications that (so far) economies everywhere seem to be slowly recovering. Of growing concern is that, while the major northern economies of the UK and USA are making impressive gains in vaccinations, Europe has struggled and most of Italy and Paris are shut down again. I will refrain on commenting on Canada – we all know it has not been our finest hour.

It is important to remember that from a dollar value point of view, US equities represent some 55% of the global markets' value, second is Japan at just under 8%, and so understandably whatever happens south of us will always have investment repercussions worldwide.

Last week Fed Chairman Jerome Powell reiterated the central bank's commitment to provide aid to the economy "for as long as it takes". He added that inflation was forecast to reach 2.4% this year, but called it a temporary surge, **and his biggest news was a pledge not to raise interest rates until 2024**. For investors and business owners that is good news.

On the bad news side was the Fed's decision not to extend a rule exempting Banks' holdings of U.S. Treasuries from their supplementary leverage ratio – without going into boring details, this affects their capital reserves and negatively impacts lending ability. Also, for those fearing skyrocketing inflation - more worries - as the benchmark 10-year Treasury bond yield hit the 1.75% level for the first time in 14 months and the yield has now surged about .8 of a percent this year alone.

Overall, the US Fed was very optimistic and along with keeping rates low, upgraded its 2021 GDP growth forecast to 6.5%, the largest annual output since 1984, while expecting a further drop in unemployment. Investors seem less enthused, and so we saw lots of volatility and a late Friday rally did not offset a losing week.

There is an old adage in investing, “Buy on the rumor - sell on the news”. In other words, the best time to buy is when potential good things may lie ahead and sell when the reality is at hand.

As I wrote back in early January, “*My expectation is that once the new administration takes over, investors may take on a* ***‘show me’*** *stance, and that means any disappointments could result in notable selling. Thus, I would not be surprised to see lower prices in many of the currently* <u>*over-loved*</u> *sectors by the second quarter.”* We may well be in this stage now, so I expect more volatility in the weeks ahead as much of the “good news” is out. Nevertheless, baring a massive Covid case increase – and we all saw the craziness on Miami beaches, I expect higher markets by year end.