Wealth Management
Dominion Securities

RBC Dominion Securities Inc.
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Update On Your Discretionary Portfolio

Current Thoughts – March 2021

Dear clients,

It was just about one year ago that the stock market bottomed out from the initial panic around COVID-19, as businesses and economies around the world were shut down to try and get a handle on the spread of the virus. On March 23, 2020 the S&P 500 reached an intraday low of 2,191.86. On that same day, the Federal Reserve announced their commitment to use their full range of tools to support households, businesses and the US economy. One day later: the S&P 500 closed up 9.4% higher, and began the process of one of the largest (and quickest) stock market recoveries in recent history. The Federal Reserve and the U.S. government's fiscal policies to provide support were a main driver of this recovery, as we have mentioned several times in previous communications. Those institutions remain accommodative, and should continue to be a tailwind for the economy and stock market in the near future, volatility notwithstanding.

Inflation and interest rates have also become an important topic in financial media, as the sudden rise of rates in early 2021 has led to much discussion about potential runaway inflation. It is important to keep in mind that the current rate on the 10-year US treasury yield (around 1.6% to 1.7%) is only now back to levels seen in January 2020 just prior to COVID-19 taking hold. Interest rates are still historically low and remain in a long-term downward trend. Other disinflationary factors are still at play, including exponential technological advances, and relatively stagnant wage growth. Inflation in certain sectors of the economy has picked up, but it is not evenly distributed. We think that the continued growth of the economy is the main factor causing interest rates to rise, which is a much healthier (and likely) reason. Rising rates are not a negative for stock markets in general, and there have been strong market returns during such periods in history. Sectors such as consumer discretionary; financials; material;, and (perhaps surprisingly) technology have been strong performers during these periods of time.

We continue to focus on investing in companies that have strong growth, and will be at the forefront of the economy and current societal trends for years to come. We maintain a "barbell" approach to the companies owned in your portfolio, which means that some stocks are more economically sensitive (cyclical), while others are less affected by the various swings in the economic cycle.

Over the past few months, we had made a slight shift to more cyclical names in the portfolio to take advantage of our view on the economy. Some examples of this include increasing our bank exposure back in November (more TD, RY and NA), and also adding a new position in CIBC in February. We also added positions in Magna (MG) and Canadian Natural Resources (CNQ) in recent months.

We also maintain our conviction with many of our growth names, while also trading around price strength/weakness in some of these stocks to provide value in a volatile environment. Some examples of this include taking some profits on several companies over the past few months, including Docusign (DOCU); Teladoc (TDOC); Uber (UBER); PayPal (PYPL); DraftKings (DKNG), CargoJet (CJT) and Kinaxis (KXS). We are still quite positive on all of the above companies, but we will take some off the table when there are jumps

in price that provide an opportunity to do so. We have also used share price weakness to add to companies when we feel the valuation is attractive due to short term fluctuations (WSP Global, CargoJet and Teladoc are examples of this). Recently we have increased exposure to Home Depot (HD), added new positions in Nike (NKE), Walt Disney (DIS) and Nvidia (NVDA), while removing our positions in Facebook and CVS.

In January, we performed the semi-annual rebalancing in your portfolio to bring all positions back in line with your stated long-term asset allocation. This is part of our investment discipline, and ensures that no one company (or asset class) will stray too far from where we are comfortable. We remain market-weight on equities at the moment, and had reduced fixed income exposure back at the end of November 2020 when interest rates were still quite low but were starting to rise. Part of this we shifted into our alternatives sleeve of market-neutral and merger arbitrage funds, which have performed extremely well. Fixed income has since had a weak start to 2021 due to these rising rates, with the exception of preferred shares. We still think equities will be the main driver of returns going forward and will remain underweight fixed income in this environment.

We continue to actively monitor the economy and markets, and will make changes to the portfolio as necessary. We remain constructive on equities and expect strong growth to remain through at least through the end of this year. There will always be periods of time when markets get choppy, and during those times it is most important to focus on the long-term strategy and invest in companies that will be able to thrive in the future. This was true in March 2020 during the height of the panic, and remains true one year later.

Please feel free to contact us directly if you have any questions.

Best regards,

Ord Private Wealth Management
John, Tim, Liam & Kristen