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The Great Race

Well here we are in January 2021 after a tumultuous 2020 to put it mildly. In this newsletter we will try and capture and explain some of the themes that we have identified and stare deep into our crystal ball to see what lies ahead for the coming year.

We have titled this newsletter: 'The Great Race', as we believe this aptly describes where we are in this dreadful COVID-19 pandemic. We are in a race against time, to get as many people vaccinated in as short a period of time before the virus spreads any further and begins to impact the global economy all over again. In our previous newsletter we explained the disconnect between 'Wall St. and Main St.' and how the global stock markets were already looking forward to the development of a vaccine and the recovery of the global economy in 2021. Well here we are in 2021 with three separate vaccines available and probably more to come in the coming months. At present, the distribution and logistics of these vaccines are still somewhat disorganized; however, this will only improve exponentially in the coming weeks and months. On the economic side of the equation we have seen a rapid recovery in manufacturing and consumer confidence, a decline in unemployment numbers, and in general a slew of positive news. This of course has driven the stock markets of the world to recover all of their losses of last year and in many cases push on towards new highs. The question of course is: what now lies ahead for the rest of the year?

The Bull Case for 2021

All things move in cycles, especially economies and stock markets whose cycles are very closely linked. Parts of these inevitable and necessary cycles are recessions, which mark the end of the expansionary cycle and the beginning of a contraction. In reality, recessions have already begun before they are officially announced and normally the stock markets of this world would have already weakened substantially before a recession is announced. Following a recession you enter into the beginning of an expansionary cycle where an inevitable recovery takes hold and expands into a full blown '**Bull Market'** for stocks, real estate and the economy in general.

Our thesis is that we are now at the start of the next 'Bull Market' which we expect to be a multi-year cycle where all asset classes are likely to participate. (Well maybe not Bonds; but more on that later.)

In previous cycles recessions tended to be long drawn out affairs that lasted many months or years mainly because there was a symptomatic economic and/or financial reason or event for the decline. Cast your mind back to 2008 when the global credit markets basically melted down and the many years it took to repair the damage. What we were faced with in 2020 was a different set of circumstances. Prior to COVID we had a record setting bull market that had lasted over 10 years without any recession. The media pundits had been going on how it 'could not last' for years and had mainly given up forecasting the downfall of the markets, and then came the outbreak of COVID…

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Never before had a single event affected the entire world in such a compressed period of time. We went from everything is just peachy to full blown lockdown in a matter of weeks. Stock markets reacted accordingly and promptly peeled off -37% or so and going into a full 'Bear Market' in a matter of days.

On the flip side of this we have already seen a full recovery in most markets which now has been recorded as the fastest recovery in the history. One of the key reasons for the recovery was that the markets quickly began to have the foresight that there was going to be solution to the problem (a vaccine) and that this was not likely to be a long-running recession. The markets saw businesses continuing to operate while people started working from home and, for a greater or lesser extent, business continuing to operate somewhat normally. The markets pretty quickly saw that there was no real lingering economic or financial cause for the recession and so we arrived back in full recovery mode.

So we went from Bull market to full-blown Bear Market, shortest recession in history to full recovery, all in the space of months. What that wild ride did, was reset the bar and hence the economic cycle. Instead of the recession dragging on or taking years to occur the entire time span was compressed into months. Speculation and excess in the markets was wiped out, businesses failed, interest rates were slashed, stimulus poured into the economies, technology boomed, effective vaccines were discovered and developed, and back we come to once again start the next inevitable cycle.

We spoke about it in the last newsletter and our belief that: **It truly is different this time!** Never before have we seen things move so quickly in all spheres of the economy, markets or our lives. This is the reality of the world we live in today. Everything moves faster and so why not the stages of economic cycles too?

Why We Are Bullish

Ok so now that we have got the recession out of the way, let's look at what we see that is encouraging to us:

1. **Record Low Interest Rates**: You currently have interest rates at all-time lows. We are seeing clients get mortgages at less than 2%, which makes borrowing incredibly cheap. Low interest rates are powering the real estate market as home owners look to upgrade to larger homes and in many cases move out of city centres. A stable real estate market is incredibly important for consumer and investor sentiment as it leads to the 'wealth affect'. When the value of people's homes is increasing it gives the consumer a sense of stability to go out and spend more in other areas of the economy. These low interest rates also fuel corporate borrowing to go and expand production facilities and purchase other companies as M&A activity starts to spike. Something we are already seeing as many company valuations are still relatively low, making them attractive acquisition targets.

2. **Growing PMI Numbers**: The Purchasing Manufacturers Index tracks the amount of goods flowing out of factory gates globally. We are continuing to see these numbers improve in Europe, Asia and North America and in some cases we are seeing record numbers not seen in many years. These PMI numbers are clear indicators that the global economy is bouncing back and factories are running at full steam.

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This is also been seen in strong commodity prices, with iron ore, copper, and lumber all recently hitting new all-time high prices as factory demand ramps up. As production and manufacturing increases more employees are needed and so we are likely to see employment numbers continue to improve over the coming year.

3. **Political stability in the US:** Lets scale that back a bit and say `relative stability at least for 2 years or so until the next `mid-term` elections. Broadly speaking we are likely to see more diplomacy, less trade wars and tariffs with Europe and Asia, and less erratic behaviour in terms of the administration as a whole. The markets like stability and respond positively to stable and consistent economic policy. The new Biden administration is also more likely to provide additional stimulus in various forms to the economy, which means there will be more money spent in the economy; everything from individual consumers spending their aid cheques to large infrastructure projects.

4. **Era of Technological Innovation that is accelerating:** We are entering a time of what I would call un-paralleled technological advancement in so many different areas. We just witnessed three COVID vaccines developed in 9 months, a feat never seen before, plus the use of messenger RNA to fight the disease with lots more applications sure to come out of this technology. We are seeing technology like Crisper coming up with ways to splice mutant genes out of the human gene chain and recently removing cancerous genes from mice. How long before diseases like Cystic Fibrosis, and maybe Alzheimer's are eliminated from the human gene pool? We have 5G technology in communications being deployed and so many other incredible innovations in the pipeline. All of these things will continue to help the economy recover by driving innovation, economic prosperity, and growth in the coming year.

5. **Light at the end of the tunnel**: There is definitely light at the end of the COVID-19 tunnel. People have COVID Fatigue and want to get out and resume their previous lives, travel, see family and friends, do fun things, and in general spend money. What we also have seen during COVID is that the Savings Rates in Canada and the US have climbed to record levels. This is money that will once again flow back into the economy as it is spent on all those things that we have been constrained on doing. Consumers that are spending money is good for the economy. Remember that over 70% of the US GDP is based on consumer spending. Net result is higher corporate earnings and a generally positive stock market.

Bottom Line

So when gazing into the crystal ball, we honestly see a period of economic growth and prosperity that is likely to last a couple of years at least. We are at the beginning of the next economic cycle and all indicators are pointing to the fact that it is likely to be a strong period for market returns and basically growth in all asset prices. Along the way of course there will be the normal market ups and downs and minor corrections, however in terms of the big picture we believe we have a good runway ahead of us.

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Our Team

This last year our team has worked incredibly hard in managing all of our clients investments and we are very thankful for all of the wonderful comments that we have received from you. So thank you all and thank you for your continuing support. It is also important for us to point out that all of our team participates in the managing of the accounts and the business as a whole, even though as a client you may only speak to one or two of us on a regular basis. Our team has grown over the years and there are now 5 Partners: Jed Brezer, Greg Vos, Marion Reems, David Mandell and Lili Hao. Our two Associate Investment Advisors are Samantha Scott and Kenzy Ho, and our two Sales Assistants are Tracy Kan and Penelope Mallea.

From all of us we wish you a positive and prosperous 2021

All the best from our team members.

Greg, Marion, Kenzy, Jed, Lili, Samantha, Dave and Tracy.

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