Market Update

We thought it would be a good time to provide a quick market update to explain some of the most recent movements and events in the markets. The last 2 months we have seen an increase in daily volatility in the equity, bond and currency markets as we start to enter the next phase of the economic cycle.

As the global economy has started to enter the 'Post-COVID' economic cycle we have seen a rapid increase in the cost of goods in a whole host of areas. Lumber prices have increased 300%, copper, zinc, nickel, steel, plastics etc. all have seen rapid price increases over the last little while. Housing prices have jumped globally on low interest rates. Wages have started to rise, as ironically it is already difficult to find workers in many different industries. Combine this with a global shortage of many goods including semiconductors; used in basically everything these days; and you have a bit of a 'perfect storm' leading to price increases across a whole spectrum of industries and goods.

High prices all feed into inflationary pressure and the worry of higher inflation, has led to increasingly volatile stock markets. The markets fear inflation, as higher inflation means that the central banks will have to raise interest rates to try and slow the inflationary pressure. Markets worry that if they turn off the spigot of 'cheap money' and raise interest rates then it will lead to a rapidly slowing global economy, lower corporate profits and lower stock markets. The central banks of this world maintain that the inflationary pressure that we are currently seeing is temporary in nature and that once production and supply chains have caught up, that inflation will drop to below 2% once again.

The stock markets are not quite sure what to make of it and so tend to move erratically from day to day. We believe that this is likely to continue through most of the summer, or until we see supply chain improvements and the current shortage of goods dissipating. Personally I think that we will have a better outlook coming into the Fall on inflation. As one pundit said: 'The cure for high prices is high prices', meaning when prices get out of whack, as they are now, there is normally an adjustment back to the mean, as they basically self correct.

We also wanted to speak about the CDN $ which has appreciated against the US $ rapidly in the last couple of months. The CDN $ was **$0.76** late last year and traded at **$0.83** on the 18th of May. This is a **9.2%** increase since November last year. Some of the reasons for the increase are that Canada is a commodity nation and when commodity prices increase (Oil, Gold, Lumber) it leads to a stronger CAD $. We have also seen a weaker US $ as traders bet against the US $, as President Biden released some of their Infrastructure and Stimulus plans to revitalize the US Economy. Lately we have also seen Currency traders take a bet on the CDN $ as the Bank of Canada indicated that they may have to raise interest rates sooner than expected (probably to cool the crazy real estate market).

For us the stronger CDN $ has led to a bit of a headwind for client portfolios, as we hold anything from 45% to 85% of our stocks in US $. A US stock that we own may be up 10% since we bought it, however when we show the conversion to CAD $ that same stock may show only a 1% gain or even a loss.

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This of course distorts the portfolio performance numbers and we are pushing management to provide reporting that breaks out the US $ and CDN $ separately, however this may take a while.
It is important to realize that we are not selling our US $ holdings and converting money back into CDN $'s. When we sell a US position, we buy another US $ position and so maintain our funds in US $ and therefore do not realize the 'loss' that the change in currency values would have you believe. Our US $ holdings are key in driving long term performance and diversification in portfolios and not something we are ever likely to change as more and more major international companies continue to list on the US markets and even some CDN companies shift their listings off the CDN exchange and onto the US exchanges.

Our outlook for the CDN $ is that it is likely to stabilize in around $0.82 as high commodity prices start to pullback over the course of the year. If anything we believe that this is a good time to move CDN $ to US $ if we have not already done so.

As mentioned in our last newsletter we see more 'normalized' returns in the market this year and we think that the market will need a little time to work through it's fears of inflation. We believe that inflationary pressure is somewhat temporary in nature and that in the coming months we will see things stabilize as commodity prices correct and the global economy ramps back up.

We hope you find this helpful and if you have any questions please feel free to reach out to any of our team member

All the best from our team members.

Greg, Marion, Kenzy, Jed, Lili, Samantha, Dave, Tracy, Penelope and Kelly

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