GLOBEINVEST
CAPITAL MANAGEMENT INC.

INVESTMENT NOTES

DECEMBER 2020

UPCOMING 2021 BNN SHOWS

Christopher: January 8 @ 12pm

Christine: January 18 @ 12pm

Christine: February 19 @ 12pm

Christine: March 16 @12pm

Christine: April 15 @12pm

Christine: May 18 @12pm

Christine: June 16 @ 12pm

Christine: July 13 @ 12pm

Christine: August 12 @ 12pm

Christine: September 14 @ 12pm

Christine: October 13 @ 12pm

Christine: November 16 @ 12pm

Christine: December 14 @12pm

OVERVIEW

Two significant unknowns were resolved this past quarter: (1) the outcome of the U.S. presidential election and (2) the development of effective COVID-19 vaccines. These events were well-received by stock markets with many of the broad indices reaching new highs.

Investors largely ignored the chaos on Capitol Hill and instead focused on the positive aspects resulting from the upset victories of both Democrats in the Senate runoff races in Georgia. With the Democrats now having control of the House, Senate and White House, it increases the likelihood of more fiscal stimulus as well as a more predictable political environment when Biden takes over.

The dichotomy between the performance of global equity markets and economic conditions could not have been more pronounced this past year. Swift “unprecedented” monetary and fiscal actions by central banks and governments, respectively, around the world have cushioned the normal effect of a recession. The timely development of successful vaccines means there is a visible path to a normalization of economic activity. The outstanding question is whether the recession has been delayed resulting in a double-dip or economies are on a sustainable path to recovery.

In contrast, the near-term economic outlook has turned murkier with the resurgence of the virus and the discovery of new and more contagious variants of COVID-19. In response, many counties have re-implemented restrictive travel protocols and containment measures. The bridge from the present to when mass inoculation is achieved remains continued policy support.

The backdrop of near zero interest rates globally is very supportive for equity valuations. Excessive liquidity, however, also promotes speculative activity and a widening disconnect between business fundamentals and valuations. Nascent signs of a bubble are emerging.

COMMENTARY

The Democratic win of both Senate seats in Georgia means the Democrats will have unified control of the House, Senate and White House for the first time since 2009-2010. Their majorities in both chambers, however, are slim. In the House, Democrats hold a four seat majority, while in the Senate it will be a 50-50 tie, with the tie broken by Vice President-elect Kamala Harris. With the 60-vote filibuster threshold expected to remain in place in the Senate, there will be need for compromise and likely limit any sweeping policy changes. Nonetheless, the likelihood of some additional fiscal stimulus increases and legislation to advance climate change and infrastructure investments. Democrats have advocated for a new tax regime that increases taxes on the wealthy, corporations, and capital gains and while some may come to fruition, any changes may be delayed until the economy is on solid footing. The markets' resilience suggests the positive economic impact outweighs the negative, and the prospect of a calmer and less divisive White House.

Economists typically define two consecutive quarters of negative GDP growth as a recession. GDP in most countries, including Canada and the United States, contracted in the first two quarters of 2020 followed by a surprisingly strong bounce off the bottom in the third quarter with GDP up 40% (annualized) in Canada and 33% in the U.S. So, potentially the recession officially ended in the third quarter or alternatively, it is ongoing and masked by the impact of government support payments. Growth in the final quarter of the year is expected to moderate to the mid-single digit range in Canada and according to Atlantic Fed's GDPNow model, tracking 8.9% in the U.S. Notwithstanding renewed lockdown measures, growth in 2021 is expected to remain positive and pick up significantly in the back half reflecting the double whammy of pent-up demand within the services and leisure-related industries and normalization of general economic activity.

At this juncture, a double-dip recession is not expected. This recession was self-induced and mandated by government authorities. Based on their responses to the economic impact of the pandemic in conjunction with central bank policies, continued support is expected to remain in place until economies can more fully reopen.

Monetary policy has played a central role in both credit and equity markets during the pandemic. Central banks around the world promptly slashed interest rates to near zero when the health crisis hit. The U.S. Federal Reserve swiftly expanded its role as lender of last resort to the banking system to include the commercial sector and act as a backstop to the corporate bond market through various emergency lending programs. Consequently, investment-grade and high-yield corporate bond yields (Charts 1 & 2) and their credit-quality yield spreads dropped to record lows last year (Chart 3).

The NASDAQ led stock market rally from the March 23rd low is reminiscent of 1999 coined as the dot-com bubble that eventually burst in March 2000. Similarities to the dot.com bubble and today include:

1. **easy access to capital** – This is even more pronounced today with the Fed funds rate at near zero compared to around 5.0% in 1999. Last year, margin debt bottomed at $479 billion during March and soared to a record $722 billion during November (Chart 4). Renowned strategist, Ed Yardeni, states that historically margin debt has been a coincident indicator of the stock market and tends to amplify bull markets as investors borrow more money to leverage up their bets and exacerbate bear markets when investors pull out of stocks.
2. **the growth of first-time investors**- Analogous to the story about Joe Kennedy Sr. exiting the stock market just before the 1929 market crash when shoeshine boys started giving him stock tips. Major online brokers including Charles Schwab, E*TRADE and Robinhood (the millennial favoured stock trading app) have reported significant spikes in new accounts. Inexperienced investors tend to lack the tools and experience to assess risk-reward and may be heavily influenced by sentiment and in this case, gravitating to stocks in companies they are familiar with such as Amazon, Apple, and Tesla.

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3. **investing in a promise** - During the dot.com bubble, investors piled into IPOs and stocks that promised technological advancement based on the internet, without regard for business fundamentals such as profitability and solvency. The resurgence of special purpose acquisition companies or SPACs in 2020 (discussed in more detail in our September 30, 2020 Note) is a prime example of investing in a promise since at origin, they are blank-cheque companies with no underlying operations. U.S.- listed SPACs raised $82 billion in 2020 compared to $13 billion the prior year and greater than all the money previously raised, according to Dealogic. SPACs have announced 71 deals with target companies in 2020 and in at least 15 of those deals, the targets had no revenues, reported by SPACInsider. Companies in sectors including cannabis, electric vehicles and online gambling are considered attractive targets.

Despite the similarities, there is one key difference this time around – the U.S. Federal Reserve. Historically, bubbles burst when the Fed starts to embark on a tightening cycle. Chairman Jay Powell has made it abundantly clear numerous times last year that interest rates will remain at record lows until the labour market has reached maximum employment and inflation has risen to two percent and be allowed to moderately exceed this level so that inflation averages two percent over time. Inflation remains comatose and has been below two percent for some time (Chart 5). So, if inflation remains low, the Fed's sole mandate becomes achieving maximum employment and U.S. monetary policy is essentially set for this year if not for a couple of years.

When asked whether stock prices were overvalued Powell acknowledged that price to earnings ratios are "historically high", but that may not be relevant "in a world where we think the 10-year Treasury is going to be lower than it has been historically". While nascent signs of a bubble are appearing, it looks like stock investors may continue to be rewarded.

Lastly, some observations regarding cryptocurrencies given their appreciation to new highs in recent months. Bitcoin peaked at US$19,783 on December 18, 2017 and then collapsed 84% to US$3,195 almost one year later, on December 15, 2018. Following a slow recovery off the bottom, bitcoin prices gained momentum in the latter part of 2020 and reached a new high of US$36,000 this year (Chart 6). Pundits are often asked if bitcoin/cryptocurrencies are money. For anything to be money, it has to be generally accepted by the public as a medium of exchange or payment. Bitcoin does not satisfy this requirement as not many goods and services are quoted and priced in bitcoin. Various payment apps have been created to promote the use of cryptocurrencies but with limited success due to large price variations. Exchanging cryptocurrency for goods or services are also subject to capital gains tax. If not a currency, then is bitcoin an asset? An asset usually has an income stream or provide a practical use, neither of which is satisfied by bitcoin. Proponents cite bitcoin's value is supported by its finite supply, which plays into the fear of quantitative easing and eventual impact on fiat currencies. Bitcoin is priced in U.S. dollars, as is most commodities, so a weaker dollar tends to inflate the price of everything that is priced off the dollar. Zero interest rates also encourage speculative activity. Bears compare the cryptocurrency market to a giant Ponzi scheme where the buyer believes the next buyer will pay a higher price. Staying on the sidelines is recommended.

There are two objectives we strive for as managers of your portfolios: (1) capital preservation and (2) capital growth over the long term. To achieve our objectives, our investment philosophy is to construct diversified portfolios consisting of income and growth stocks across industry sectors, adhering to a value-based investment process of investing in financially sound, well-run companies at reasonable prices. For clients following a more conservative strategy, asset mix allocation to bonds in this historically low interest rate environment is to preserve capital on a nominal basis.

Wishing you all a happy, healthy, and prosperous 2021!

Christine Poole, MBA, CFA

Wendy Sanita, CFP®, CIM®

Christopher Blumas, MBA, CFA

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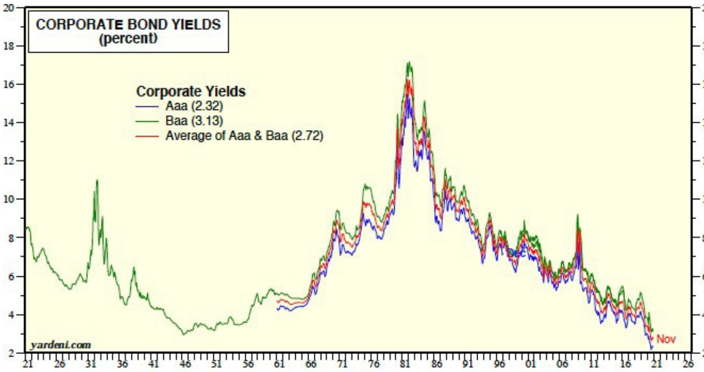
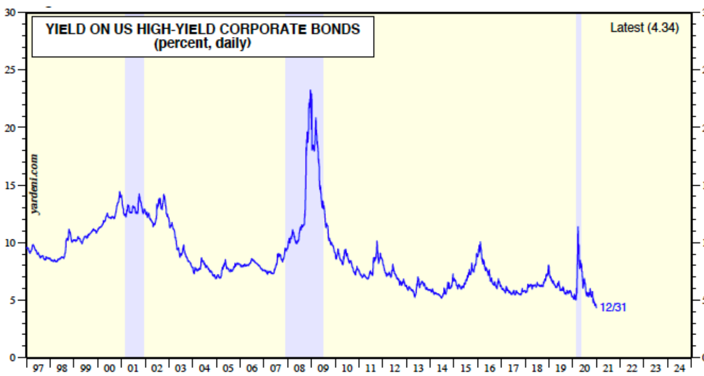
CHART 1



* Moody's seasoned Baa corporate bond yield from 1962 to 1996, then Bank of America Merrill Lynch A-BBB corporate bond yield.
Source: Federal Reserve Board.

CHART 2

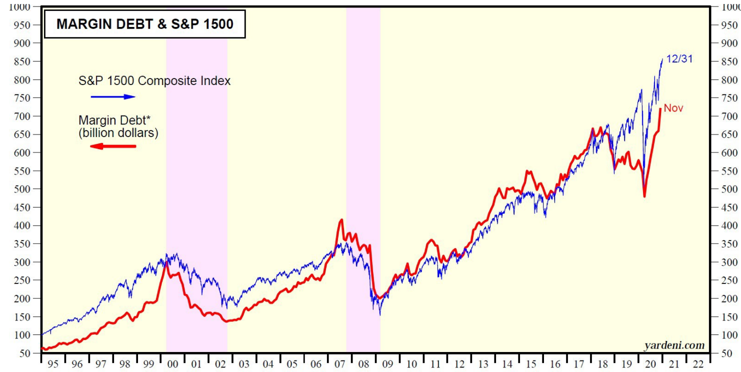


Note: Shaded areas are recessions according to the National Bureau of Economic Research.
Source: Bank of America Merrill Lynch.

CHART 3

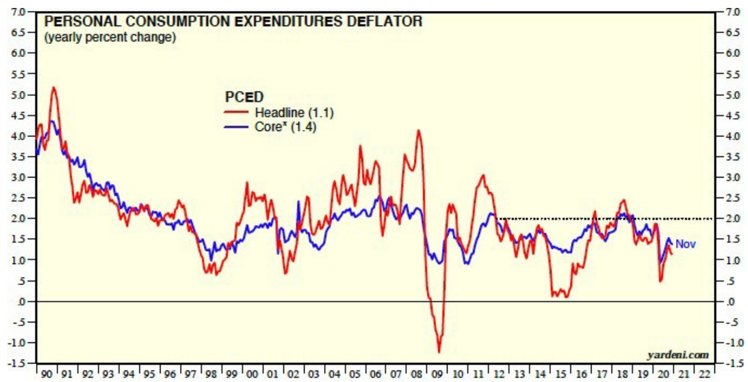
Note: Shaded areas are recessions according to the National Bureau of Economic Research.
Source: Bank of America Merrill Lynch and Federal Reserve Board.

CHART 4



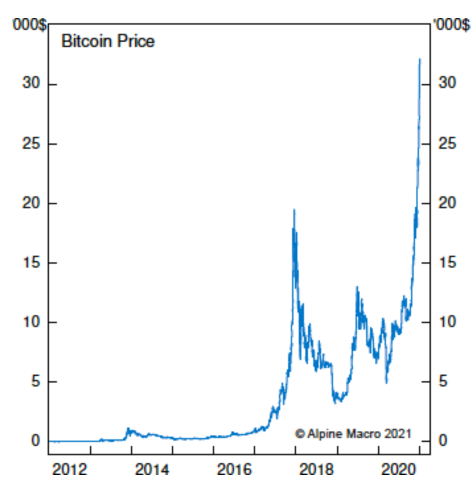
* Debit balances in margin accounts at broker/dealers.
Note: Shaded red areas are S&P 500 bear market declines of 20% or more. Yellow areas show bull markets.
Source: New York Stock Exchange through December 1996, FINRA thereafter, and Haver Analytics.

CHART 5



* Excluding food and energy prices.
Note: Dotted line is the Fed's official target set during January 2012.
Source: Bureau of Economic Analysis.

CHART 6



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RECENT BNN SHOWS

Christine: December 14, 2020

Christine: November 12, 2020

Christine: October 14, 2020

Christine: September 15, 2020

Christopher: August 21, 2020

Christine: August 11, 2020

Christine: July 16, 2020

Christopher: July 8, 2020

DECEMBER 31, 2020 STATISTICAL SUMMARY

STOCK MARKETS	QTD	YTD	3 YEARS*
S&P TSX COMPOSITE TOTAL RETURN (CAD)	9.0%	5.6%	5.7%
S&P 500 TOTAL RETURN (CAD)	7.2%	16.1%	14.6%
S&P 500 TOTAL RETURN (USD)	12.1%	18.4 %	14.2 %
DJIA TOTAL RETURN (USD)	10.7%	9.7 %	9.9 %
NASDAQ COMPOSITE PRICE RETURN (USD)	15.4 %	43.6%	23.1 %
MSCI WORLD INDEX PRICE RETURN (USD)	13.6 %	14.1%	8.5 %
CANADIAN UNIVERSE BOND INDEX	0.6 %	8.7%	5.6%

*** ANNUALIZED**

COMMODITIES	QTD	YTD
GOLD	0.4 %	24.2 %
SILVER	10.8 %	47.2 %
COPPER	16.2 %	26.0 %
NATURAL GAS (NYMEX)	-4.2 %	10.8 %
WTI	20.6 %	-20.5 %
BRENT	25.4 %	-20.8 %

TREASURY BONDS	12/31/20	09/30/20	12/31/19
2 YEAR (CAD)	0.20 %	0.25 %	1.68 %
2 YEAR (US)	0.13 %	0.13 %	1.58 %
5 YEAR (CAD)	0.41 %	0.37 %	1.66 %
5 YEAR (US)	0.36 %	0.28 %	1.69 %
10 YEAR (CAD)	0.70 %	0.56 %	1.64 %
10 YEAR (US)	0.93 %	0.69 %	1.92 %
30 YEAR (CAD)	1.24 %	1.13 %	1.71 %
30 YEAR (US)	1.65 %	1.46 %	2.39 %
CPI (CAD)	1.0 %	0.5 %	2.2 %
CPI (US)	1.2 %	1.4 %	2.1 %

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