GLOBEINVEST
CAPITAL MANAGEMENT INC.

INVESTMENT NOTES

JUNE 2021

UPCOMING 2021 BNN SHOWS

Christine: July 13 @ 12pm

Christine: August 12 @ 12pm

Christine: September 14 @ 12pm

Christine: October 13 @ 12pm

Christine: November 16 @ 12pm

Christine: December 14 @12pm

Global equity markets continued their upward assent with many broad indices reaching new highs during the quarter. Countries are experiencing above trend growth as their economies rebound from pandemic-driven shutdowns last year. So far, growth has been led by China where the initial containment of COVID-19 was highly successful and the United States due to a swift rollout of vaccinations across the country. Vaccination rates in developed countries are rising as supply availability increases, resulting in an easing of pandemic restrictions. Lower income developing countries are lagging and securing vaccines for them is critical to not only ensure the health of their citizens but allow for the full elimination of border restrictions.

Comparisons to the pandemic induced recession in 2020 and subsequent recovery to prior recessions are irrelevant due to the unprecedented fiscal and monetary policy responses by all governments and central banks around the world. This last recession also had a very uneven impact across households depending on their socioeconomic background. Unemployment in Canada and the United States peaked at 13.7% and 14.8%, respectively, in April 2020, hitting individuals employed in services, hospitality, and travel related industries the hardest. The closure of schools and child-care centers also had a disproportionate negative impact on the primary caregiver (in many cases, women) who were unable to work outside the home. Generally, for people whose jobs/income were uninterrupted and adaptive to work from home (WFH), household savings rate rose to historical highs in 2020 largely due to fewer spending opportunities.

Fast forward to the present with economies reopening, households flush with cash and consumers willing to spend on goods and services that have been unavailable to them the past year. Accentuated by the base year effect, core inflation has spiked in recent months to 3.8% in the United States and 2.5% in Canada. It is noted that a handful of categories most closely tied to the reopening of the service sector and supply bottlenecks continue to account for an outsized share of the rise, for example, airfares, hotel rates, rental car prices, and used vehicle prices. The substantial gains in a few select sectors support the Fed's view that the current degree of price pressures is temporary. A broadening out of inflationary pressures would be concerning.

Another key area of focus is the employment situation. The pace of the U.S jobs recovery has slowed recently, notwithstanding there are still 6.8 million fewer jobs now than in February 2020 and a labour participation rate of 61.6% that remains below the pre-pandemic level of 63.4%. In a move to help businesses attract workers, at least 25 Republican-led states are planning to end the supplemental federal pandemic unemployment benefit of $300 per week in June/July, before the Sept. 6/21 expiration date. The average state unemployment benefit is about $330 per week and if one adds in the federal supplement, weekly unemployment benefits total about $630 per week or about $32,000 annually, roughly double the nation's minimum wage. The labour supply should improve more meaningfully this fall as schools open for in person learning, COVID related health concerns abate, and any extent to which the extra unemployment benefits weighing on hiring fades.

Amidst a backdrop of strong GDP growth and rising inflation, the reaction from the bond market is somewhat surprising. The 10-year U.S. Treasury bond yield has retraced to 1.45% from the peak of 1.74% at the end of March, when inflation concerns were just starting to stir. The decline in the bond yield suggests the validity of the base year effect and that the upward spike in inflation and economic growth rate from economies reopening is not sustainable.

It has almost been three months since President Biden announced the American Jobs Plan (AJP), a sweeping $2.25 trillion spending proposal focused on infrastructure and other areas of public investment. It appears a bipartisan infrastructure plan has been reached consisting of the "physical" infrastructure portion of the AJP which originally amounted to roughly $1 trillion in new spending. The $1 trillion bipartisan plan cuts the new spending in half to $559 billion over five to eight years, with the balance reauthorization of spending that is already occurring. The new spending is paid for though a mixed bag of policy changes such as reallocation of unused funds from COVID relief, collection of unpaid taxes, and private investment sources. The agreement does not include the proposed increase of corporate income taxes from 21% to 28% outlined in the AJP. Should the infrastructure plan pass, it will be a modest contribution to GDP growth next year and beyond.

The other parts of the AJP and the $1.8 trillion American Family Plan (AFP) focused on childcare, healthcare, and education as well as higher taxes on top earners' personal income, capital gains and estate remain outstanding. The Biden administration will likely have to make some concessions to garner enough support from the more moderate Democratic Senators with a goal to get through budget reconciliation sometime in the fall.

Interest rates are at historical lows around the world. With the global economy improving, it is a matter of when and not if interest rates start to increase. The U.S. Fed continues to project no interest rate hikes until 2023 but has revised upwards at its June meeting real GDP growth and core PCE inflation projections for 2021 to 7.0% and 3.0%, respectively from 6.5% and 2.2%, respectively. Projections for 2022 remain relatively unchanged at 3.3% and 2.1%, respectively. Tapering of asset purchases should be forthcoming as economic conditions improve, ahead of rate hikes in late 2022/2023 timeframe. Financial markets do not react favourably to surprises and the Fed has indicated its messaging will be transparent and timely.

Valuations for the broad market indices are above historical averages, however, within the context of near zero interest rates, are not unreasonable. The price appreciation this year has been driven by stronger corporate profits and not multiple expansion. This is an encouraging sign. For example, the price to earnings (P/E) multiple for the TSX Index and S&P 500 Index on 2021 earnings at the start of the year was 17.6x and 22.4x, respectively versus the current P/E multiple of 17.6x and 22.6x, respectively. The P/E multiples are virtually unchanged whilst the TSX Index is up 15.7% and S&P 500 Index is up 14.4% year-to-date (price returns only).

Over the near term, financial markets are focused on the inflation outlook and subsequent impact on interest rates. Healthy job growth, strengthening global economic growth and rising corporate profits should alleviate to some extent inflationary concerns.

Whether inflationary pressures are transitory or more long lasting, the attributes we look for in growth and income stocks bode well in either environment. Characteristics for growth companies include leading positions in secular growth industries, high brand loyalty to enable some degree of pricing power, cash flow to invest in technology to increase productivity and capable management that targets continuous improvement. The income stocks you own consist of companies with a durable business model that support an attractive dividend yield and have a proven record of consistently increasing their dividends. Rising dividends buffer price sensitivity to higher inflation and interest rates.

As countries around the world fully reopen, economic growth is expected to improve sharply this year. The Conference Board projects global real GDP growth of 5.3% in 2021, to remain above trend in 2022 as a more balanced recovery unfolds and then return to an average annual rate of around 2.6%. Growth in corporate profits is expected to follow a similar path with profits from the companies in the TSX Index forecast to be up 46% and up 37% for the S&P500 companies this year and then subsiding to 11% for the TSX Index and 12% for the S&P500 Index in 2022.

Consumer and corporate spending will drive economic growth. Canadian and U.S. consumer confidence are back to pre-pandemic levels. Corporations invested in technology last year to enable WFH and digital processes. According to the U.S. Commerce Department, business investment logged double-digit gains in the third and fourth quarters last year after falling during the pandemic-related shutdowns. It is now higher than its pre-pandemic peak. In the first quarter of 2021, nonresidential fixed investment rose 11.7%, led by growth in software and tech-equipment spending. Manufacturing activity is ramping up and capital investment is rising to meet reopening demand and replenish depleted inventories.

Further upside is expected for equities driven by the robust earnings recovery combined with accommodative monetary policy by the major central banks and fiscal support programs. As an aside, a study done by Ed Yardeni shows that over the long run, stock prices do outpace inflation. From 1935 through to the end of May 2021, the compounded annualized growth rates (CAGRs) of the S&P500 Index, the total return S&P 500 Index (TR-S&P 500) and the CPI are 7.1%, 10.7% and 3.4%. On an inflation-adjusted basis, the CAGRs of the S&P 500 Index and TR-S&P 500 are 3.2% and 6.9%. Pullbacks represent opportunities to purchase growth and income stocks that satisfy the attributes previously discussed.

On another note, NBIN has recently announced that it will be introducing a paper fee to produce and mail paper statements and trade confirmations beginning October 1, 2021. Paper statements will be charged $6 per quarter on the last business day of the quarter. Trade confirmation will be charged $2 per trade confirmation on the last business day of the month. To avoid these charges for paper statements and/or confirmations you can register for online access with NBIN and select electronic delivery. Please contact our office for further instructions or NBIN's helpdesk at 1-855-844-0172.

We would also like to remind clients who have not returned their Investment Policy Statement for 2021 to please do so. This statement is required to be signed and returned each year. For those who have returned their statement, a copy will be mailed back to you with your June 30th quarterly report.

Lastly, a new member recently joined our team. Alexander MacDonald is an experienced financial professional, having spent the last 12 years of his career in investment research roles. Prior to that his professional experience spanned the software, oil & gas, and electrical utility industries. Alexander is a professional engineer (electrical), obtained his MBA from Ivey Business School, and is a CFA charterholder. He looks forward to having the opportunity to meet with you when Covid-19 restrictions have been lifted.

Christine Poole, MBA, CFA
Wendy Sanita, CFP®, CIM®

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RECENT BNN SHOWS

Christine: June 16, 2021

Christine: May 18, 2021

Christine: April 15, 2021

Christine: March 16, 2021

Christine: February 19, 2021

Christine: January 18, 2021

Christine: December 14, 2021

JUNE 30, 2021 STATISTICAL SUMMARY

STOCK MARKETS	QTD	YTD	1 YEAR
S&P TSX COMPOSITE TOTAL RETURN (CAD)	8.5 %	17.3 %	33.9 %
S&P 500 TOTAL RETURN (CAD)	7.1 %	12.2 %	28.6 %
S&P 500 TOTAL RETURN (USD)	8.5 %	15.3 %	40.8 %
DJIA TOTAL RETURN (USD)	5.1 %	13.8 %	36.3 %
NASDAQ COMPOSITE PRICE RETURN (USD)	9.5 %	12.5 %	44.2 %
MSCI WORLD INDEX PRICE RETURN (CAD)	5.9 %	9.2 %	25.1 %
CANADIAN UNIVERSE BOND INDEX	1.7 %	-3.5 %	-2.4 %

COMMODITIES	QTD	YTD	1 YEAR
GOLD	4.3 %	-7.1 %	-0.7 %
SILVER	6.7 %	-1.5 %	42.8 %
COPPER	6.4 %	20.7 %	55.7 %
NATURAL GAS (NYMEX)	43.6 %	53.4 %	105.7 %
WTI	24.2 %	51.4 %	87.1 %
BRENT	17.3 %	43.4 %	80.0 %

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TREASURY BONDS	06/30/21	12/31/20	06/30/20
2 YEAR (CAD)	0.45 %	0.20 %	0.28 %
2 YEAR (US)	0.25 %	0.13 %	0.16 %
5 YEAR (CAD)	0.97 %	0.41 %	0.36 %
5 YEAR (US)	0.87 %	0.36 %	0.29 %
10 YEAR (CAD)	1.39 %	0.70 %	0.52 %
10 YEAR (US)	1.45 %	0.93 %	0.66 %
30 YEAR (CAD)	1.84 %	1.24 %	0.99 %
30 YEAR (US)	2.06 %	1.65 %	1.41 %
CPI (CAD) CORE	2.50 %	1.30 %	0.70 %
CPI (US) CORE	3.80 %	1.60 %	1.20 %

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