

Wickham Investment Counsel Inc.

Quarterly Review

March 2021

BULLS BUILD HERD IMMUNITY

One year ago, we witnessed a terrifying free fall in the stock market as the reality of Covid-19 emerged around the globe. The S & P 500 index declined by 34% in a month, erasing three years of market gains. March 23, 2020 proved to be the bottom, even though the pandemic worsened and the economy sunk in the months ahead. Massive simultaneous global monetary and fiscal stimulus led markets to recover losses by August. The quick development of coronavirus vaccines in the fall unleashed the bulls. This led to a 76% surge in the S & P 500 index and a return to record highs, and was the best annual performance in over six decades. This recovery has also been worldwide.

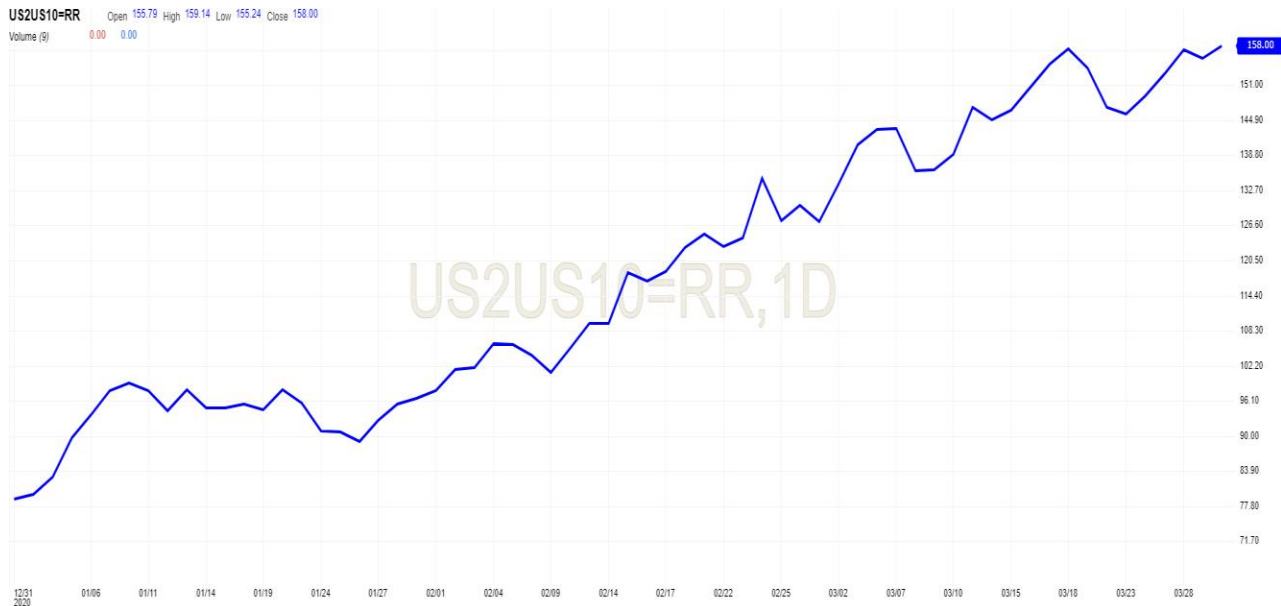
With one quarter completed in 2021, the picture is clear. Against a backdrop of a steepening yield curve, bonds are showing substantial losses while Canadian equities, for example, rose by 7.3 % in the first quarter. The chart below shows the spike in Ten-year US Treasury bond yields from 1.0% to 1.7% during the quarter. The spread of Ten year over Two year US Treasury bonds widened and the yield curve steepened. This is always a harbinger of much stronger economic growth ahead.

Credit Suisse, for example, expects Canada's real Gross Domestic Product will rise by 7.0% this year, China by 7.1% and the United States by 6.5%. They expect global real GDP to increase by 5.5% this year and 3.8% next year, with risks shifting to the upside. In fact, by early 2022, the global economy may find itself back at its long-term growth trend line, with the pandemic period, a short-term blip in the background.

The revised growth outlook and the bond bear market, triggered rotations in the equity market favoring cyclical, value companies like financials, energy and industrials. This included companies with the worst balance sheets, as the lower the quality the company, the greater the "junk" rally. It is a form of survival of the weakest, as cruise lines, airlines, hotels, restaurants, commercial real estate, department stores and movie theatres, in effect, those sectors hardest hit by the pandemic, now will likely be among the survivors.

The outlook remains pro-risk. The gradual reopening of economies, combined with extraordinary accommodative monetary and fiscal policies should lead to strong economic and employment growth in the coming quarters. Both companies and consumers are holding excessive cash. Canadian household savings increased by \$180 billion last year, or about \$5,800 per person. Household net worth is at a record high and there is pent-up demand. Historically, the second year of a bull market has featured strong positive returns (averaging 13%). Tempering total return expectations are worries of economic overheating and a resurgence in inflation anxiety, which would feed through the bond market in higher interest rates than the 2.25% year-end rate expectation for the 10 year US government bond. The bond market expects the US Federal Reserve to begin hiking interest rates sometime in the second half of 2022. Overall, a lot has changed in the past year and mainly for the better.

Chart: 10-2 Year US Treasury Yield Spread



Source: Investing.com

	Dec 31, 2014	Dec 31, 2015	Dec 31, 2016	Dec 31, 2017	Dec 31, 2018	Dec 31, 2019	Dec 31, 2020	Mar 31, 2021	% Change Dec-Mar
Stock Market Indices									
S&P/TSX Comp.	14,632	13,010	15,288	16,209	14,323	17,063	17,433	18,701	7.27%
Dow Jones Ind.	17,823	17,425	19,763	24,719	23,328	28,538	30,607	32,982	7.76%
S&P 500	2,059	2,044	2,239	2,674	2,507	3,231	3,756	3,973	5.78%
Nasdaq Comp.	4,736	5,007	5,383	6,903	6,635	8,973	12,888	13,247	2.79%
Commodities									
Gold - US\$	1,184	1,060	1,252	1,309	1,281	1,523	1,895	1,716	-9.45%
Crude Oil WTI - US\$	53.27	37.04	53.72	60.42	45.41	61.06	48.52	59.16	21.93%
Natural Gas - US\$	2.91	2.35	3.74	2.95	2.94	2.19	2.54	2.61	2.76%
Currencies									
€ in Cdn \$	1.41	1.50	1.42	1.50	1.56	1.46	1.56	1.47	-5.77%
£ in Cdn \$	1.82	2.04	1.66	1.69	1.74	1.72	1.74	1.73	-0.57%
US\$ in Cdn \$	1.16	1.38	1.34	1.26	1.37	1.30	1.27	1.26	-0.79%
Interest Rates									
Cdn Prime rate	3.00	2.70	2.70	3.20	3.95	3.95	2.45	2.45	0.00%
US Prime rate	3.25	3.50	3.50	4.50	5.50	4.75	3.25	3.25	0.00%
Cdn 10 Yr bond	1.79	1.41	1.72	2.04	1.95	1.64	0.70	1.53	118.57%
US 10 Yr bond	2.17	2.27	2.44	2.40	2.69	1.92	0.93	1.74	87.10%

Source: The Globe & Mail