Ryan Chook

From: Ermes Monaco
Sent: Wednesday, September 29, 2021 2:10 PM
To: Ryan Chook
Subject: FW: VALUED CLIENT MAIL LIST: Economic Outlook - Late Summer 2021

Importance: High

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From: Ermes Monaco <e.monaco@iaprivatewealth.ca>
Sent: August 25, 2021 3:31 PM
To: Ermes Monaco <e.monaco@iaprivatewealth.ca>
Subject: VALUED CLIENT MAIL LIST: Economic Outlook - Late Summer 2021
Importance: High

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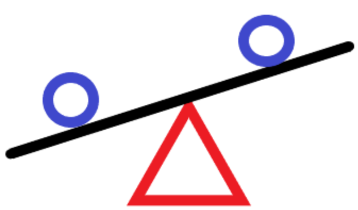
Source: Google Images

IT'S ABOUT MOMENTUM

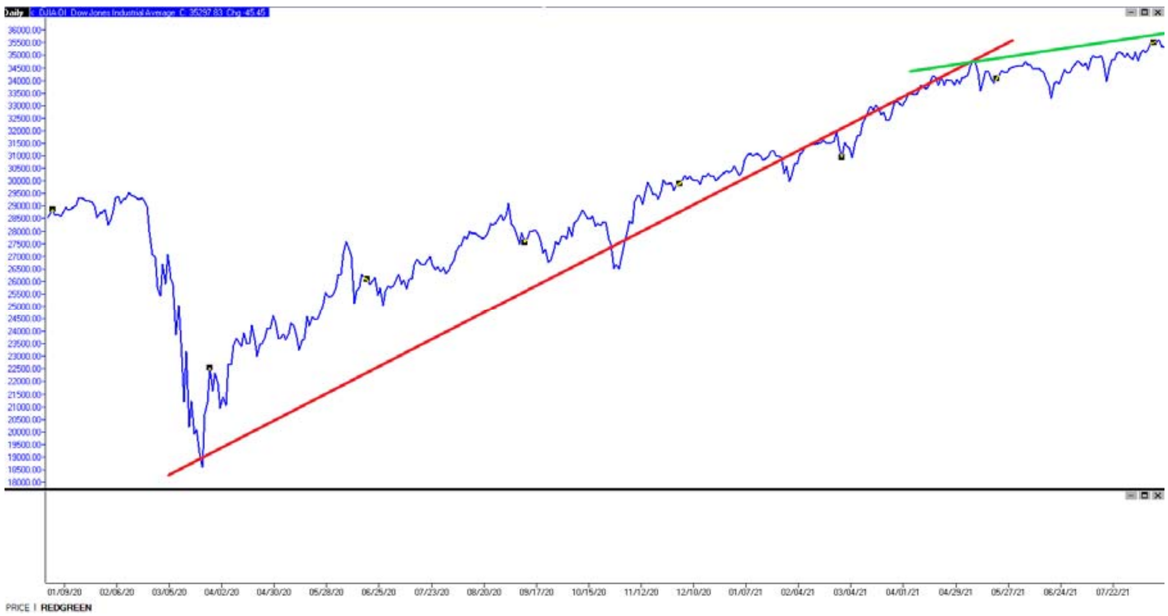
There is an assumption in economic theory, "Ceteris Paribas" meaning "all other things being equal", which is applied when analyzing specific variables in isolation. However, in real life we know that's not how most things occur.



WE assume all things are working in concert until change occurs to make us aware we are not one and the same with the things around us. We can imagine the sensation of, say, coming off a major highway on to a smaller route but preferring to continue to move faster and that the new speed limit is too low. The rider in the picture above is still moving forward even as the horse has slowed. <u>Consequently, we can build up a momentum of expectation that is faster and higher than what is occurring around us.</u>

THIS is also evident in the financial markets at this time. The pandemic environment they have been operating in is changing as we transition to an eventual post-Covid world thanks to on-going vaccinations and public practices. Despite the latest variants, the number of deaths by Covid has declined and is allowing life to resume a new pace. However, it appears we will be living with it rather than eradicating it. Therefore, a more cautious approach is being taken which contrasts with the heightened pace, or, momentum, the financial markets have demonstrated post March 2020 to this summer. This was echoed in comments made by Jerome Powell, Chairman of the U.S. Federal Reserve Bank, who suggested we should not assume a return to a pre-Covid economy *(Wall Street Journal, August 17/21)*.

Trend in Dow Jones Industrial Average January 2020 to present



Source: Thomson Reuters

THERE are a variety of factors concurrently contrasting in the market to cause it to adjust its momentum:

Positive Factors	Negative Factors
• Declining Covid deaths • Continued pharmaceutical research and final approvals for current vaccines • Corporate operating efficiencies improving earnings • Significant personal and institutional capital available for GDP growth but still being held in reserve • Personal and corporate debt reductions • Increased consumer confidence • Improving resumption of supply chain channel flows • Continued low interest rates	• Reluctance by some regions to fully adopt Covid prevention measures • Risk that geo-political issues and persistent Covid experience in global regions outside North America <u>could continue to interrupt off-shore production, the supply chain and recovery</u> • Physically and financially over burdened health care system that has fallen behind in delivering medical services due to the magnitude of Covid • Risk that the pace of recovery will slow to create product and material shortages leading to <u>sustained vs</u>

	<u>temporary near term inflation</u> and higher interest rates vs near term • <u>Conversely,</u> the risk of Central banks unwinding their accommodative market buying (tapering) due to perceived recovery leading to higher interest rates

THE evidence of an evolving marketplace should also tell us that we should not expect what worked in the pandemic cycle to continue in a post-Covid environment. Consumer and business priorities are changing and adapting so that what was overlooked in 2020 in favour of speculative protection is now re-emerging as the source for market performance over the foreseeable future:

Favourable Sectors	Less Favourable Sectors
• Healthcare and insurance being sparked by a greater awareness of personal health and protection • Complex industrials, ie. electronic components due to increased consumer product demand and supply chain interruption • Financials • Renewed expansion in renewable energy • Infrastructure • Transportation supporting the supply chain • Select and focused REIT's such as industrials (cloud server and e-commerce warehousing), medical buildings (hospitals, doctors offices) • Select consumer retail having effectively developed efficient and prompt on-line presence, curb side service	• Non-core speculative assets o Cryptocurrency o Gold • FAANG stocks (on-line social media, e-commerce, entertainment) as consumers spend less time at home • On-line food delivery and related services as consumers progressively return to in-store shopping and dining. • A delay in recovery for recreational travel and hotel hospitality • Grocery services as dining out increases • Oil

WHAT'S THE TAKEAWAY?

BETTER TIMES ARE COMING BUT WE SHOULD MANAGE OUR EXPECTATIONS AS TO HOW MUCH AND HOW FAST.

SHORT TERM NEWS SUCH AS CURRENT INFLATION AND TAPERING CONCERNS MAY CREATE AN OVERSTATED REPORTING OF EVENTS LEADING TO INCREASED INVESTOR ANXIETY, MARKET VOLATILITY AND INTERIM WEAK MARKET CYCLES. HOWEVER, UNDERLYING CONDITIONS FOR CONTINUED GROWTH WILL PERSIST AND NEGATIVE FACTORS WILL ONLY ACT TO CREATE A DRAG ON THE PACE OF RECOVERY RATHER THAN REVERSING IT.

THEREFORE, A MEASURED AND SYSTEMATIC PORTFOLIO RE-BALANCING OF BUSINESS AND ASSET SECTORS WILL BE REQUIRED BASED ON DEMONSTRATED TRENDS.

IN THE MEANTIME, THE ACTIVE MANAGEMENT OF THE DEFENSIVE AND HEDGE COMPONENTS OF THE PORTFOLIO WILL ACT AS A "SEAT BELT" TO PREVENT FALLING OFF THE HORSE.

Regards

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