



## **A SHEEP IN WOLF'S CLOTHING ?**

*Source: Author's adaptation from Google Images*

2021 has handed us an 11<sup>th</sup> hour reminder that Covid is not going quietly into the night. It's as if we are now in the 4<sup>th</sup> round of a boxing match against a persistent opponent that is fighting to survive and spread at our expense. As the fight wears on both sides are becoming fatigued as the virus continues to mutate in an effort to change its tactics. However, as much as we are also weary we are also stepping up our vaccination efforts, adjusting our protocols and continuing to study the virus's behaviour in an attempt to identify the conditions that allow it to flourish.

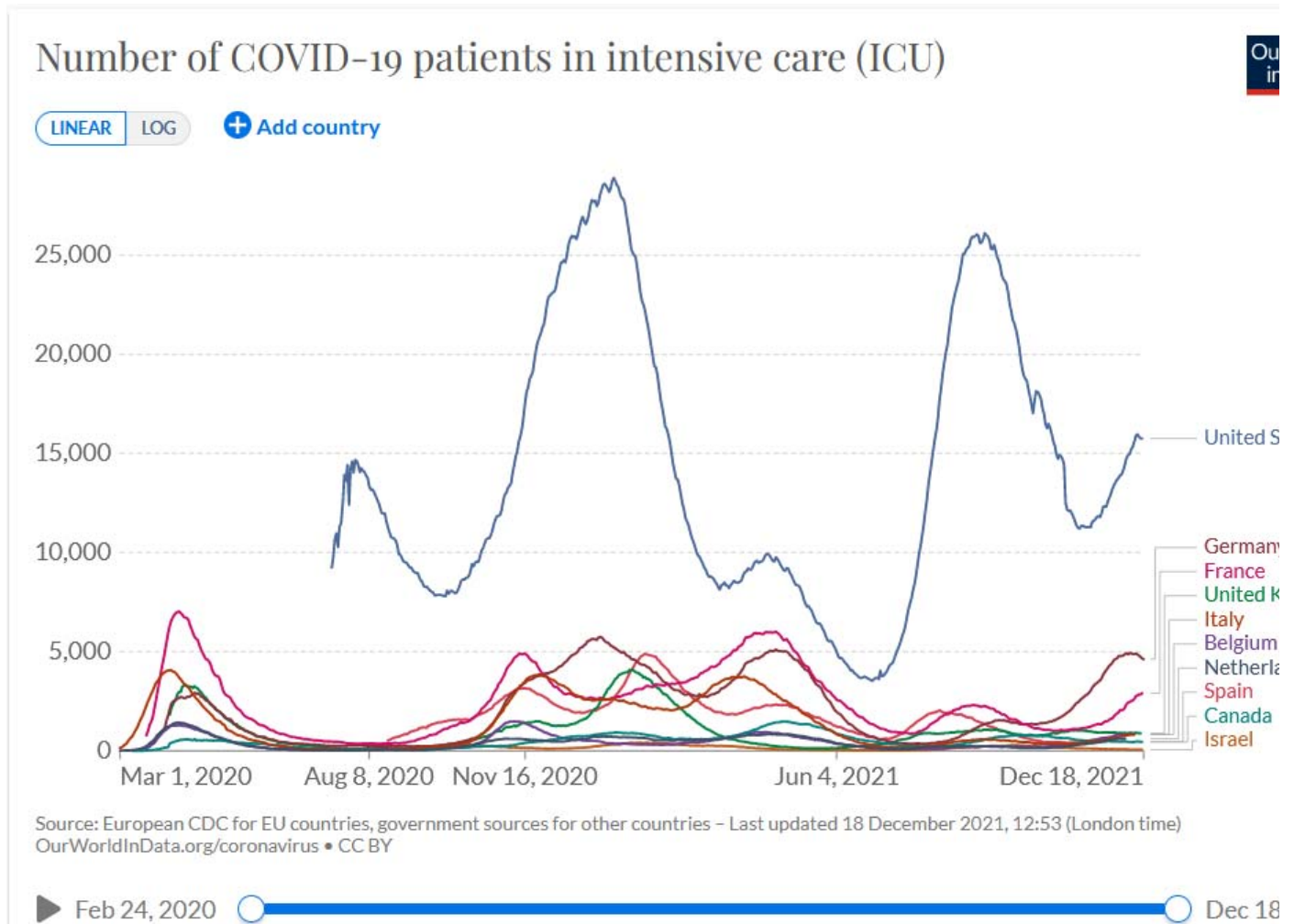
**WE can narrow down the risk of this fight to two critical consequences:**

- 1. HUMAN:** The virus continues to spread and lead to further hospitalization and deaths
- 2. ECONOMIC:** Continued supply chain and production interruptions could trigger further economic slowdown and possible recession

**We are clearly in the eye of the latest pandemic storm and so much depends on imminent developments before it gets better. However,**

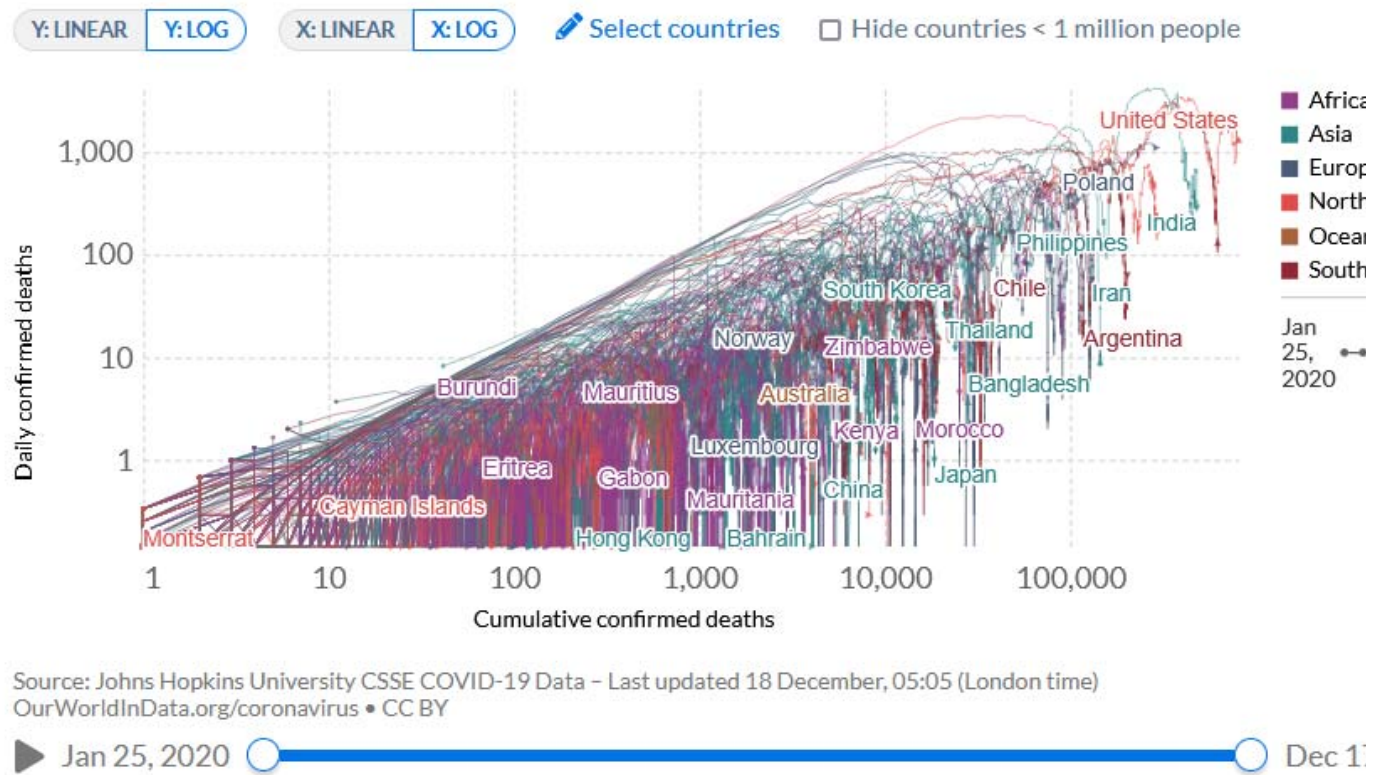
## Human:

- The higher transmissibility of the omicron virus is apparent in the chart below indicating an increase of patients in intensive care (Of note is Canada and Israel which have achieved a high level of vaccination at the low end of the scale.).
- Of equal note in the next chart is the decline in the trend of the number of deaths.
- **NOTE: STATISTICS ARE OPEN TO INTERPRETATION AND RESULTS CAN APPEAR DIFFERENTLY AS WHEN ADJUSTED FOR POPULATION FOR EXAMPLE. HOWEVER, THE TREND REMAINS CONSISTENT AND SUGGESTS THE POSSIBILITY OF A LESSER SEVERITY IN OUTCOME THAN OCCURRED IN 2020.**



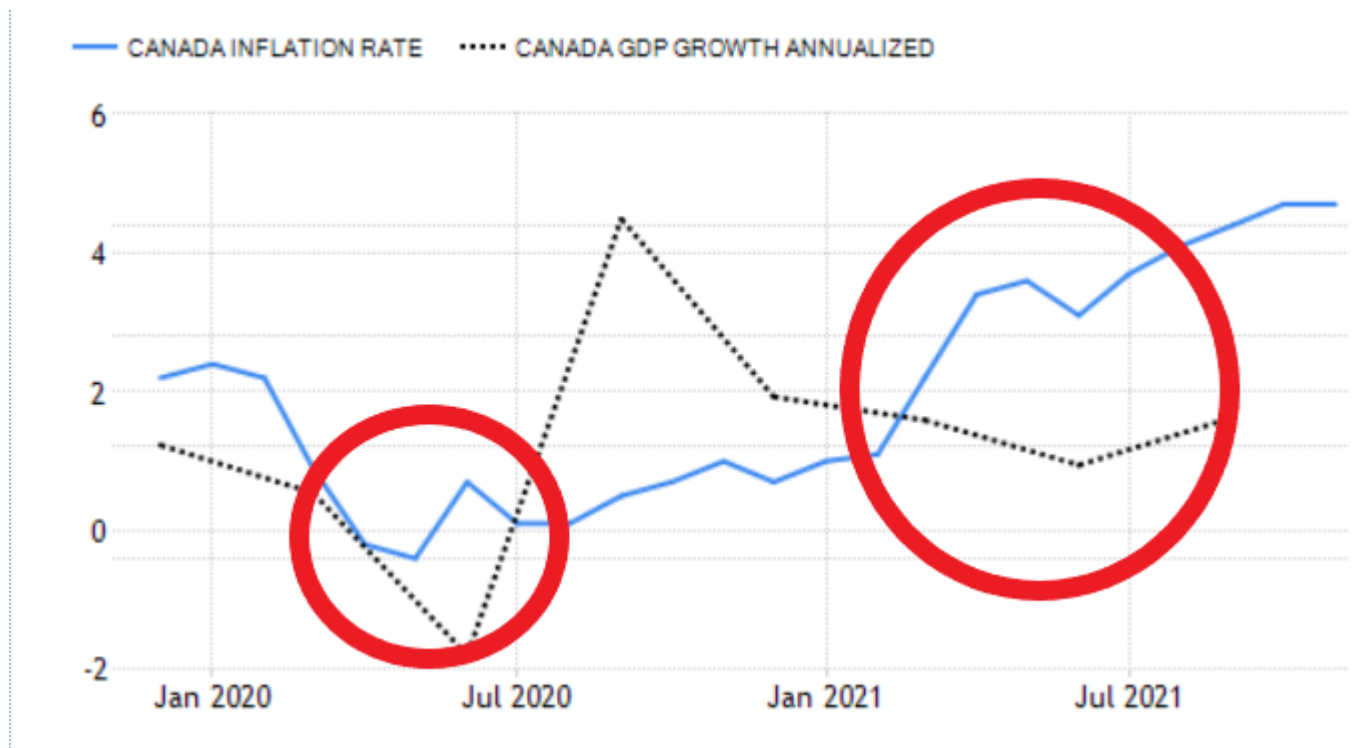
# Daily vs. cumulative confirmed deaths due to COVID-19

Shown is the 7-day rolling average of confirmed COVID-19 deaths. Limited testing and challenges in the attribution of the cause of death means that the number of confirmed deaths may not be an accurate count of the true number of deaths from COVID-19.



## ECONOMIC:

- A consequence of the duration of the pandemic is that current inflation, which was initially triggered by the supply/demand imbalance stemming from the global supply chain shutdown, is now no longer being described as “transitory” but “persistent” by the central banks.
- However, the rise in inflation is so closely aligned with the pandemic that it cannot yet be considered embedded in the economy to create long term structural inflation as occurred in 2008. We can see that following March 2020 as the trend of inflation has increased as GDP and the availability of goods and services has declined.
- Moreover, industry and commerce have adapted to the economic challenge through innovation such that corporate earnings have continued to reflect resilient performance. It is also considering the possibility of permanently incorporating protective practices as some medical experts have suggested the pandemic may become ENDEMIC meaning we could see the virus become a regular and seasonal illness much like the flu. This would remove considerable uncertainty and unpredictability in the markets.



Source: Trading Economics.com

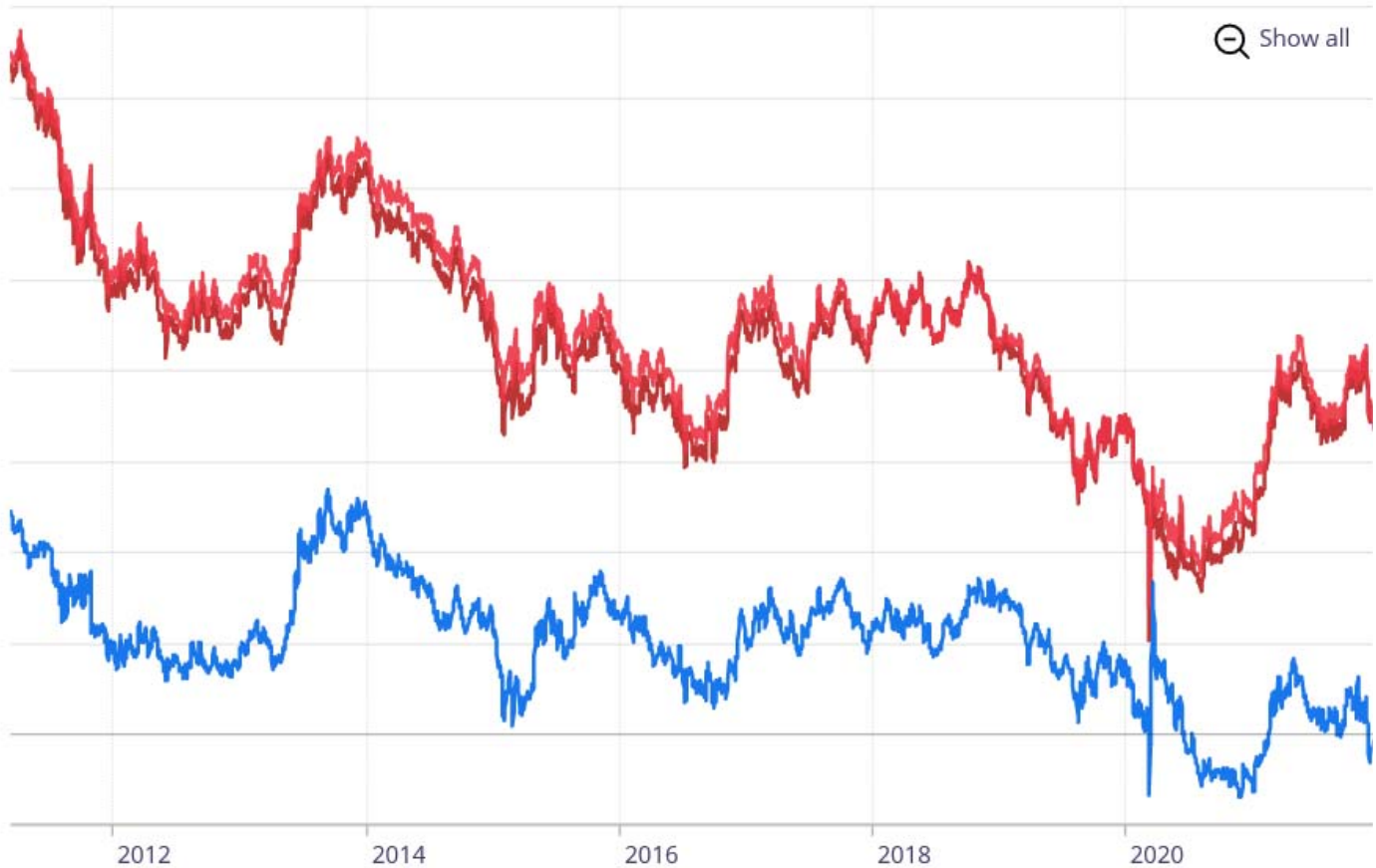
## THE SHEEP IN WOLF'S CLOTHING:

- Therefore, subject to much further research, there is also a possibility that the latest virus strain may not create such dire results and that the global economy will be able to contain inflation to allow a sufficient level of production to avert recessionary risk.
- WE ARE IN THE MIDST OF FURTHER INFECTION AND INFLATION BUT IT MAY ALSO PROVE TO BE A SHORTER TERM CYCLE IN NATURE. Indications for longer term structural inflation are not yet being considered by the bond market which has enormous exposure to inflation and interest rate risk. This does not preclude the central banks from raising short term rates in an effort to discourage consumer spending. However, as at the time of writing, the 10 year Government of Canada bond yield, a key indicator of longer term interest rates, was 1.40% which is in the range of historical lows.

>10 Year Government of Canada Bond Yields (red)



## Selected bond yields



Source: Bank of Canada Statistics

### WHAT'S THE TAKEAWAY:

**SIGNIFICANT RISK REMAINS WITHOUT THE PROSPECT OF A NEAR TERM END IN SIGHT. HOWEVER, THE GOAL POSTS MAY HAVE SHIFTED AND THERE IS EVIDENCE THAT THE GAME COULD BE CHANGING.**

**CONSIDERABLE CAPITAL REMAINS IDLE AS A DEFENSIVE RESERVE AGAINST FURTHER NEGATIVE MARKET REACTION. YET AS MORE KNOWLEDGE OF THE VIRUS IS LEARNED AND THE SUPPLY CHAIN CONTINUES TO ADAPT AND IMPROVE, THIS IDLE CAPITAL WILL RETURN TO HELP STIMULATE ECONOMIC AND MARKET RECOVERY.**

**THEREFORE, IT IS NOT UNREASONABLE TO CONSIDER THAT THE CURRENT PANDEMIC AND INFLATION PRESSURE MAY BE CYCLICAL IN NATURE AND EVENTUALLY EVOLVE INTO A BETTER REALITY. 2022 WILL TELL US.**

## Regards

Ermes Monaco, CIM<sup>®</sup>  
Portfolio Manager

iA Private Wealth | MONACO CAPITAL MANAGEMENT

2075 Kennedy Road, 5<sup>th</sup> Floor

Scarborough, Ontario M1T3V3

T: 416-412-4254 | [e.monaco@iaprivatewealth.ca](mailto:e.monaco@iaprivatewealth.ca)

Toll free: 1-866-402-2641

F: 416-412-4286 | [www.monacocapitalmanagement.ca](http://www.monacocapitalmanagement.ca)



**Note: This newsletter is proprietary and only for the benefit and use of clients of MONACO CAPITAL MANAGEMENT, iA Private Wealth.**

This information has been prepared by Ermes Monaco who is a Portfolio Manager for iA Private Wealth<sup>®</sup> and does not necessarily reflect the opinion of iA Private Wealth<sup>®</sup>. The information contained in this newsletter comes from sources we believe reliable, but we cannot guarantee its accuracy or reliability. The opinions expressed are based on an analysis and interpretation dating from the date of publication and are subject to change without notice. Furthermore, they do not constitute an offer or solicitation to buy or sell any of the securities mentioned. The information contained herein may not apply to all types of investors. The Portfolio Manager can open accounts only in the provinces in which they are registered.

iA Private Wealth<sup>®</sup> is a member of the Canadian Investor Protection Fund and the Investment Industry Regulatory Organization of Canada. iA Private Wealth is a trademark and business name under which iA Private Wealth Inc. operates.