MARKET & ECONOMIC SUMMARY

Volume 9, Issue 3 – July 2021

MARKET SUMMARY

Second Quarter 2021

S&P/TSX Composite TR

Q2	YTD	1 year
8.5%	17.3%	33.9%

S&P 500 TR (USD)

Q2	YTD	1 year
8.6%	15.3%	40.8%

MSCI EAFE GR (C$)

Q2	YTD	1 year
3.8%	6.1%	20.9%

ICE BofAML Canada Brd Mkt TR

Q2	YTD	1 year
1.8%	3.6%	2.6%

SECOND QUARTER HIGHLIGHTS

- S&P/TSX Composite hits an all-time high of 20,295.2 on June 16th
- S&P 500 hits record high of 4,302.43 on June 30th
- Canadian dollar hits 6-year high of $0.8328 USD on May 31st
- WTI Oil hits 32-month high on June 25th closing at $74.05 USD
- Bank of Canada maintains overnight rate at 0.25% in Q2

SUMMARY

The global economy continued to recover in the second quarter helped by the rollout of COVID-19 vaccines, U.S. fiscal stimulus programs and supportive monetary policies from the Fed and other major central banks.

Despite inflation, cryptocurrency volatility and higher COVID-19 cases in several Asian countries, equities continued their climb in Q2 after the Fed reiterated its accommodative monetary stance and economic optimism prevailed on the news that President Biden would propose a US$6 trillion federal budget for the 2022 fiscal year.

U.S. Treasuries, government bonds and investment-grade corporate bonds also recorded positive returns in the quarter.

The G7 congregated for the first time since the pandemic, in Cornwall, U.K. At the summit they agreed to a 15% global minimum corporate tax rate. If implemented, this will increase taxes on multinational corporations.

The Fed left U.S. interest rates in the 0 to 0.25 % range and said it would continue buying Treasuries and mortgage-backed securities to stimulate borrowing and spending. The Fed did raise its forecast for inflation though, to 3.4% by the end of this year. As a result, the Fed signaled it may act sooner to start hiking rates – possibly twice by late 2023.

The Bank of Canada also held interest rates at 0.25% saying it expects the economy to rebound this summer. The bank added this would be led by consumer spending as vaccinations continue and provincial governments ease restrictions. The bank reiterated it was ready to raise rates should inflation come in persistently above its 2% inflation target. However, it noted recent higher inflation was likely temporary, mainly driven by rebounding gasoline prices and calculations based on last year's depressed levels.

The global economy should see an acceleration of the reopening of trade through the summer months. This will be fuelled by elevated household savings, continued fiscal and monetary support and the ripple effect from strong housing and equity markets.

Regardless of where we are in the market cycle, it continues to be important to commit to a disciplined investment approach and stay focused on your long-term financial goals.

> *"Equity diversification by sector and geographic region can not only increase growth potential, it can also reduce your portfolio risk."* – *Cy Korun (2016)*

STRATEGIC NOTES

In July 2016 we wrote about encountering investors who preferred to buy their portfolio securities directly rather than hire a portfolio manager to perform this task. Five years later, we still find investors who believe this to be a better alternative. While each portfolio is different, there are two themes that occur on a regular basis. The first is a heavy domestic bias where most of the portfolio holdings are Canadian stocks. The second is that these investors often refer to themselves as "conservative" because they have most of their holdings in "safe" investments such as bank stocks.

While these investors see safe and conservative, we see several risks such as an over-weighting in Canada and sector concentration in financial services. Our portfolio models for growth investors (100% equity target) have 55% of their holdings outside of Canada and only 20.3% in the Financial Services sector. In 2016, we illustrated that, while Canadian Financials did outperform the broad Canadian index over a 5-year period, it did so with significantly more volatility (risk), and both options had lower performance and higher risk than our custom designed growth portfolio.

Let's fast forward 2021 and see how our approach fared over the next five years since the comparison was last discussed. In the period from July 1, 2016 – June 30, 2021, the Canadian financial sector had strong performance and continued to outperform the broader composite index. However, it also continued to expose the investor to much higher levels of risk in the process. In contrast, despite a strong period for Canadian financials, our strategically diversified portfolio was still able to deliver an additional 0.5% annual return while reducing the level of investment risk our clients had to assume by almost 30%.

Investment Option	Annualized Return	Risk (Std Deviation)
Eastport Growth Portfolio	13.73%	11.26%
S&P/TSX Composite Index TR	10.77%	13.61%
S&P Capped Financials TR	13.22%	15.75%

The information in this letter is derived from various sources, including CI Investments, Signature Global Asset Management, Cambridge Global Asset Management, Globe and Mail, RBC GAM, National Post, Bank of Montreal Economics, Yahoo Canada Finance, OilPrice.Com and Trading Economics. Index information was provided by Morningstar, TD Newcrest and Bloomberg. Eastport portfolio returns are net of all investment management fees but do not include an advisory fee. This material is provided for general information and is subject to change without notice. Every effort has been made to compile this material from reliable sources; however, no warranty can be made as to its accuracy or completeness.

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