MARKET & ECONOMIC SUMMARY

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MARKET SUMMARY

First Quarter 2021

S&P/TSX Composite TR

Q1	YTD	1 year
⬆8.1%	⬆8.1%	⬆44.3%

S&P 500 TR (USD)

Q1	YTD	1 year
⬆6.2%	⬆6.2%	⬆56.4%

MSCI EAFE GR (C$)

Q1	YTD	1 year
⬆2.2%	⬆2.2%	⬆28.2%

ICE BofAML Canada Brd Mkt TR

Q1	YTD	1 year
⬇5.3%	⬇5.3%	⬆1.2%

FIRST QUARTER HIGHLIGHTS

- S&P/TSX Composite hits an all-time high of 19,037.1 on March 17th
- S&P 500 hits record high of 3,994.41 on March 31st
- Canadian dollar hits 3-year high of $0.8097 USD on January 3rd
- WTI Oil hits 23-month high on March 5th closing at $66.42 USD
- Bank of Canada maintains overnight rate at 0.25% in Q1

SUMMARY

Markets in the first quarter of 2021 have been marked by ongoing volatility as the world recovers from the negative effect of the first waves of the COVID-19 pandemic. In positive news the Canadian economy grew by 0.7% in January and the preliminary report for February indicates a better-than-expected 0.5% increase. Consumers and businesses continue to adapt to the containment measures, performance of the housing market has been stronger than expected, and higher commodity prices are a favourable sign for the economy going forward. However, Canada's employment numbers remain below pre-pandemic levels, with the service sector particularly hard hit, while a possible third wave of COVID-19 looms, and further lockdowns and restrictions appear more likely as we move into the month of April.

The Bank of Canada held interest rates steady at 0.25% in an announcement on March 10, 2021. On March 23, citing positive economic news, Toni Gravelle, Deputy Governor of the Bank of Canada, indicated that as the economy strengthens the Bank will adjust the pace of its quantitative easing program by "slowly easing off the accelerator – but not hitting the breaks".

The S&P 500 Index, a broad representation of the U.S. equity markets, was up 6.2% on the year and the S&P TSX a fantastic 8.1%. The MSCI EAFE Index, which captures performance for large and mid-cap companies in 21 developed markets across Europe and Asia, followed a similar path and was up 2.2% for the quarter in Canadian-dollar terms.

> *"Although an inflationary environment creates a headwind for most asset classes, a professionally constructed portfolio will have exposure to the defense mechanisms which allow it to outperform the crowd." – Matt Jenkinson*

STRATEGIC NOTES

It is not often fundamentals underlying global economics change but we're currently experiencing a change. For the first time in four decades there is an economic regime change. An economic regime is a given set of rules and/or institutions, which are said to govern the economy as a system, and therefore it accounts for its qualitative behaviors. In most democracies there are two institutions, the central bank and the government, who constitute the institutions pulling the levers and making the rules.

Broadly, the government has two fiscal tools to influence the economy, taxes and spending. The central bank has two monetary tools to influence the economy, interest rates and money supply. Both fiscal and monetary policy can be used to expand or contract the economy. Since the hyper-inflation of the 80's fiscal and monetary policy has intentionally acted contrary to one another; when one was expansionary the other was contractionary and vice versa. The fear of inflation, the cost of things going up, drove policy.

The cost of things can go up (inflation) or down (deflation). Inflation can accelerate (reflation) or it can decelerate (disinflation). The economic regime of the past forty years of opposing fiscal and monetary policy had the intentional result of disinflation; keeping the reigns on the inflationary horse but not killing it (deflation)… we don't want that; surprisingly very bad.

The new economic regime is aligned; the government(s) in North America are maintaining fiscal expansion through spending and the central bank(s) have signaled they are going to remain accommodative allowing inflation to reach a long-term average of 2%. A 4% inflation rate over four years would be possible to reach the 2% long-term average and economically we enter a state of reflation; cumulatively 16%+ of price increases over 4 years.

The market has been grappling the new economic framework which is visible in the market volatility, inflation fears circulating the media, and expectations the central bank will act according to the old economic framework and raise interest rates to pull the economic reigns to slow the inflationary horse. The central bank(s) have continued to affirm the new economic framework and as such we're expecting strong economic stimulation, growth, and a reflationary boom customary to the mid and late phase of the business cycle.

Although an inflationary environment creates a headwind for most asset classes, a professionally constructed portfolio will have exposure to the defense mechanisms which allow it to outperform the crowd. In Q3 2020 we analyzed and digested how our portfolios are positioned for an environment of reflation and determined we had a healthy balanced exposure to the factors which would provide protection in an inflationary environment. Rest assured, at Eastport we're working for you

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