

## Market Update

February 2021

I was thinking about that last market correction nearly one year ago in March 2020, where markets in North America had all dropped around 35% over weeks in response to the spreading Covid pandemic, but then recovered over the following 6 months. That is pretty impressive volatility.

Volatility is often thought to be a negative thing, but if you think about it, how much would stocks grow without it and how often would you have great opportunities to buy temporarily discounted companies?

Historically, markets normally correct 10% every year and at least 20% on average, every four years so **volatility is normal**.

In my last update, I suggested that **market volatility near-term will be driven by how the pandemic progresses – or not**. For instance, the news of vaccines in November caused markets to surge significantly because markets tend to look – forward. This relief was soon followed by news of the virus mutating.

More recent reports suggest that new cases are actually starting to decline in the U.S., possibly the world's greatest hotspot.

While a market index like say, the S&P500 is made up of 500 companies from various sectors of the economy, the index is skewed right now because the companies in sectors that are doing very well, like technology are more than making up for those that are lagging, like hospitality or tourism. Apple, Amazon and Google all recently reported quarterly revenue in excess of \$100 Billion.

Since I last wrote, the U.S. market continues to lead higher and in the short-term looks elevated. That doesn't mean opportunities and pricing mistakes don't occur though (Alibaba). Canada, that recovered for the most part at year end, continues to lag in the energy sector, part as result of headwinds of change facing fossil fuels and part because economic demand is weak with companies like Air Canada operating at 20-30% of capacity. Interestingly, when the vaccines were announced in November, one of the sectors that immediately perked up was energy. While I would not favour energy exploration given the current environment (pun intended), the pipelines remain full today and I believe that in a post-pandemic environment, they have potential to break out of an otherwise lagging sector in the Canadian market.

The much broader American market is outperforming and as mentioned, seems extended – particularly the Nasdaq, **but only in the context of time**. When did Amazon ever appear cheap? Rather, disruptive companies tend to always appear expensive but tend to have long

runways for growth. That said, we are selectively trimming profits relative to portfolio weightings and in writing calls, a little closer to the purchase price for more premium received – and likewise, downside protection.

**My emphasis is to try to own good companies – not trying to time markets.**

Here is some historical data. The market historically performs best between November and April and tends to be weakest between May and October - not always, but most often. Likewise September and October tend to be the worst months of the year – not always but most often.

I like to have a bit of cash anytime, but toward fall, sometimes a little more. Beyond that, there is nothing to time. I believe volatility this year will be driven by the war on Covid.

**So, what might be the winning sector or 2021?**

I have been working at home for a year, next month. I miss my sons who are in spread out across Canada. I miss engaging with you – in person. I am feeling a little stir crazy being stuck in my home. I have spoken to many who seem to echo my sentiment.

I noticed recently that Easy Jet, that discount airline based in the U.K has recently seen summer bookings up 250%!!! I think the pent up demand for travel is only going to grow, the longer this goes on, be it to visit family, clients or just a holiday – anywhere but at home (AirBNB).

Someone sent me this image of potential new books from a travel publisher which made me smile as it kind of summed up the current situation...



Spring is just around the corner (for Victorians). Hang in there. The garden is coming back! One day we are going on an airplane again. 😊

I have prepared this commentary to give you my thoughts on various investment alternatives and considerations which may be relevant to your portfolio. ***This commentary reflects my opinions alone, and may not reflect the views of National Bank Financial Group.*** In expressing these opinions, I bring my best judgment and professional experience from the perspective of someone who surveys a broad range of investments. Therefore, this report should be viewed as a reflection of my informed opinions rather than analyses produced by the Research Department of National Bank Financial.

Best,

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Sources: Reuters, Globe & Mail, New York Times

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