MARKET & ECONOMIC SUMMARY

Volume 9, Issue 4 – October 2021

MARKET SUMMARY

Third Quarter 2021

S&P/TSX Composite TR

Q3	YTD	1 year
↑0.2%	↑17.5%	↑28.0%

S&P 500 TR (USD)

Q3	YTD	1 year
↑0.6%	↑15.92%	↑30.0%

MSCI EAFE GR (C$)

Q3	YTD	1 year
↑2.0%	↑8.2%	↑19.8%

ICE BofAML Canada Brd Mkt TR

Q3	YTD	1 year
↓0.7%	↓4.3%	↓3.9%

THIRD QUARTER HIGHLIGHTS

- S&P/TSX Composite hits an all-time high of 20,897.60 on September 7th
- S&P 500 hits record high of 4,545.85 on September 2nd
- Canadian dollar hits 7-month low of $0.7723 USD on August 19th
- WTI Oil hits 35-month high on September 28th closing at $76.67 USD
- Bank of Canada maintains overnight rate at 0.25% in Q3

SUMMARY

U.S, Canadian and global equity markets started Q3 where Q2 ended, confidently charting a course forward. By the end of August, equities had notched a seventh straight month of gains, with the S&P 500 Index finishing near its all-time high and the TSX Composite Index on its longest winning streak in four years. Markets then dipped over concern about inflation, the U.S. debt ceiling, the Evergrande crisis in China and speculation on when the Fed's bond taper would begin.

The U.K.'s Freedom Day, celebrating the reopening of its economy, went ahead on July 19. Developments in the U.K. are seen as a potential leading marker for the reopening of other western economies. Shortly after, the Canadian federal government unveiled a roadmap to reopen its borders. On August 9, vaccinated Americans were allowed to visit again and from September 7 vaccinated travelers from other countries. Q3 also witnessed a historic monetary development as El Salvador became the first nation to adopt bitcoin, the most popular cryptocurrency, as legal tender.

The Fed left U.S. interest rates in the near zero range but indicated it would begin winding down its US$120 billion monthly government bond buying stimulus by year end. U.S. inflation, although cooling, rose 5.3% on the same period last year, driven by COVID-19 infections impacting economic growth and related shortages of labour and supplies affecting prices. The Fed reiterated it saw no immediate need to raise rates as this recent inflation spike was temporary. However, it signaled rates might start going up sooner than previously planned – possibly by late 2022; more likely early 2023.

The Bank of Canada also held interest rates at 0.25% saying it expects the economy to strengthen throughout the second half of the year. However, the bank warned supply chain bottlenecks and rising COVID-19 cases could slow the pace of the recovery. The bank continued with its bond buying program but scaled back purchases to about C$2 billion per week.

Canadian inflation went north as well. Inflation rose 4.1% in August compared to a year ago, the highest since 2003. The Bank of Canada has regularly stated it would intervene should inflation come in persistently above its 2% target, but noted the current bout of inflation was likely transitory.

The accommodative monetary policies of major central banks are beginning to be pared back therefore it's natural we might experience some near-term volatility as market conditions shift. The pace of growth will likely be slower but this is understandable as we are coming off a record breaking 12 months of performance. Overall, the outlook remains positive driven by strong economic fundamentals and corporate earnings.

> *"Inflation is a risk which is predominantly under respected and very often forgotten about and suppressed as a daily part of life; prices will go up, we can't help that, right?" – Matthew Jenkinson*

STRATEGIC NOTES

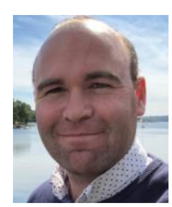
Inflation has been receiving considerable attention across the investment universe and in the media; unfortunately too often through shock and fear tactics. Inflation is a risk which is predominantly under-respected and very often forgotten about as a routine part of life; prices will go up, we can't help that, right? However, it is a very real risk which needs to be, so far as possible, mitigated to preserve the purchasing power of an investor's wealth.

The central banks of North America continue to signal that the current inflationary environment is transitory and temporary having been brought about by the COVID-19 pandemic supply chain disruptions with the expectation it'll abate as the supply chain disruptions ease. We agree, generally, but with an asterisk and question mark on when the supply chain disruptions will end, if ever.

Travel may remain more difficult which is not good for shipping costs. The risk of product in foreign lands has been highlighted both by COVID-19 and intensifying foreign trade policies which have prompted the onshoring of supply chains with a higher wage bill. These are examples of real macroeconomic forces affecting the short to mid-term inflationary pressure. Furthermore, there is a benefit to indebted governments with inflation devaluing debt, increasing tax dollars and nominal GDP, central bank money supply remains loose and fiscal spending is robust.

Therefore, inflation may stick around for the mid-term and as such at Eastport we continue to build portfolios defensively with mitigating the risk of inflation as a core component of the process. Within each of our asset classes we have components of inflation protection built-in. We maintain exposure to shorter duration and real return fixed income securities, commodity and value-based equity securities, and real estate within our alternative asset class. These are all portfolio management tools proven to help defend against loss of purchasing power due to inflation.

Cy Korun CFA, CFP
Senior Advisor - Eastport Private Investment Counsel



Matt Jenkinson CFA, CKA
President - Eastport Private Investment Counsel

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.