

Economic Monitor

A stylized line graph with a light blue line that trends upwards from left to right, ending in an arrowhead. The line has several peaks and valleys, suggesting economic fluctuations. It is positioned behind the 'Economic Monitor' text.

February 28, 2021

Economic Monitor

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*This report is produced by the Capitalight Research Team
with consultation provided from Dr. Martin Murenbeeld.*

OVERVIEW

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We asked the question in our *January Equity and Bond Observer*: ***Are we at a turning point? 2020 ended with vaccine approval and implementation plans sparking hope for a return to normalcy in 2021. However, by the end of January it was apparent that optimism on the speed of herd immunity was overly optimistic, this coupled with fiscal stimulus being turned down to a trickle, central banks taking a wait-and-see approach before increasing or introducing new stimulus plans, and rising inflation expectations have left equity markets with much to grapple with as to how the coming years will unfold.***

Even though central bank asset purchase faucets have been turned down, central banks are expected to not be in a hurry to raise interest rates until their respective economies are back to *maximum employment*. When consumer price inflation begins to pick-up, central banks will initially chalk these increases up to 'transitory hang-over' factors from the coronavirus-induced economic decline of 2020-21, and then to the fact that inflation has run below central bank mandates for many years. Therefore, if inflation runs above for a period of time it will average to targeted levels.

Below are four reasons consumer price inflation could increase as economic activity returns to normal.

1. Reduced Globalization as 'Made at Home' policies are proliferating. Cheaper foreign goods are being substituted with more expensive domestic goods. Many government procurement agencies have been instructed to use resources and products produced in their own countries, with some offering incentives for increasing domestic consumption of goods and services by businesses. These *Made at Home* policies are pro-domestic labor but are generally more expensive.

- 2. Money Supplies have risen dramatically.** Central bank asset purchase programs are rapidly increasing money supplies. The US M2 measure of money supply (which includes currency in circulation, checking accounts, savings deposits, small-denomination time deposits and retail money market mutual funds) increased more than \$3.7 trillion (almost 25%) in 2020, the Eurozone's by \$2.6 trillion, and the UK's by almost \$600 billion – just those three equate to \$7 trillion in additional money sloshing around. To be sure, much of this money has been put into assets, i.e., equity markets and houses. Hence, record high equity markets, and soaring house prices, despite the coronavirus-induced economic downturn. This asset price inflation could be followed by general price inflation.
- 3. Commodity prices are rising again.** Rising commodity prices feed into higher inflation, especially key industrial commodities such as copper and natural gas. Although, some of this increase is a 'bounce back' from the decline, part is due to ongoing supply and distribution constraints.
- 4. Pent up demand.** Price pressures will build in specific sectors of the economy as restrictions are lifted. A survey conducted by the *New York Federal Reserve* in October showed that 36% of US households surveyed saved their stimulus cheques and 45% said that they would save the second stimulus cheque. The US household personal savings rate, although down from its massive peak in April, is still \$1 trillion higher than at the beginning of 2020. This additional savings is on top of the \$1.2 trillion in reduced credit card debt. There is also the boost that the increase in asset prices add to household spending ability.

Canadian House Price Update

We continue annual tradition by using the *February Economic Monitor* essay to feature the Canadian housing market. Despite COVID-19 induced lock downs, House prices across Canada continued to climb in 2020. Most important is to note that smaller cities formerly known as 'commuter' towns are rising faster than the big cities. Digital commuting, work from home, and Millennial buyers all converge to create this trend.

The Teranet-National Bank House Price Composite 11 Index set a new high in January, with only 3 cities in the index not at new highs. According to the House Price Index monthly release: The January composite index was up 9.6% from a year earlier. This was a sixth consecutive acceleration and the strongest 12-month gain since October 2017.

House prices in Alberta continue to trend sideways. However, these markets are likely to see a lift in prices over the next two years if oil prices continue to rise as expected.

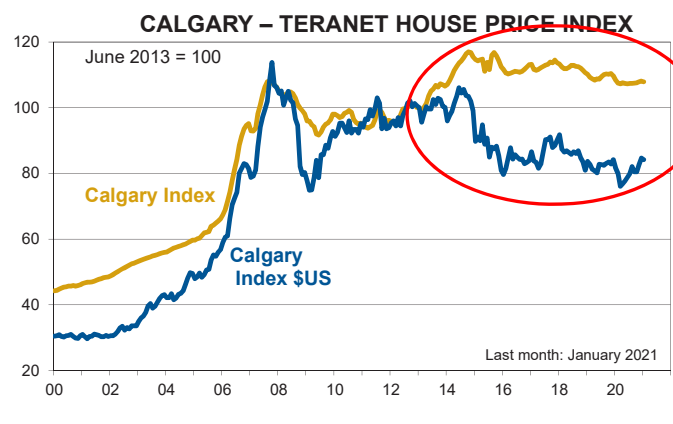
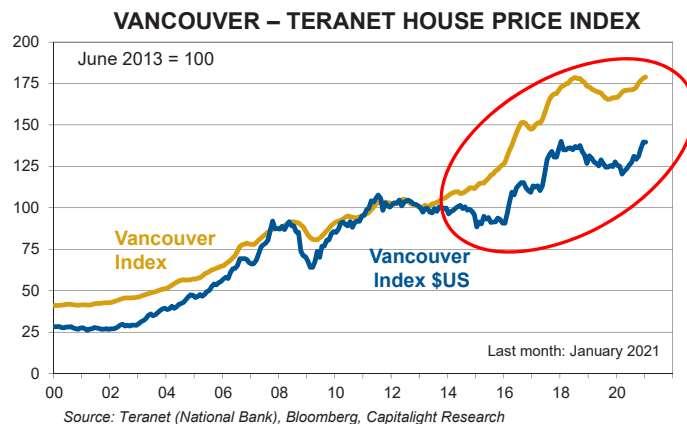
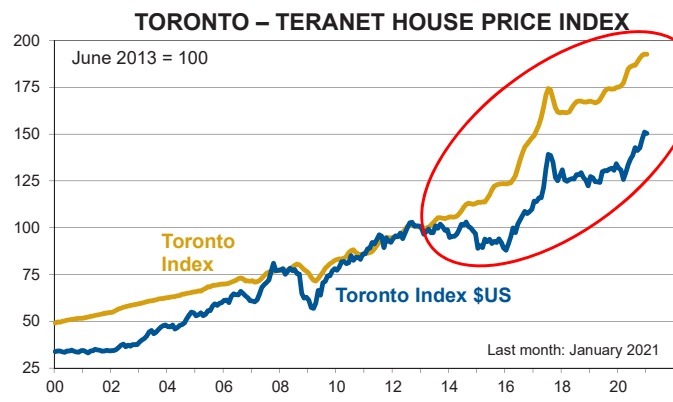
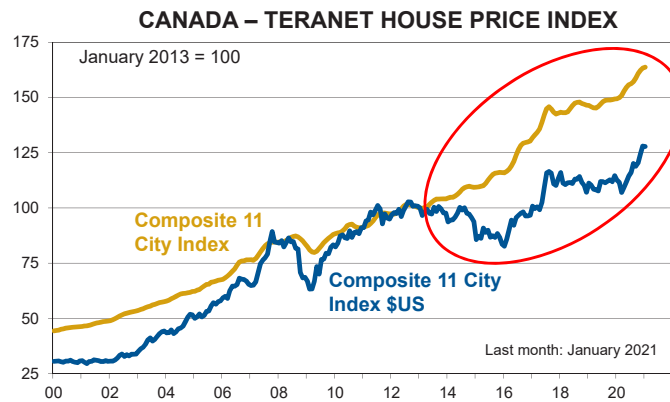
One trend which we noted in our *February 2020* essay and in our *Baby Boomers vs Millennials: the Economic and Political Shift* article in the *August 2018 Economic Monitor* which was accelerated due to Covid-19 is millennials moving out of condos in the city to houses in the suburbs. With many Canadians not having to go into an office each day and finding condo

Teranet-National Bank House Price Index - January 2021					
Metropolitan area	Index Level	% change m/m	% change y/y	From peak	Peak date
Composite 11	250.50	0.27	9.58	0	Jan-21
Alberta					
Calgary*	173.67	-0.20	-0.54	-7.79	Oct-14
Edmonton*	176.38	-0.37	0.77	-6.14	Sep-07
Lethbridge	177.68	-0.08	1.27	-0.28	Oct-20
British Columbia					
Abbotsford-Mission	265.58	1.93	13.80	0.00	Jan-21
Kelowna	223.85	0.47	5.35	0.00	Jan-21
Vancouver*	294.39	0.42	7.31	0.00	Jan-21
Victoria*	228.41	0.57	9.10	0.00	Jan-21
New Brunswick					
Moncton	118.17	0.00	11.92	0.00	Nov-20
Saint John	112.07	0.00	4.08	-0.65	Sep-20
Newfoundland					
Saint John's	189.39	0.00	6.95	-4.35	Sep-14
Manitoba					
Winnipeg*	221.32	-0.45	5.96	-0.45	Dec-20
Nova Scotia					
Halifax*	185.01	0.41	16.94	0.00	Jan-21
Ontario					
Barrie	253.90	1.32	19.66	0.00	Jan-21
Belleville	228.71	2.57	22.01	0.00	Jan-21
Brantford	273.91	2.39	21.15	0.00	Jan-21
Guelph	267.82	2.55	16.01	0.00	Jan-21
Hamilton*	291.14	2.05	16.45	0.00	Jan-21
Kingston	202.22	0.38	9.26	0.00	Jan-21
Kitchener-Cambridge-Waterloo	267.91	0.59	17.45	0.00	Jan-21
London	239.57	1.76	17.91	0.00	Jan-21
Oshawa	278.44	1.71	20.76	0.00	Jan-21
Ottawa-Gatineau*	207.75	0.06	19.60	0.00	Jan-21
Peterborough	247.35	0.84	13.61	0.00	Jan-21
St. Catharines - Niagara	266.69	1.70	18.89	0.00	Jan-21
Greater Sudbury	223.25	1.60	15.67	0.00	Jan-21
Thunder Bay	197.77	-2.05	7.59	-3.72	Oct-20
Toronto*	281.86	-0.08	10.00	-0.08	Dec-20
Windsor	216.27	0.74	17.68	0.00	Jan-21
Quebec					
Montréal*	216.73	0.98	15.79	0.00	Jan-21
Québec City*	193.95	0.31	6.34	-0.79	Nov-20
Sherbrooke	189.06	0.37	9.80	0.00	Jan-21
Trois-Rivières	190.72	0.08	9.59	0.00	Jan-21

* Included in the Composite 11-City Index

Source: housepriceindex.ca

The Teranet house price indices set new highs in 22 of 32 cities. And only 3 of the 11 cities in the composite index were not at new highs in January.



Source: Teranet (National Bank), Bloomberg, Capitalight Research

The charts above show Teranet house price indices, which are reported in Canadian dollars (gold line) compared to the indices converted to US dollars (blue line). The gap between the two lines (red circles) highlight the difference between purchasing power between domestic and foreign buyers. The recent strength in the Canadian Dollar is reducing the difference.

living cramped for working from home they have chosen to purchase houses further from city centers. In Ontario the 'killer B's of Barrie, Belleville and Brantford rose 20% year over year to double Toronto's 10% performance.

"Nearly 48 percent Canadians aged 25 to 35 currently own their home, and a quarter of these homeowners purchased a property during the coronavirus pandemic, according to a recent demographic survey by Royal LePage ... The pandemic has steered young Canadians along "a path to home ownership," Phil Soper, president and CEO, Royal LePage, told Global News Thursday ...

"As mortgage rates fell to historically low levels and the competition for entry-level housing lessened, young people saw a window of opportunity and went for it," he said. Even among non-homeowners, 84 per cent strongly intend to invest in a home in the future, with 68 per cent planning to make the move in the next five years, the survey shows...

... Despite the economic challenges associated to the pandemic, Canadians aged 25 to 35, have shown a healthy personal outlook, according to the survey.

While nearly 92 per cent of those charted agreed that owning a home is a good financial

investment, 40 per cent said that their savings have grown since the onset of the pandemic ...

... "Younger buyers are extremely comfortable with online research, even when it comes to investing in a home, unlike older investors," said Soper. (MSN 02/25).

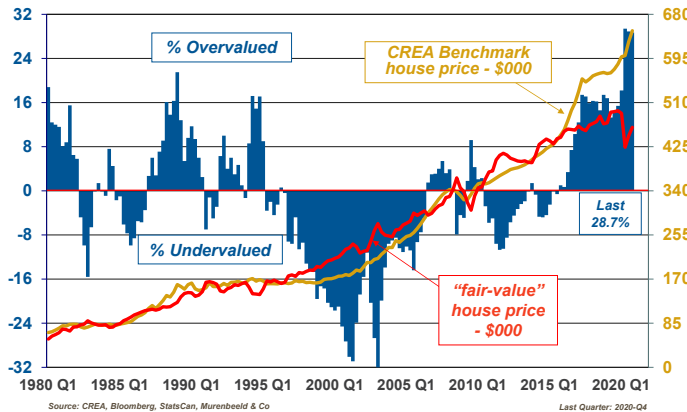
The rapid rise in house prices and now rising interest rates has **some asking if the rising house prices are sustainable**. Our *Canadian House Price model* (charted below) places Canadian house prices in the **Very Overvalued** category.

The model is based on the *Canadian Real Estate Association's* (CREA) composite benchmark house price index and the variables

include wage rates, inflation-adjusted longer-term interest rates, and the unemployment rate.

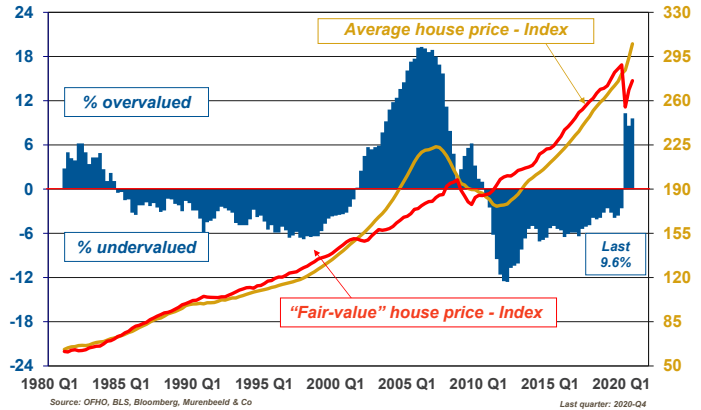
The model places the average resale house overvalued by 28% – this is the Canada wide average, which means that some neighborhoods could be more overvalued, while others undervalued. The model is sensitive to interest rates and the unemployment rate. Were real interest-rates to rise a full 2% then house prices would become even more *overvalued* but were the unemployment rate to decline then the *overvaluation* would decline. The model cannot explicitly account for immense pandemic structural changes in the housing market forced to occur within just 11 months.

Canadian House Prices



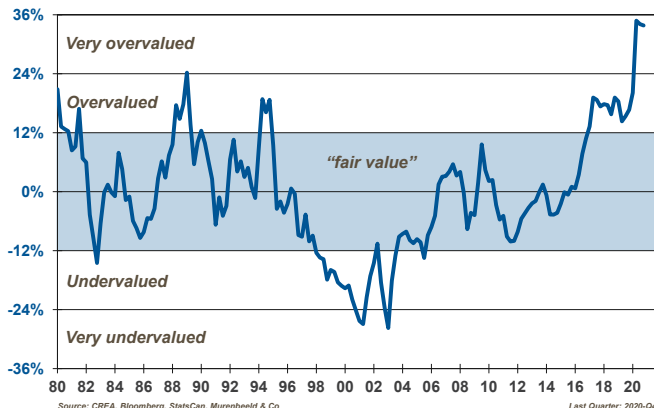
"Fair-value" is based on a model that includes wage rates, inflation-adjusted long-term interest rates, and unemployment rate

US House Price Model

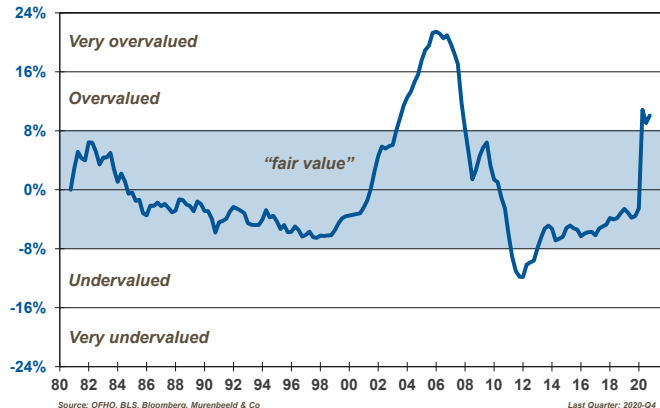


"Fair-value" is based on a model that includes , inflation-adjusted long-term interest rates, and unemployment rates

Canadian House Price Model



US House Price Model



To the first point of certain neighborhoods being more overvalued a recent report titled *Your House Makes More Than You Do* by BMO Senior Economic Sal Guatieri noted the dramatic rise in house prices in Woodstock Ontario compared to income. *Take Woodstock for example, where benchmark prices are up a cool \$118,200 in the past year to January, while the median family earned \$86,970. Guatieri points to the fact that house prices are not only rising faster than family income, they are rising more than total annual income as a major red flag.* His point is also shown in OECD house prices to rent and house prices to incomes (bottom chart). Canadian house prices are among the most expensive by these two measures.

We note that Woodstock has come to fall within the buying orbit of digital workers since the pandemic. Prior to 2020 its 142-kilometer distance from Toronto was a barrier to migration because the commute was easily 2 hours each way on the QEW/403 highway combination, even with public transit. Now that commute is only seconds via ZOOM and Microsoft Teams.

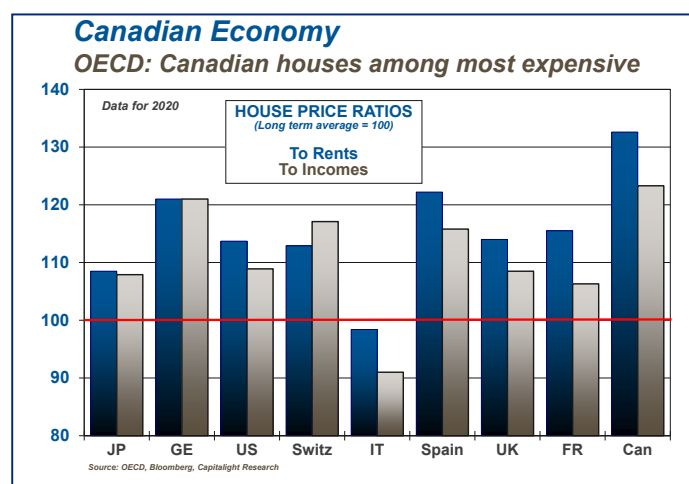
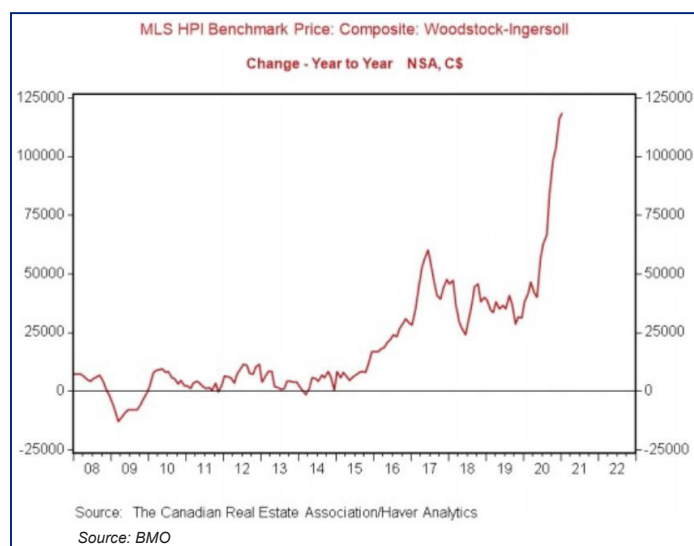
The Bank of Canada Governor weighed in on the matter stating that *the central bank is seeing early signs that people may be purchasing homes solely because they believe prices may go up ... rising prices in particular for single-family ... We are starting to see some early signs of excess exuberance, but we're a long way from where we were in 2016-2017 when things were really hot.*

The BOC governor said that *the bank will keep an eye on debt levels, mortgage debt rises as households pay down other debt like credit cards and personal loans.*

However, the Governor then pointed out that the bank expects to keep interest rates at very low levels as the economy still needs accommodative policy as it recovers – the first interest rate increase is not expected until

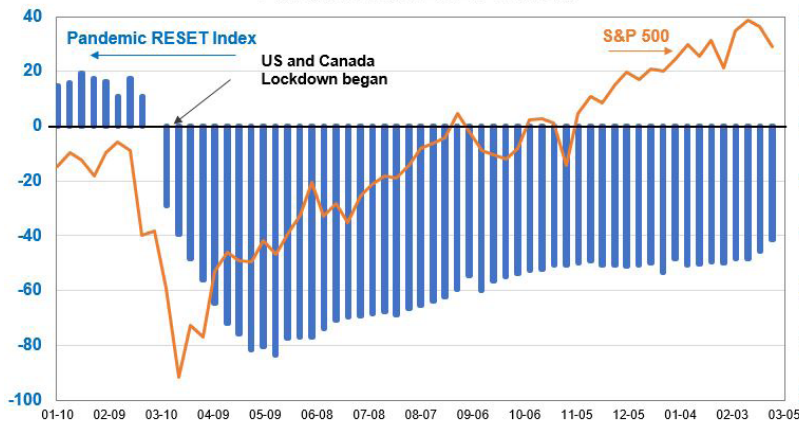
possibly late 2023. Furthermore, if long term rates increase *too* much the BOC is likely to start discussions of some form of yield curve control to keep debt costs affordable. This coupled with government support of the housing market, China's economic recovery, and the pent-up demand could be the catalysts that keep the housing market buoyant for the next couple of years.

In conclusion it seems clear that the pandemic plus digital commuting accelerated the Millennial departure from city condos into suburban homes. This fits with the demographic stage of life the cohort experienced in 2021. The next year should bring more of the same.



High-Frequency Indicators

Pandemic RESET Index



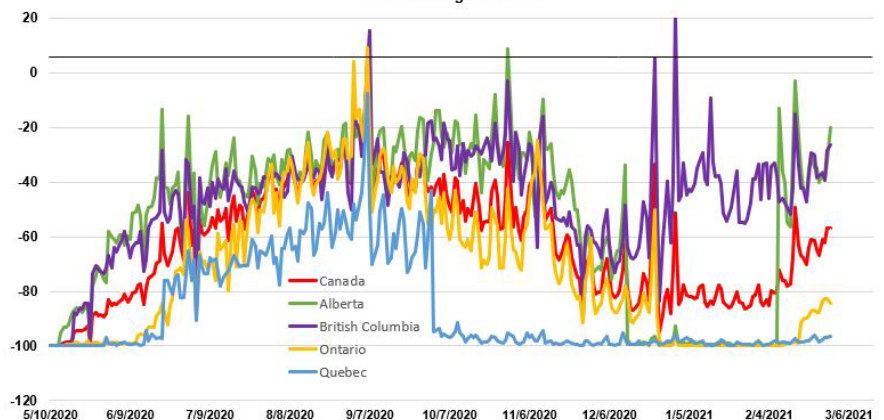
Source: Bloomberg, Boxoffice mojo, Opentable.com, Capitalight Research

To gain a 'real-time' view of economic activity we created the **Pandemic RESET Index**. The RESET (Real Economy Statistical Evidence Tracker) Index includes: Consumer outlook (The Bloomberg Comfort Index), unemployment data (US continuing Unemployment Claims), merchandise retail sales (The Johnson Redbook Index), travel data (TSA Checkpoint data), restaurant reservations (open table), total box office revenues (Boxoffice mojo).

Open Table data suggests that dining at restaurants in Ontario and Quebec is still very restricted, but restrictions in Alberta and BC are easing.

Open Table Data - Canada

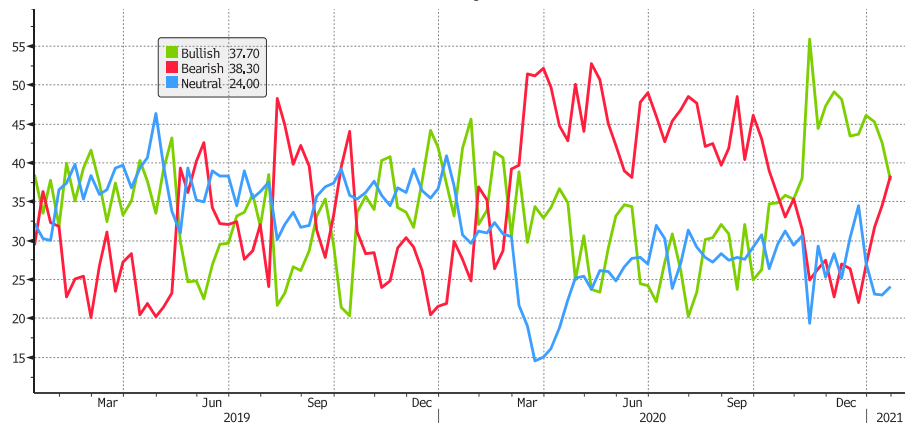
Percent Change from 2019



Source: Opentable State of the Industry, Murenbeeld & Co.

AII Investor Sentiment

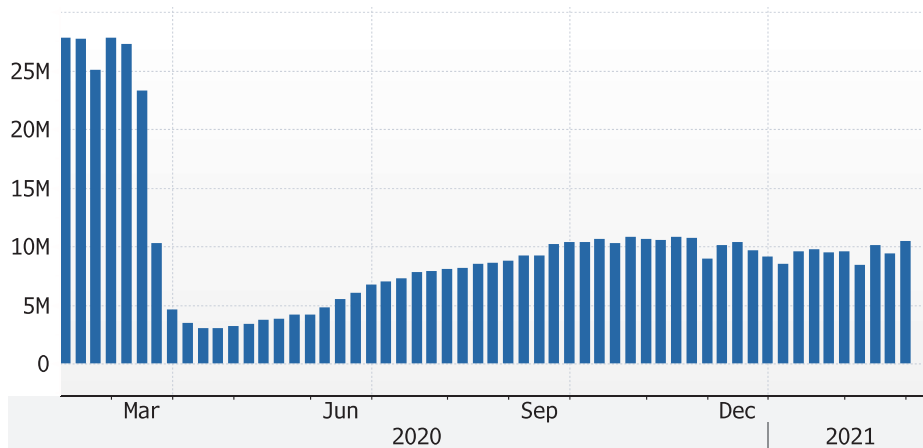
American Association of Individual Investors Survey



Source: Bloomberg, Murenbeeld & Co

Equity market sentiment has turned bearish in the past week.

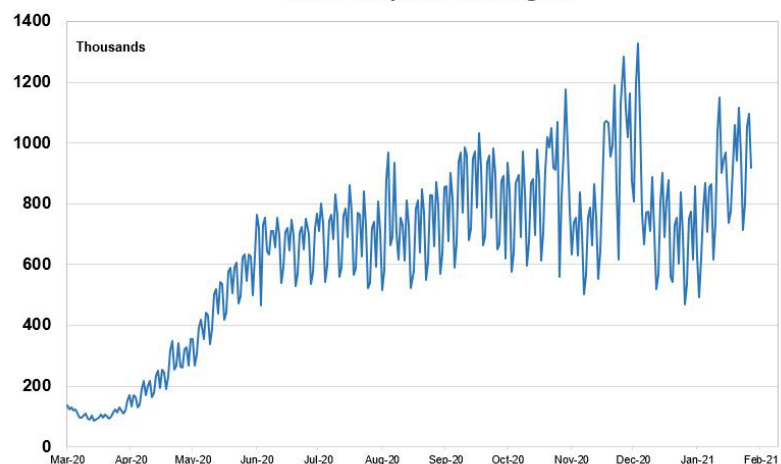
New York Subway Ridership Turnstile Entries - Weekly Total



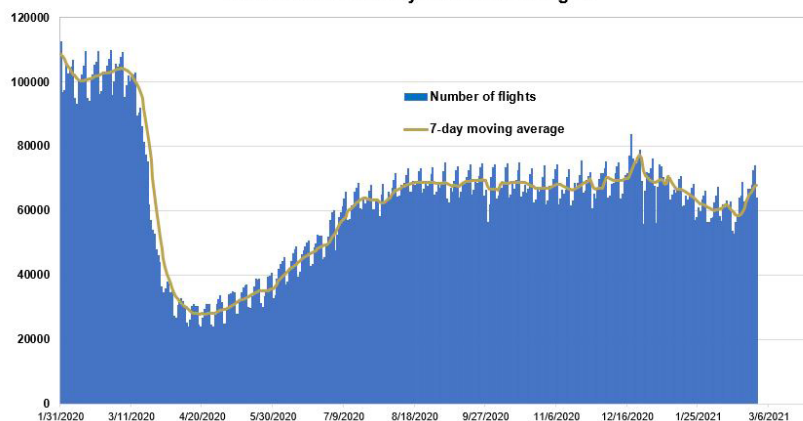
According to the New York Metropolitan Transport Authority the number of passengers through the turnstiles has leveled off at around 10 million. This is an increase from a low of 2.9 million in March but remains well below the pre-lockdown 'normal' of over 25 million subway passengers per week.

The number of passengers through TSA checkpoints per day has averaged 807 thousand year-to-date (this compares to 811 thousand in 2020-Q4). This is an increase from a low of 88 thousand in March 2020 – but remains more than 50% below last years numbers of around 2.0 million.

TSA Checkpoint Passengers



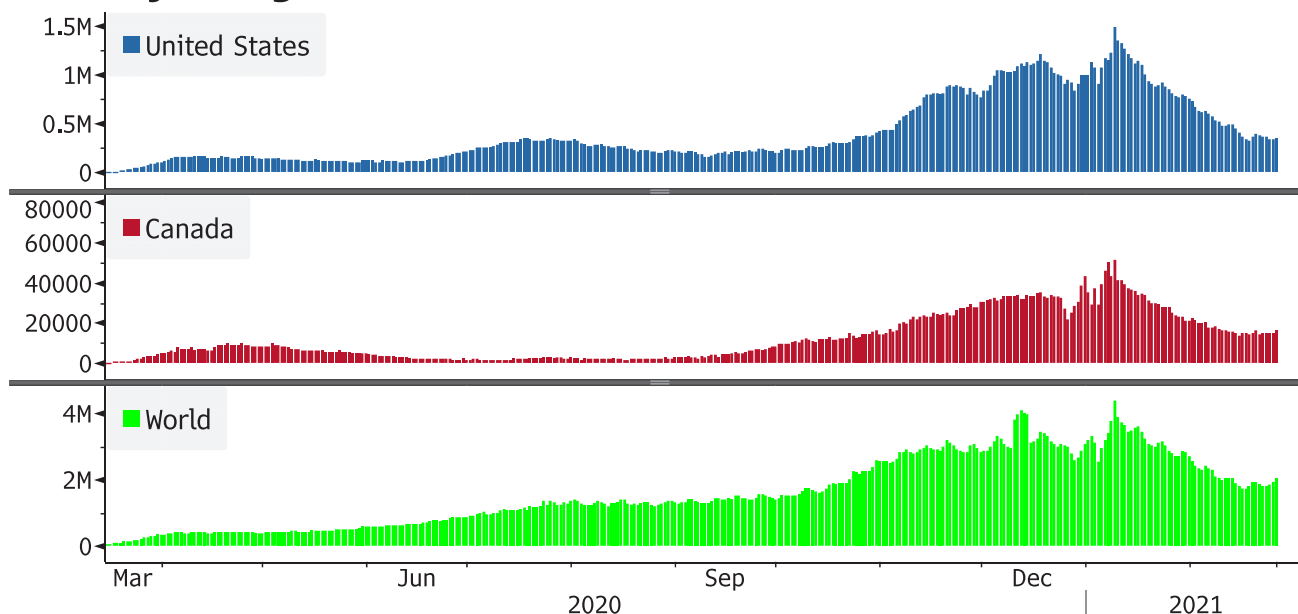
Number of Total Daily Commercial Flights



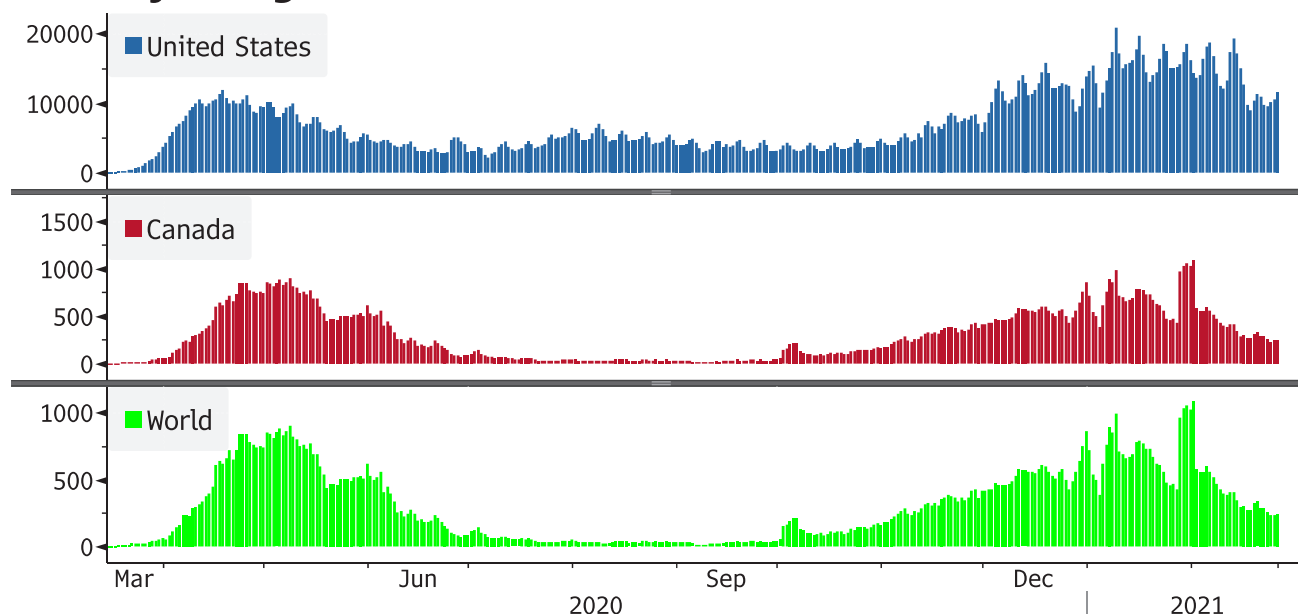
Flightradar24.com data shows the number of commercial flights is slowly increasing from a dip at the beginning of the year. The average for the first two months of 2021 was 64 thousand compared to 102 thousand in the first two months of 2020.

COVID-19 Update

Five day change in Confirmed COVID-19 Cases



Five day change in Confirmed COVID-19 Deaths



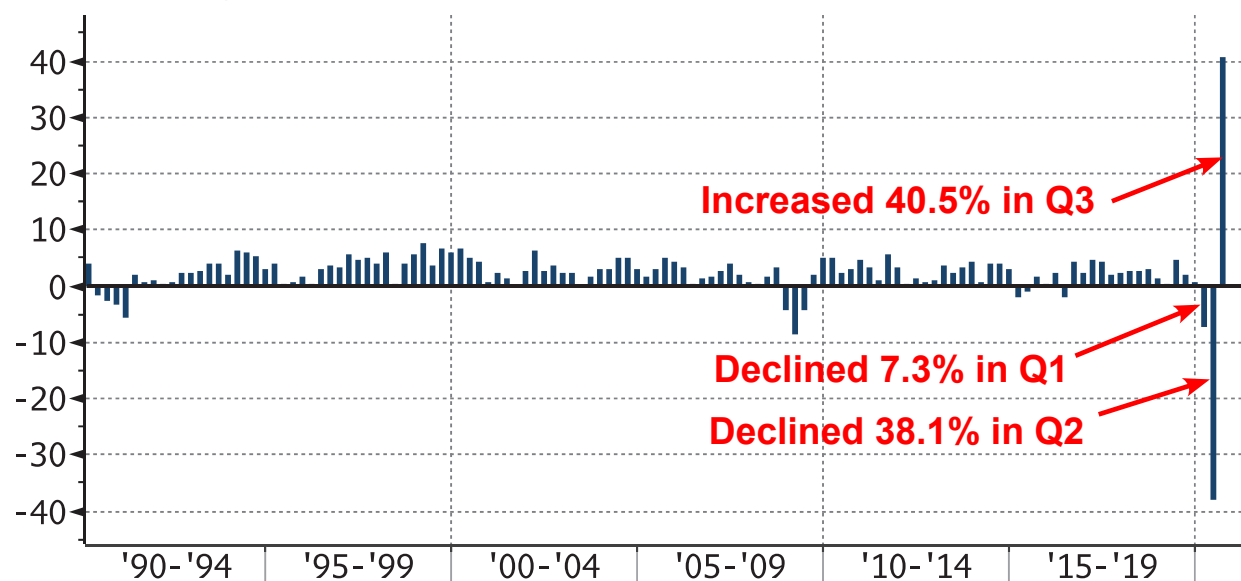
Source: Bloomberg, Capitalight Research

Confirmed Covid-19 cases and deaths are clearly in a downtrend since the beginning of the year. However, the combination of easing of restrictions, delays in vaccine roll-outs, and covid-lockdown fatigue prompting people to ignore restrictions there is concern about a third wave of rising Covid-19 cases.

Canada – Economic Indicators

Canada Gross Domestic Product

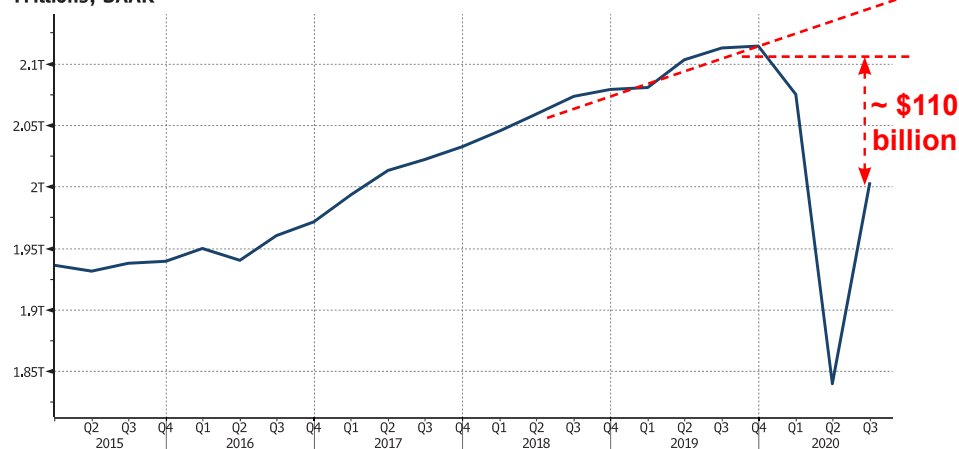
Annualized growth rate



Source: Bloomberg, Murenbeeld & Co.

Canadian GDP increased 40.5% (SAAR). However, GDP remains \$110 billion below its Q4-2019 level and about \$140 billion below the pre-coronavirus trend. We expect GDP to decline 5.5% for all of 2020, then increase by 4.2% in 2021. It will take several years before GDP returns to the pre-coronavirus trend.

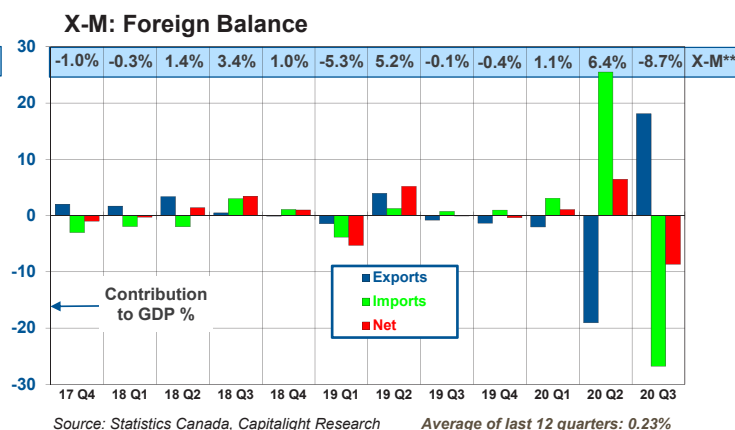
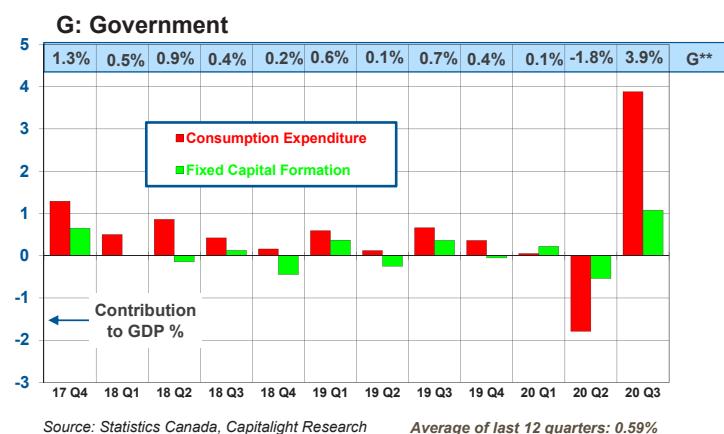
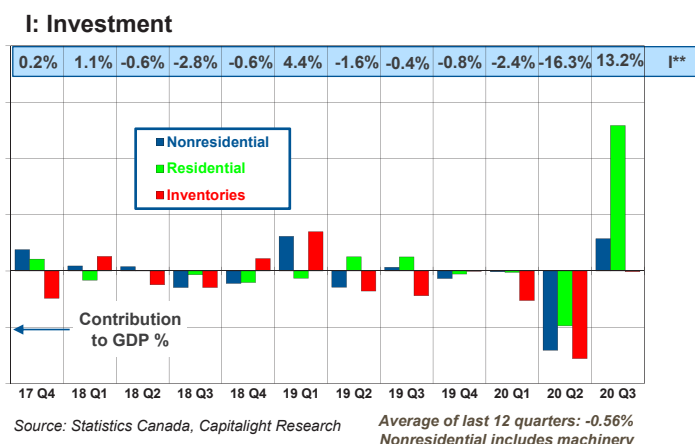
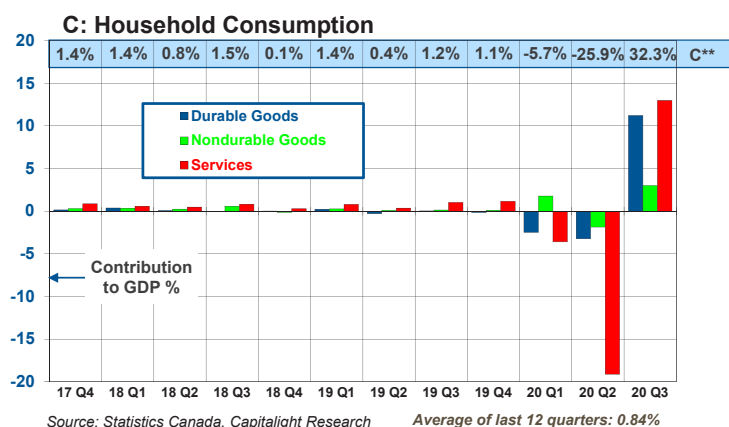
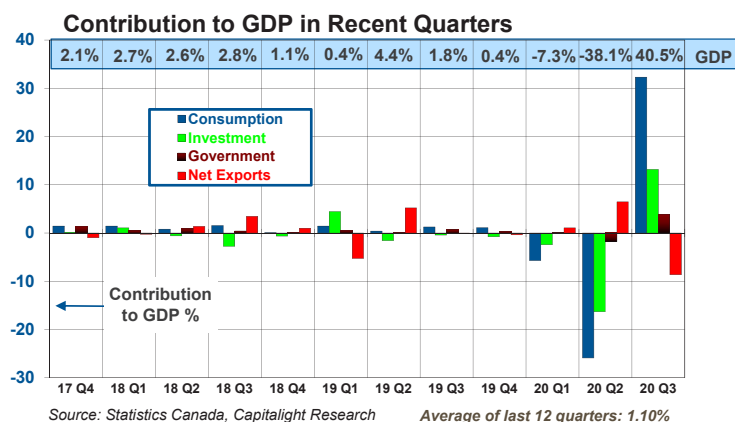
2020-Q4 data is scheduled to be released on March 25. Q4 growth is estimated at around 7% (SAAR), and -5.4% for all of 2020.

Canada GDP
Trillions, SAAR

Source: StatCan, Bloomberg, Murenbeeld & Co.

Canada – Economic Indicators

Household Consumption contributed the most to 2020-Q3 GDP increasing 32.3%; both goods and services contributed significantly to this increase. *Business Investment* contributed 13.2%, and *Government* added 3.9%. *Net-Exports* subtracted 6.4% – imports increased more than exports.



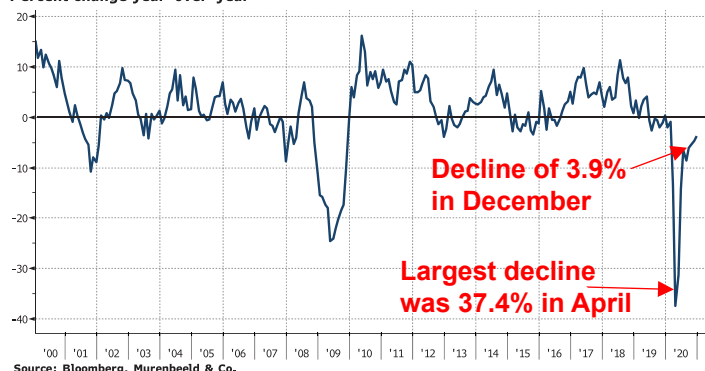
Quarter Average	GDP	C	I	G	X-M
Since 2010-Q1	1.94	1.29	0.32	0.28	0.02
Last 12 Quarters	1.10	0.84	-0.56	0.59	0.23
Last Four Quarters	-1.13	0.44	-1.59	0.63	-0.39

Canada – Economic Indicators

Canada Leading Indicator
Percent change year-over-year



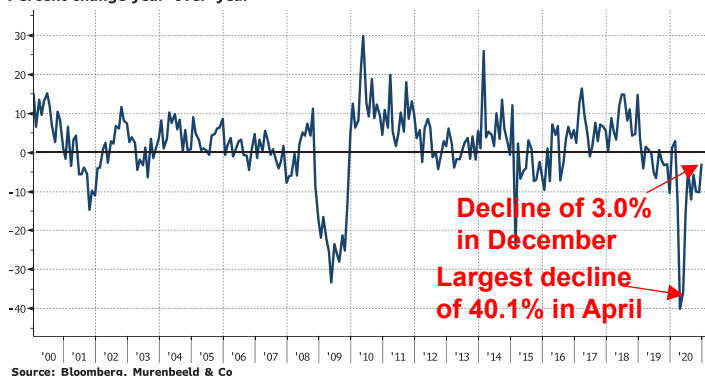
Canada Manufacturing Shipments
Percent change year-over-year



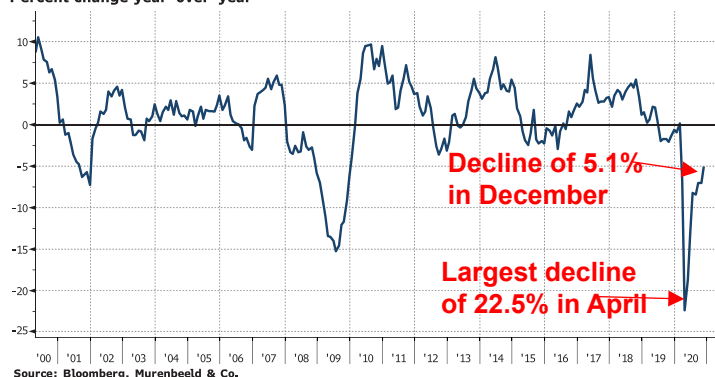
Canada Retail Sales
Percent change year-over-year



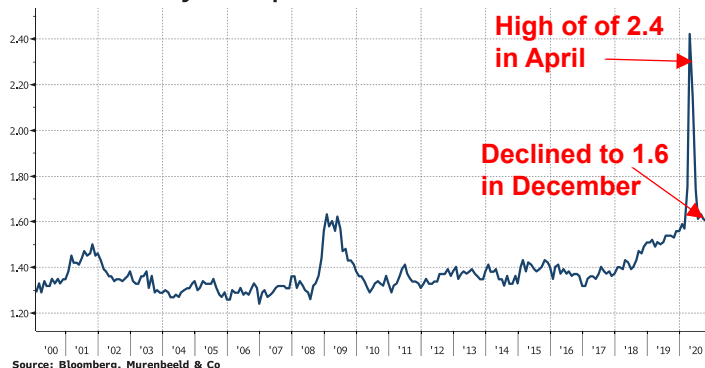
Canada Manufacturing New Orders
Percent change year-over-year



Canada Industrial Production
Percent change year-over-year



Canada Inventory-to-Shipments Ratio



The leading indicator shows strong signs of recovery (month-to-month) in fall of 2020, however signs of weakness returned in December that we expect to continue through the first quarter. Other economic indicators continue to show weakness in the economy mostly due to Covid-19 induced lockdown restrictions.

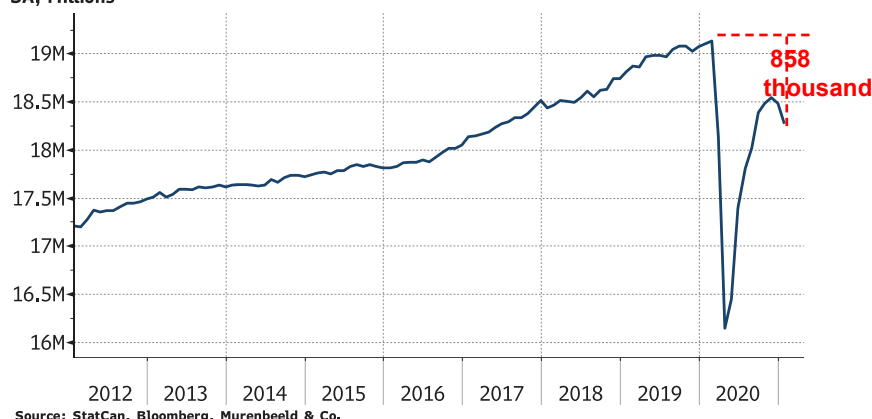
Canada – Employment Data

According to Statistics Canada employment fell by more than 3 million from February to April and rebounded by 2.4 million May to November, but then declined again in December and January a combined 264 thousand – employment remains 858 thousand below pre-COVID levels.

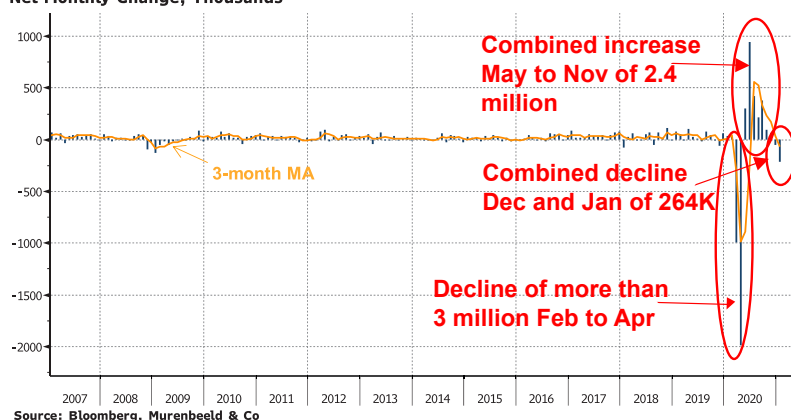
After falling by almost one-quarter (-522,000; -23.1%) from February to April, employment in retail trade rose throughout the spring and summer and continued to grow at a slower pace in the fall ... However, with the January losses, employment in the industry fell back to 10.8% below February levels. In contrast, the number of employees in larger establishments (100 employees or more) was little changed from January 2020 to January 2021.

In January, part-time employment in retail trade was down 13.7% on a year-over-year basis, while full-time work in the sector was down 8.3%. Both during the initial COVID-19 economic shutdown and in January 2021, employment losses resulting from public health restrictions on retail shopping have included substantial declines in part-time employment. This is explained in part by the importance of part-time work in the industry. Before the COVID-19 pandemic, more than one-third (34.3%) of 2019 employment in retail trade was part time, compared with an average of 19.0% for all employment.

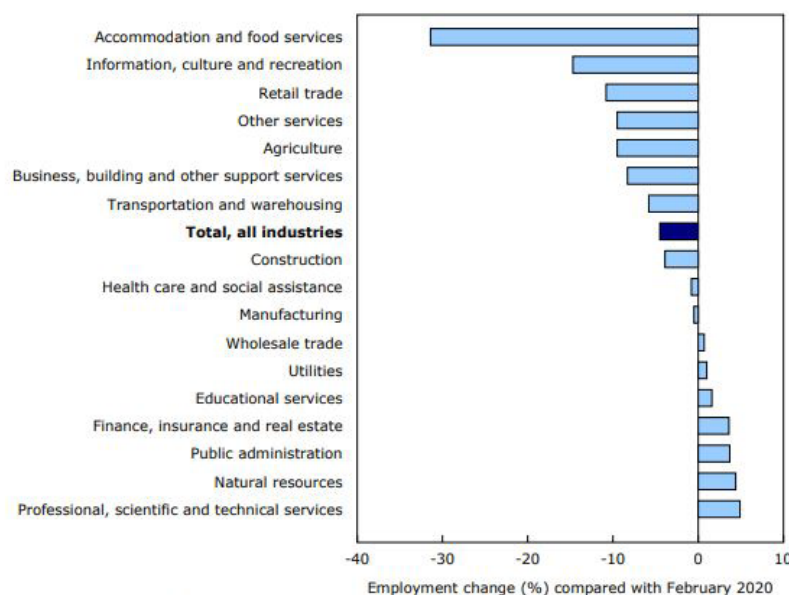
Canada Labour Force
SA, Millions



Canada Job Creation
Net Monthly Change, Thousands



Recovery to pre-COVID employment levels varies across industries

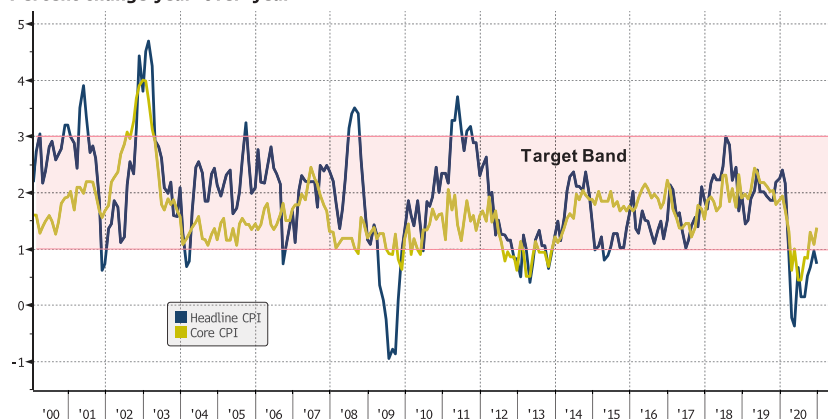


Canada – Inflation

Consumer price inflation remains in the bottom portion of the BoC's target band. Signs of increased inflation pressures are starting to emerge however.

Canada Consumer Price Inflation

Percent change year-over-year



Source: Bloomberg, Murenbeeld & Co.

Industrial Product Price Inflation increased 4% in January 2021.

Canada Industrial Product Price Inflation

Percent change year-over-year

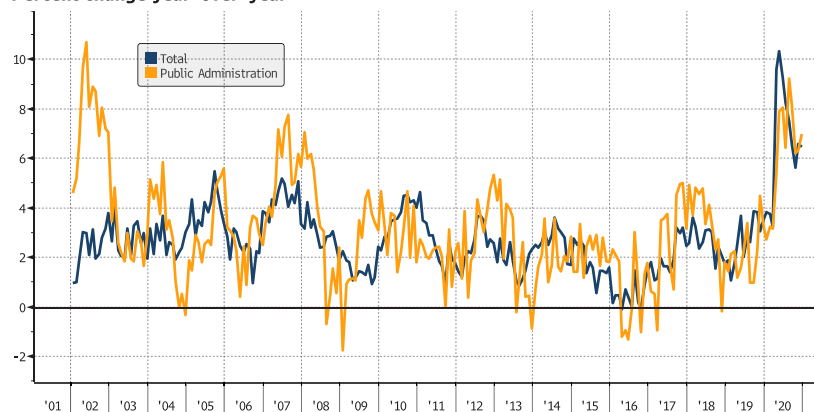


Source: Bloomberg, Murenbeeld & Co.

Total Average Weekly Earnings increased 6.5% in December and public administration increased 7.0%.

Canada Average Weekly Earnings

Percent change year-over-year



Source: Bloomberg, Murenbeeld & Co.

Canada – Monetary Policy

The Bank of Canada's balance sheet totaled \$573 billion on February 24.

Highlights from the BoC's January 20 meeting statement:

The economic recovery has been interrupted in many countries as new waves of COVID-19 infections force governments to re-impose containment measures. However, the arrival of effective vaccines combined with further fiscal and monetary policy support have boosted the medium-term outlook for growth. In its January Monetary Policy Report (MPR), the Bank projects global growth to average just over 5 percent per year in 2021 and 2022 ...

...Canada's economy had strong momentum through to late 2020, but the resurgence of cases and the reintroduction of lockdown measures are a serious setback. Growth in the first quarter of 2021 is now expected to be negative ...

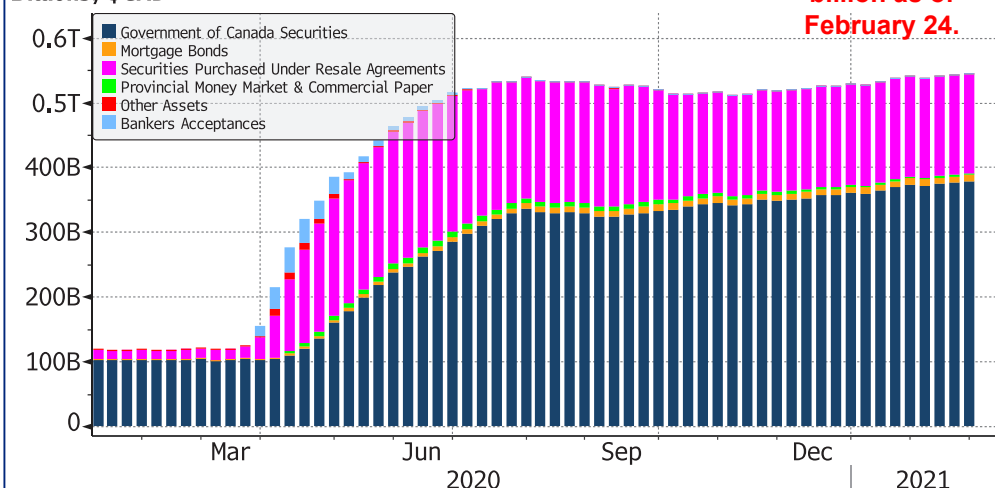
... In view of the weakness of near-term growth and the protracted nature of the recovery, the Canadian economy will continue to require extraordinary monetary policy support.

The Governing Council will hold the policy interest rate at the effective lower bound until economic slack is absorbed

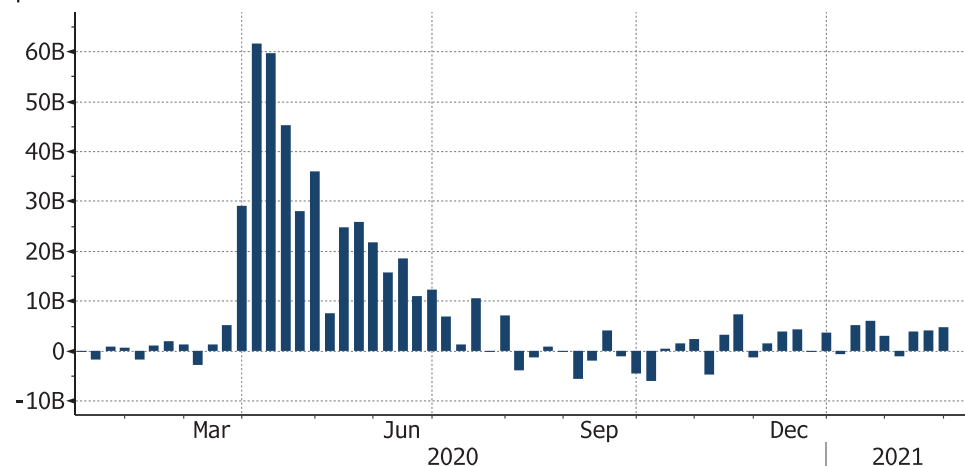
so that the 2 percent inflation target is sustainably achieved. In our projection, this does not happen until into 2023.

Target Rate .25%
Next meeting March 10, 2021

Bank of Canada Assets
Billions, \$CAD



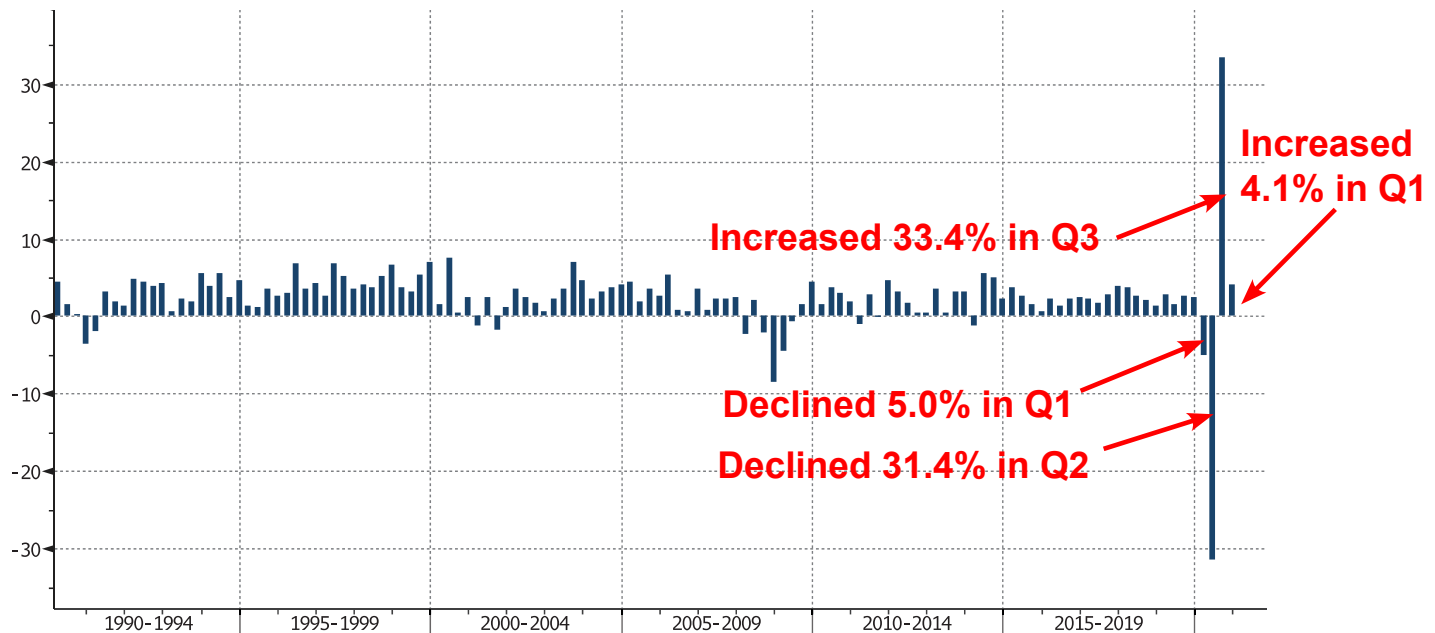
Weekly change of Bank of Canada Total Assets
\$CAD



US – Economic Indicators

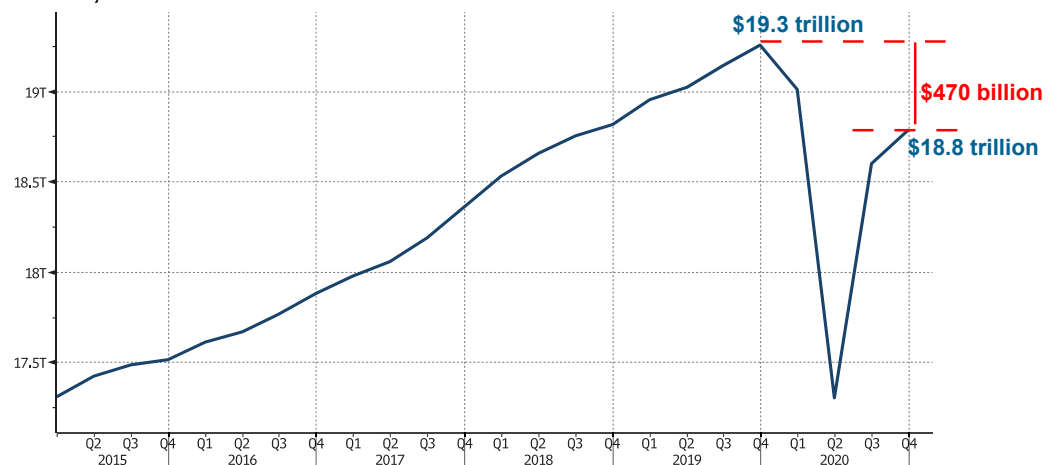
US Gross Domestic Product

Annualized growth rate



The second estimate of US GDP showed an increase of 4.1% in Q4 (annualized) after an increase of 33.4% Q2. The US economy is still \$470 billion below the \$19.3 trillion peak in 2020-Q1.

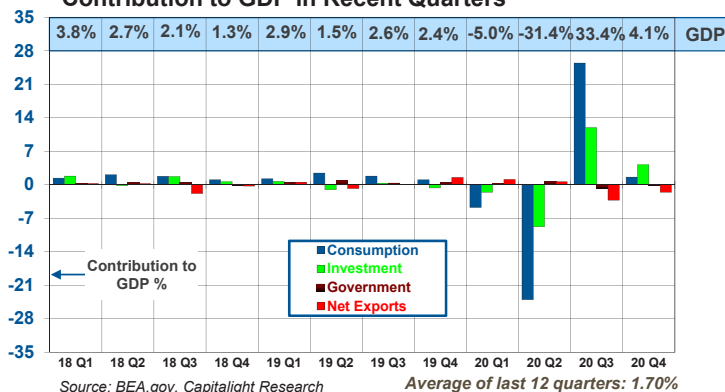
The Federal Bank of Atlanta's GDPNow model estimates 2021-Q1 growth at 8.8%

US Real GDP
Trillions, SAAR

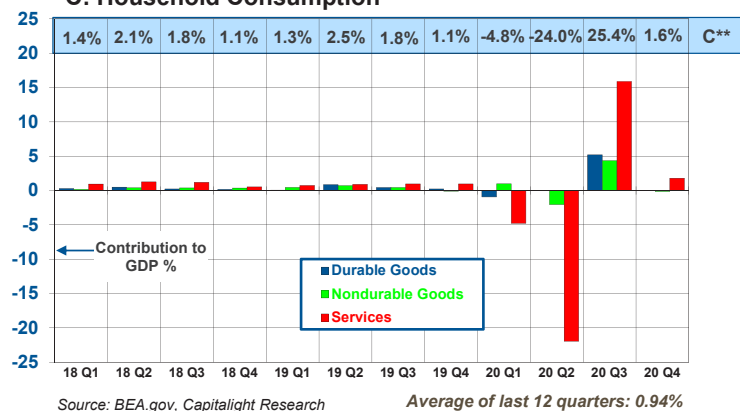
US – Economic Indicators

Household Consumption added 1.6% and *Business Investment* added 4.2%. *Government Consumption* subtracted 0.2% and *Net-Exports* subtracted 1.6%.

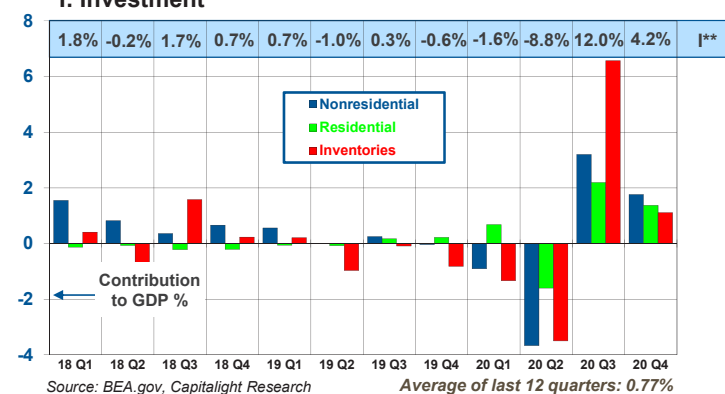
Contribution to GDP in Recent Quarters



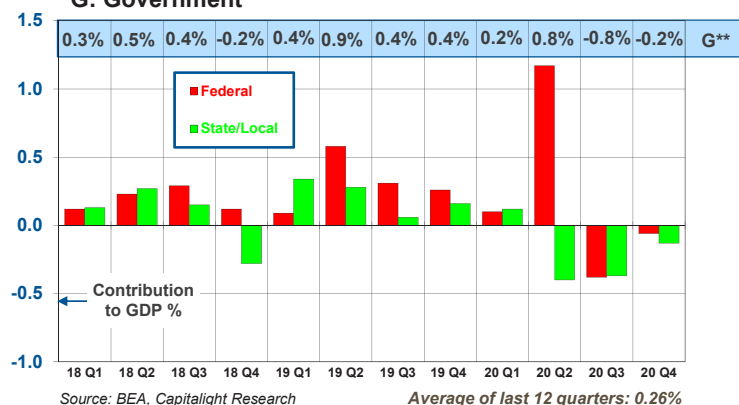
C: Household Consumption



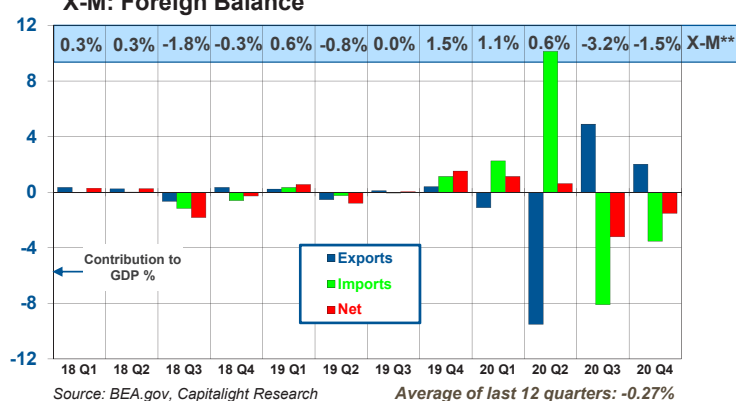
I: Investment



G: Government



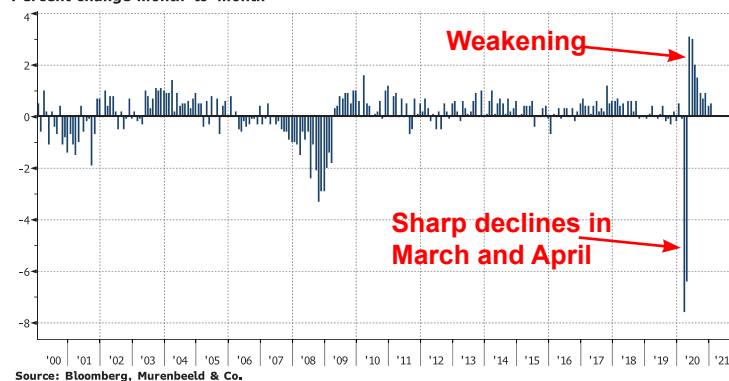
X-M: Foreign Balance



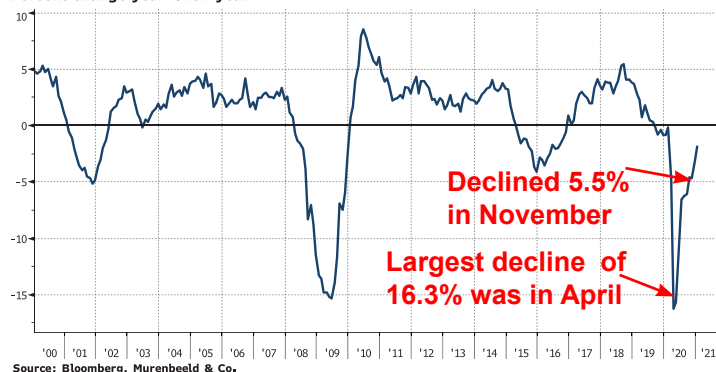
Quarter Average	GDP	C	I	G	X-M
Since 2010-Q1	2.11	1.47	0.90	-0.01	-0.24
Last 12 Quarters	1.70	0.94	0.77	0.26	-0.27
Last Four Quarters	0.28	-0.43	1.47	0.01	-0.75

United States – Other Economic Indicators

US Leading Indicator
Percent change month-to-month



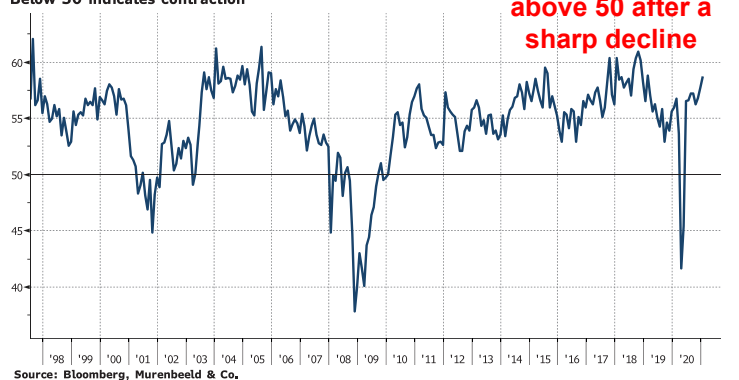
US Industrial Production
Percent change year-over-year



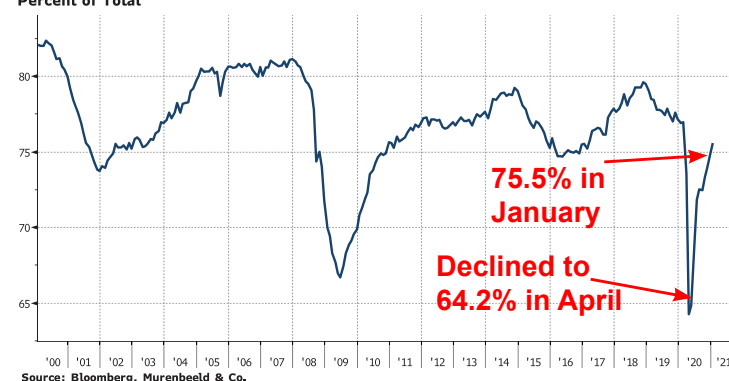
US ISM Manufacturing Index
Below 50 indicates contraction



US ISM Service Sector Index
Below 50 indicates contraction



US Industrial Capacity Utilization
Percent of Total



US Retail Sales
Percent change year-over-year

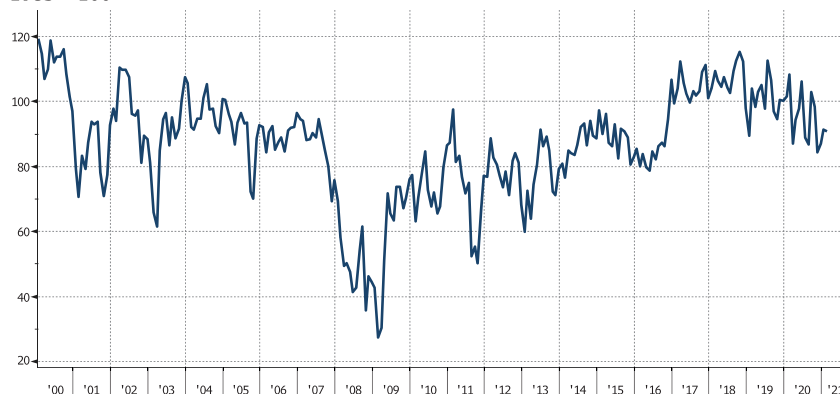


The leading indicator, although still positive since January has weakened month-to-month. ISM manufacturing and service indices, Industrial Capacity Utilization and Retail sales all show signs of recovery since sharp declines in March and April 2020.

United States – Other Economic Indicators

The US Consumer Confidence Index has declined somewhat in recent months ...

US Consumer Confidence Index
1985 = 100



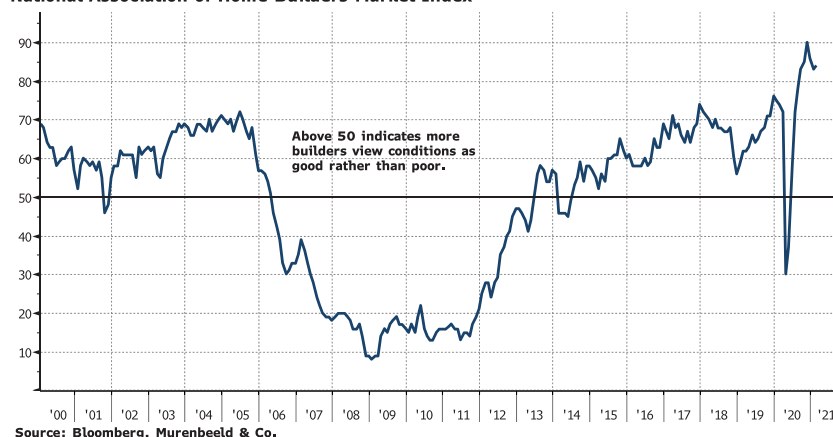
... and so has the Small Business Optimism Index ...

Small Business Optimism Index
National Federation of Independent Business Survey



... however the Home Builders Optimism Index remains new highs.

Home Builder Optimism Index
National Association of Home Builders Market Index



United States – Housing Data

US Housing Starts have rebounded strongly ...

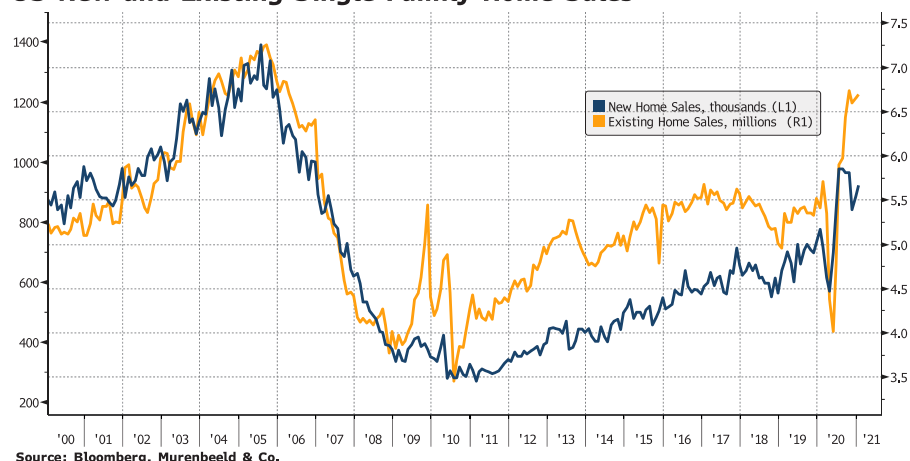
US Housing Starts
Thousands of dwelling units



Source: Bloomberg, Murenbeeld & Co.

... as have Existing Home Sales and New Home Sales ...

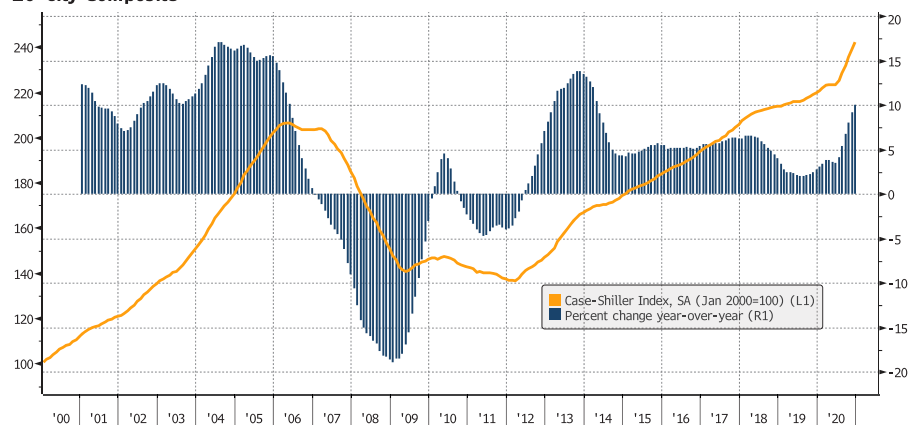
US New and Existing Single Family Home Sales



Source: Bloomberg, Murenbeeld & Co.

... The Case-Shiller Home Price Index is also increasing at a strong rate.

Case-Shiller Home Price Index
20-city Composite



Source: Bloomberg, Murenbeeld & Co.

US – Employment Data

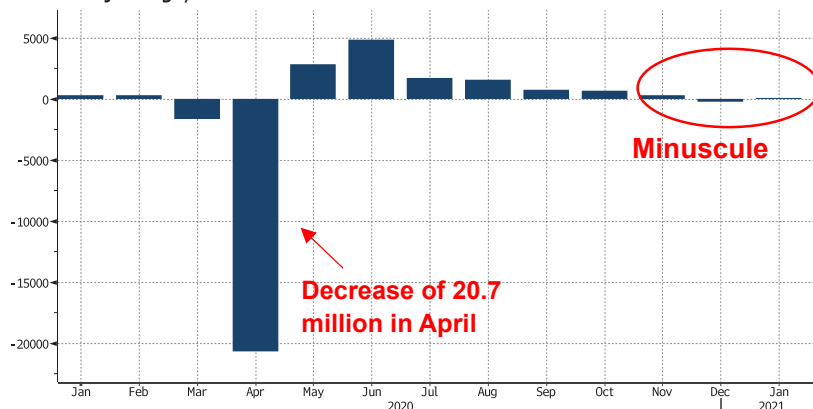
The Employment report stated: *Total nonfarm payroll employment changed little in January (+49,000) but is below its February 2020 level by 9.9 million, or 6.5 percent. In January, notable job gains in professional and business services and in both public and private education were offset by losses in leisure and hospitality, in retail trade, in health care, and in transportation and warehousing.*

In January, the share of employed persons who teleworked because of the coronavirus pandemic edged down to 23.2 percent. These data refer to employed persons who teleworked or worked at home for pay at some point in the last 4 weeks specifically because of the pandemic.

In January, 14.8 million persons reported that they had been unable to work because their employer closed or lost business due to the pandemic--that is, they did not work at all or worked fewer hours at some point in the last 4 weeks due to the pandemic. This measure is 1.1 million lower than in December. Among those who reported in January that they were unable to work because of pandemic-related closures or lost business, 12.7 percent received at least some pay from their employer for the hours not worked, little changed from the previous month.

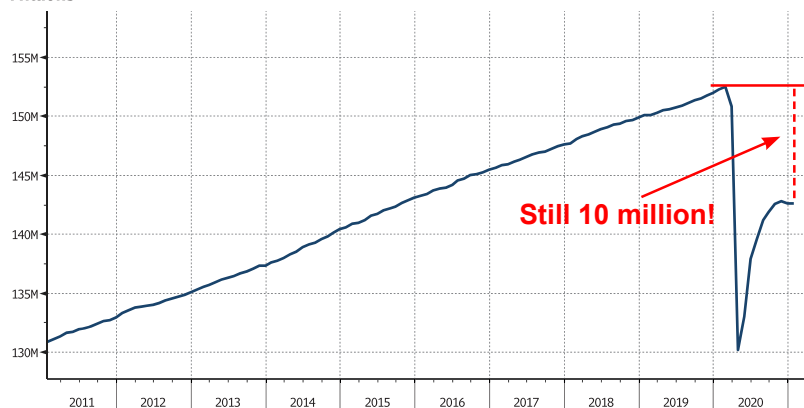
Among those not in the labor force in January, 4.7 million persons were prevented from looking for work due to the pandemic; this measure is little changed from December. (To be counted as unemployed, by definition, individuals must be either actively looking for work or on temporary layoff.)

US Job Creation
Net monthly change, thousands



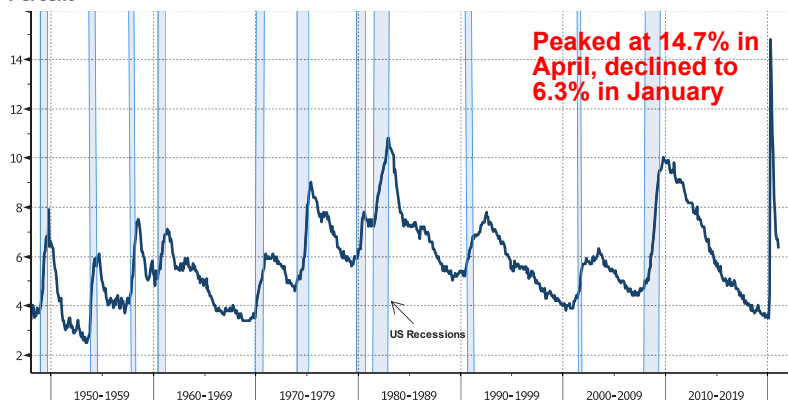
Source: Bloomberg, Murenbeeld & Co.

Total Nonfarm Payrolls
Millions



Source: BLS, Bloomberg, Murenbeeld & Co.

US Unemployment Rate
Percent

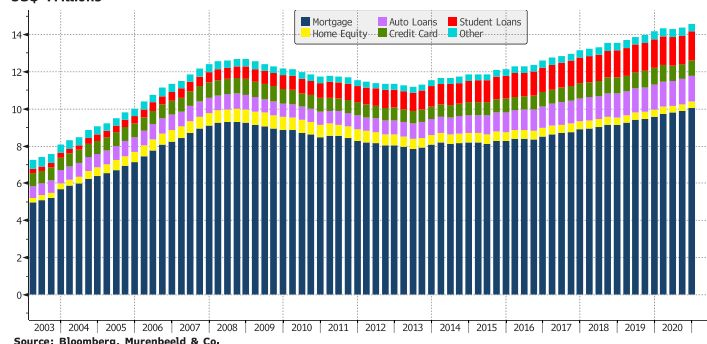


Source: Bloomberg, Murenbeeld & Co.

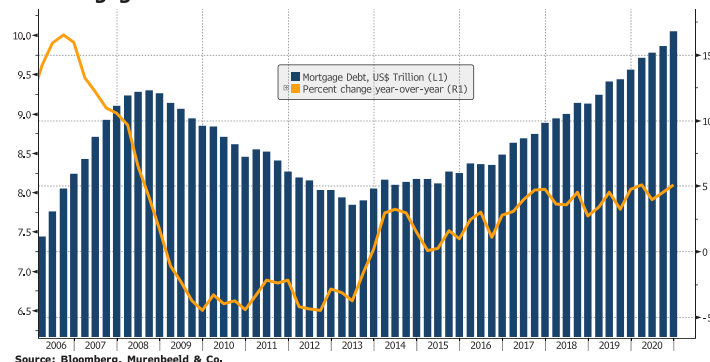
US – Household Debt

Credit card debt declined 11%(y-o-y) in Q4. However, mortgage (5.1%), auto loan (3.2%), and student loan (3.1%) debt continued to expand.

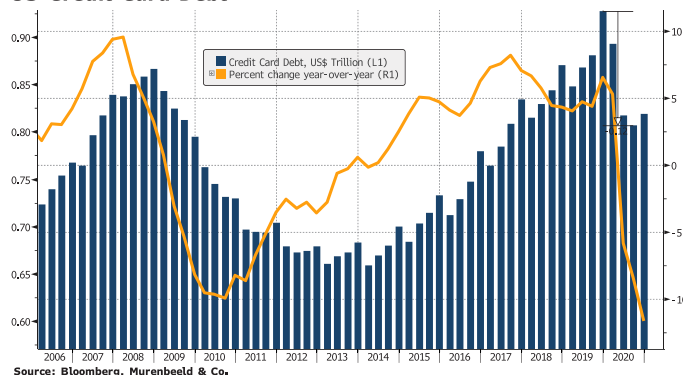
US Household Debt
US\$ Trillions



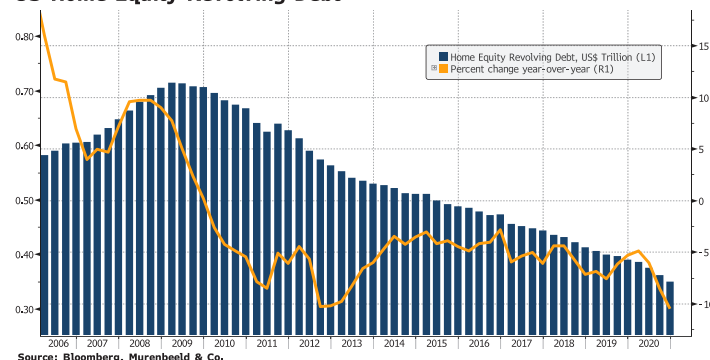
US Mortgage Debt



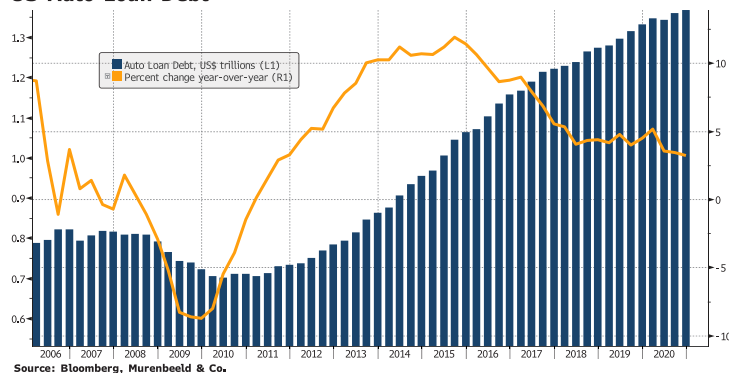
US Credit Card Debt



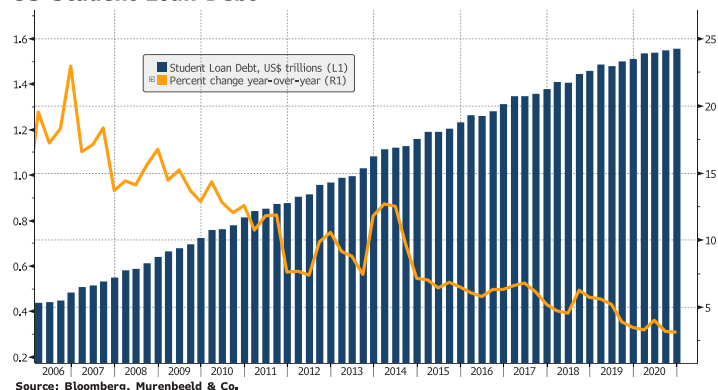
US Home Equity Revolving Debt



US Auto Loan Debt



US Student Loan Debt

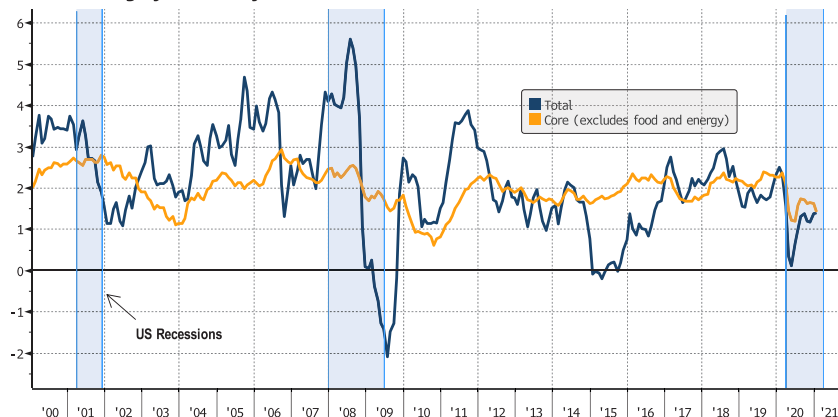


US – Inflation

US Headline CPI and Core CPI 1.4% in January, both up from recent lows.

US Consumer Price Inflation

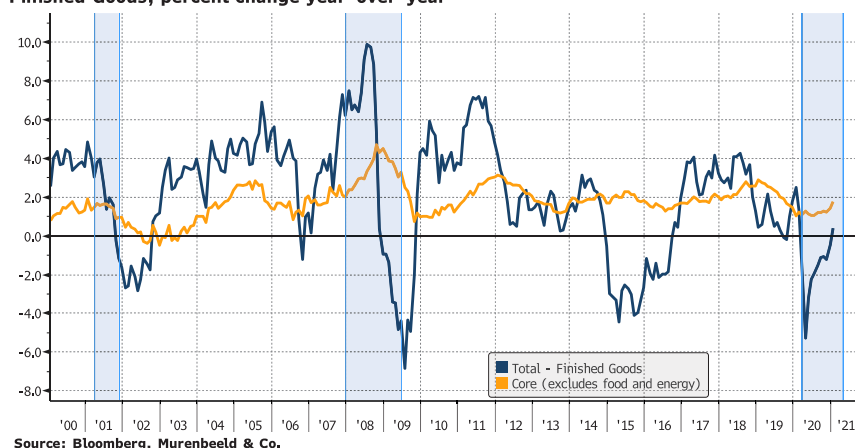
Percent change year-over-year



US Producer Price Inflation increased 0.4% in January.

US Producer Price Inflation

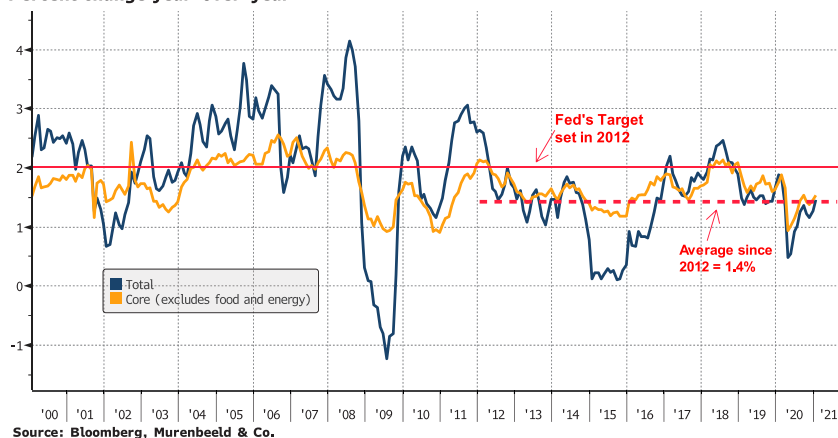
Finished Goods, percent change year-over-year



PCE Inflation (the Fed's favourite inflation indicator) is well below the Fed's 2% target – the Fed's revised policy is to let inflation run moderately above 2%, so that the average over time is around 2%.

US Personal Consumption Expenditure Inflation

Percent change year-over-year



US – Monetary Policy

In regards to US monetary policy Martin Murenbeeld noted the following in the February 26, 2021 *Gold Monitor*.

And on the Federal Reserve front, Chair Powell, Governor Brainard and Vice-Chair Clarida continued to stress again this week that:

(1) *jobs are **still down by 10 million** relative to pre-COVID levels, and COVID has disproportionately harmed certain sectors, groups of workers, businesses, and states and localities, leading to a K-shaped recovery ...*

(2) *the economy remains far from our goals in terms of both employment and inflation, and it will take some time to achieve substantial further progress ...*

(3) *We expect to **maintain an accommodative stance of monetary policy** until these outcomes – as well as our maximum-employment mandate – are achieved.*

(4) *We also expect it will be appropriate to maintain **the current target range for the federal funds rate at 0 to 1/4 percent** until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment, until inflation has risen to 2 percent, and until inflation is on track to moderately exceed 2 percent for some time ...* (excerpted from speeches by Governor Brainard and Vice-Chair Clarida on 02/24, bolding added).

Higher Treasury Yields – What to Do?

So, with yields sharply higher in the US and around the world what will fiscal and monetary authorities do? On the fiscal policy side it is a no-brainer; we expect *pedal to the metal* because the Biden Administration will not be sidetracked by the rise in treasury yields – neither will fiscal authorities overseas.

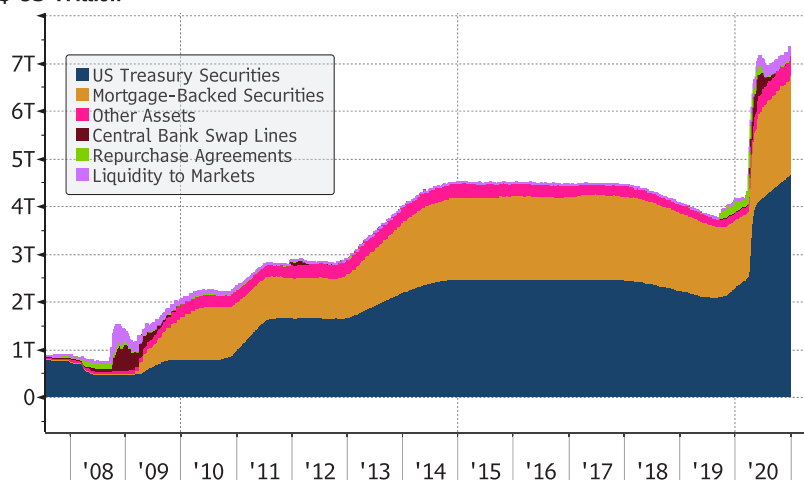
The choices are more complicated for central banks.

(1) The Fed and other central banks may chose to do nothing, sit back and simply let the markets take rates where they will. Higher rates might well burst some equity bubbles here and there, trim house prices, and generally arrest other market excesses. But this choice risks higher servicing costs of public and private-sector debt loads, if not also offset much fiscal stimulus still in policy pipelines.

(2) Central banks may chose to reiterate once again that they will not raise short-term interest rates for the foreseeable future (see above). This is a strategy based on the hope that the ultra-low central bank target rates will anchor longer-term rates somewhere around current levels or below.

(3) Or, once they conclude that hope is a poor policy and the attendant risks in letting the market run rates higher are too great, central banks will decide that more QE is required. If/when yet more QE fails to have the desired result central banks may choose to simply cap long-term rates instead (i.e., to implement outright yield curve control).

Federal Reserve Assets
\$ US Trillion

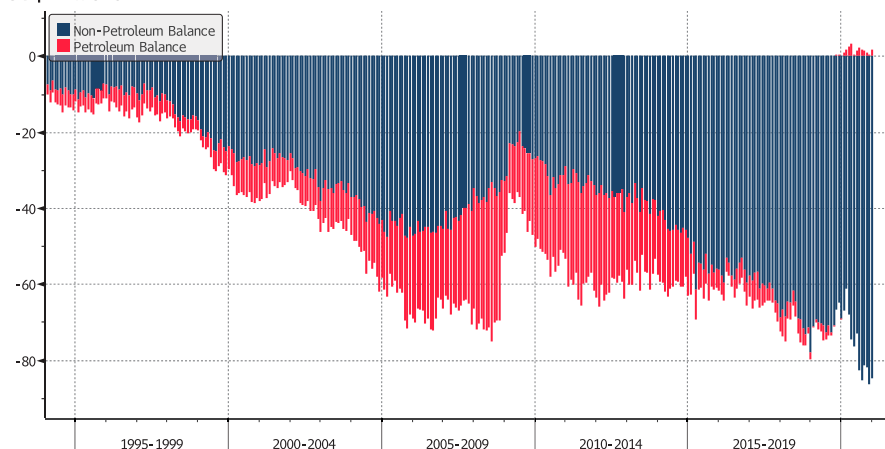


Source: Federal Reserve, Bloomberg, Murenbeeld & Co.

US – Trade Balance

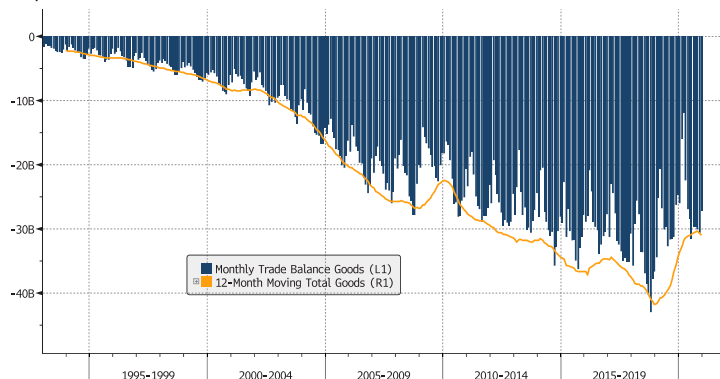
The US Trade Deficit Is near record highs. It has declined against China and Japan however..

US Trade Balance With World
US\$ Billions



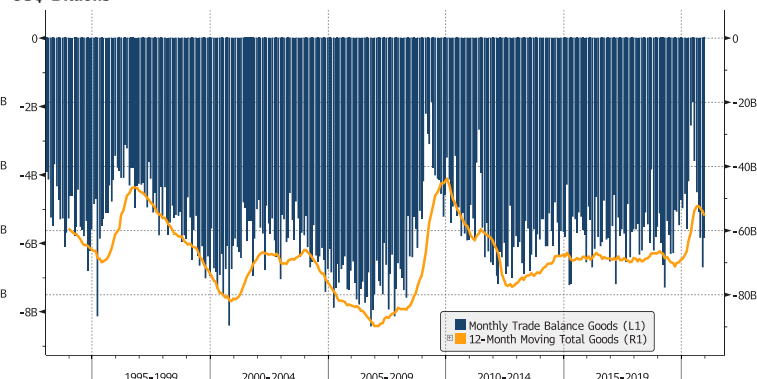
Source: Bloomberg, Murenbeel & Co.

US Trade Balance With China
US\$ Billions



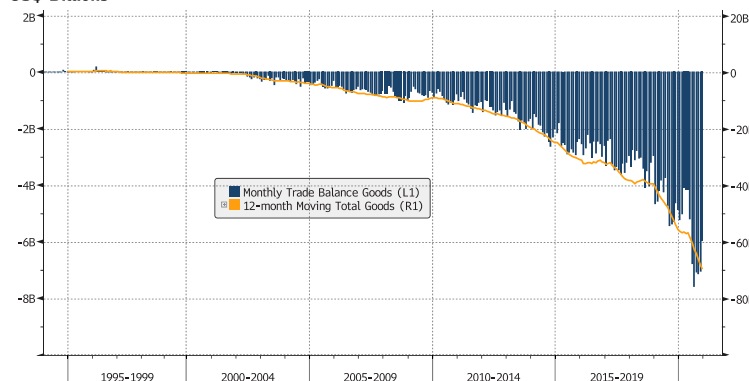
Source: Bloomberg, Murenbeel & Co.

US Trade Balance With Japan
US\$ Billions



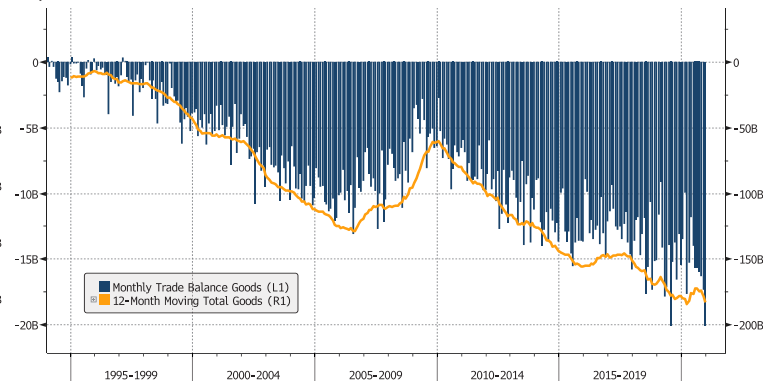
Source: Bloomberg, Murenbeel & Co.

US Trade Balance With Vietnam
US\$ Billions



Source: Bloomberg, Murenbeel & Co.

US Trade Balance With European Union
US\$ Billions



Source: Bloomberg, Murenbeel & Co.

Exchange Rates

The US Dollar has trended sideways in recent weeks. However, the Canadian dollar has strengthened on higher energy prices.

DXY US Dollar Index

Euro, Yen, Pound, CA Dollar, Krona, Franc



Source: Bloomberg, Murenbeeld & Co.

Indian Rupee

Rupee/\$US



Source: Bloomberg, Murenbeeld & Co.

Chinese Renminbi (Yuan)

RMB/\$US (Axis inverted)



Source: Bloomberg, Murenbeeld & Co.

Euro

US\$/Euro



Source: Bloomberg, Murenbeeld & Co.

Canadian Dollar

US\$/CDN\$



Source: Bloomberg, Murenbeeld & Co.

Japanese Yen

Yen/\$US (Axis Inverted)



Source: Bloomberg, Murenbeeld & Co.

UK Pound Sterling

US\$/Pound

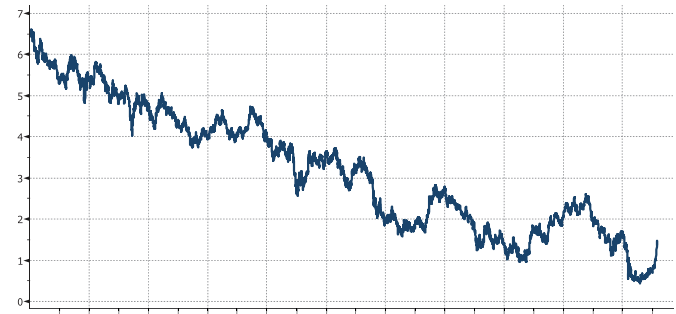


Source: Bloomberg, Murenbeeld & Co.

Government 10-year Bond Yields

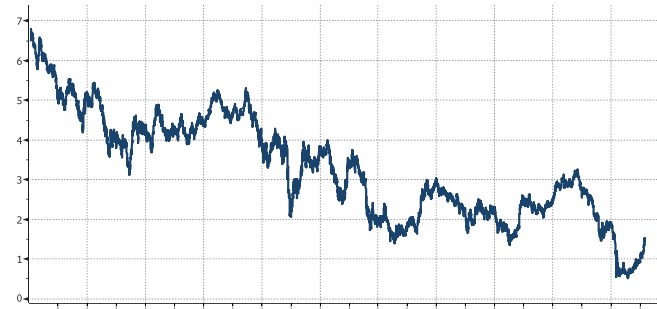
10-year bond yields have increased significantly in recent weeks on higher inflation expectations. If long term rates continue to increase we expect central banks to implement some form of yield curve control.

Canada Government 10-year Bond
Percent



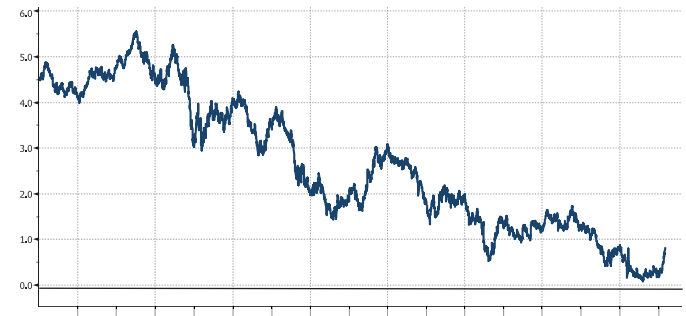
Source: Bloomberg, Murenbeeld & Co.

US 10-year Treasury Securities Yield
Percent



Source: Bloomberg, Murenbeeld & Co.

UK 10-Year Bond Yield



Source: Bloomberg, Murenbeeld & Co.

Germany 10-Year Bond Yield



Source: Bloomberg, Murenbeeld & Co.

France 10-Year Bond Yield



Source: Bloomberg, Murenbeeld & Co.

Japan 10-Year Bond Yield



Source: Bloomberg, Murenbeeld & Co.

China 10-Year Bond Yield



Source: Bloomberg, Murenbeeld & Co.

Commodity Prices

1. BANK OF CANADA COMMODITY PRICE INDICES

Commodity prices have generally moved higher, notably base metal prices.

BoC Total Commodity Index
20 commodities produced in Canada



BoC Total Commodity Less Energy Index



BoC Energy Commodity Index



BoC Agriculture Commodity Index



BoC Metals Commodity Index



2. OTHER INDICES

S&P GSCI Commodity



CRB Commodity Index
Thomson Reuters/ Core Commodity

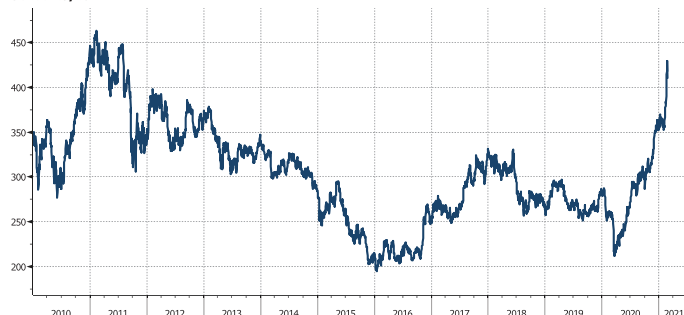


Commodity Prices (continued)

3. METALS

Copper Price

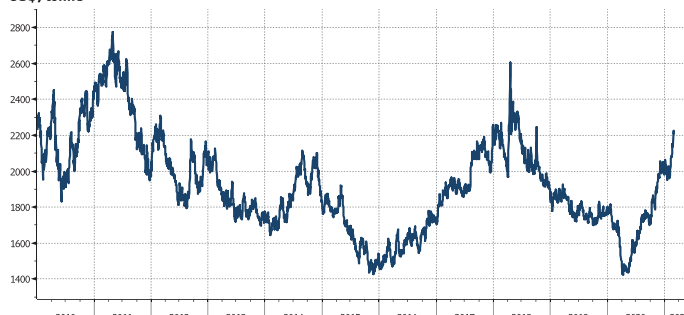
US cents/lb



Source: Bloomberg, Murenbeeld & Co.

Aluminum Price

US\$/tonne



Source: Bloomberg, Murenbeeld & Co.

Zinc Price

US\$/tonne



Source: Bloomberg, Murenbeeld & Co.

Silver Price

US\$/oz



Source: Bloomberg, Murenbeeld & Co.

Nickel Price

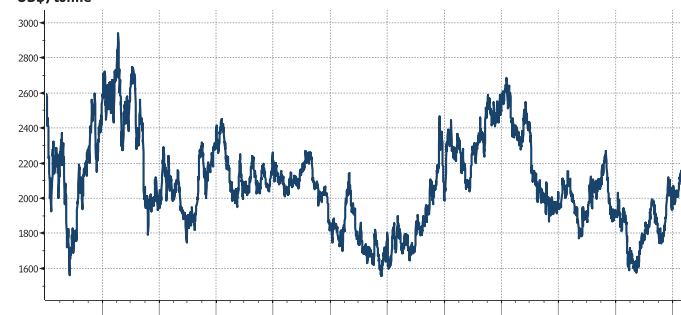
US\$/Tonne



Source: Bloomberg, Murenbeeld & Co.

Lead Price

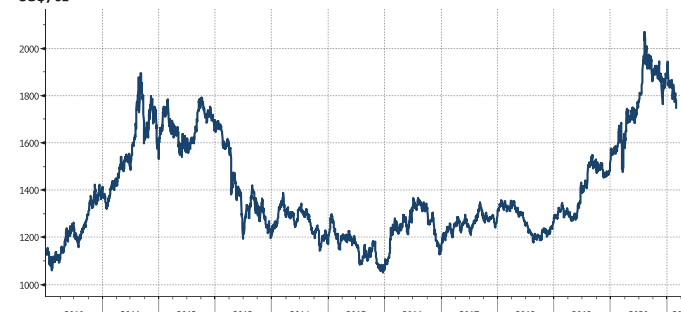
US\$/tonne



Source: Bloomberg, Murenbeeld & Co.

Gold Price

US\$/oz



Source: Bloomberg, Murenbeeld & Co.

Platinum Price

US\$/oz



Source: Bloomberg, Murenbeeld & Co.

Commodity Prices (continued)

4. ENERGY

Oil Price
US\$/bbl



Natural Gas Price
Henry Hub, US\$/million BTU



2. OTHER COMMODITY PRICES

Wheat Price
US\$/bu



Corn Price
US\$/bu



Lumber Price
US\$/1000 board feet



Live Cattle Price
US\$/ lb.



Equity Markets

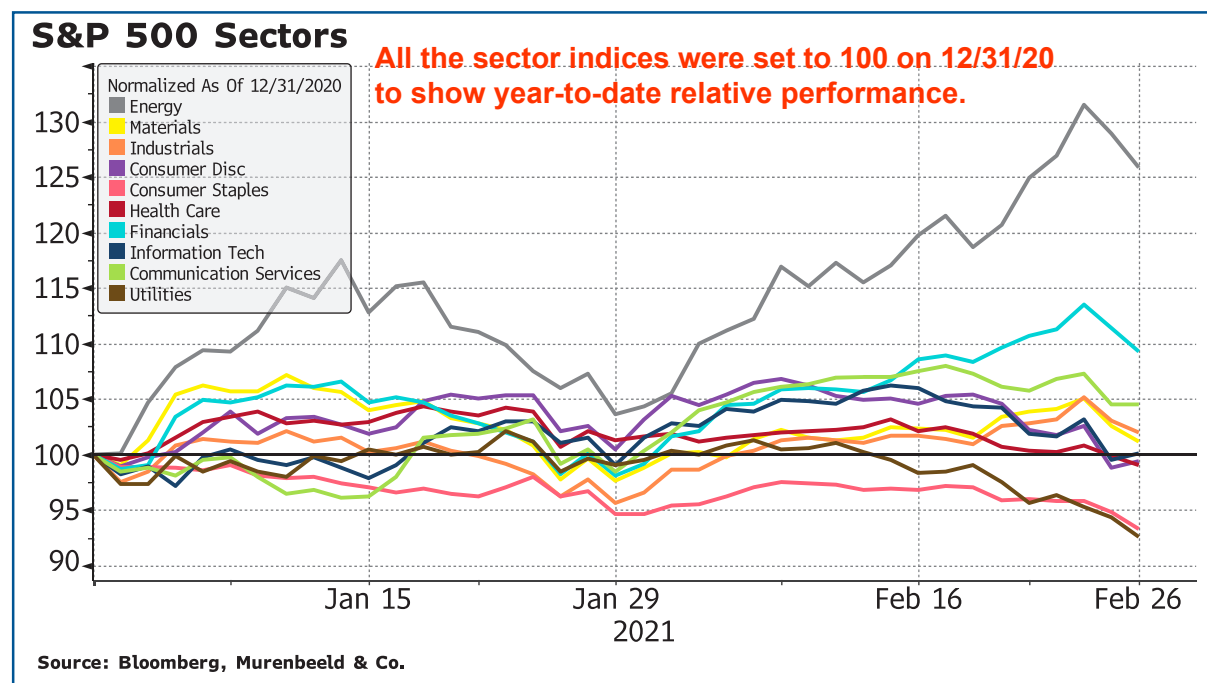
S&P 500 GICS Sectors

(percent change)

	Value on 2/26/21	Year to Date	1-Month	3-Month	6-Month	1-Year	5-Year
S&P 500	3811.15	1.47	0.99	4.06	8.07	29.01	92.64
Energy	360.19	25.88	20.63	30.68	36.41	4.85	-16.81
Materials	461.11	1.18	2.47	2.48	13.41	39.45	71.30
Industrials	764.55	2.00	5.61	3.32	15.40	23.64	65.87
Cons Disc	1294.47	-0.62	-3.67	0.82	2.12	41.35	113.72
Cons Stap	649.39	-6.74	-1.51	-6.21	-3.40	9.10	23.35
Health Care	1311.27	-0.96	-2.52	1.92	5.11	21.90	68.02
Financials	535.64	9.22	10.13	14.04	28.63	21.54	82.40
Info Tech	2293.40	0.09	-1.40	4.31	3.65	48.03	229.31
Telecom	232.08	4.58	4.25	5.71	9.88	35.52	41.03
Utilities	295.35	-7.43	-6.99	-7.73	-0.24	-5.89	26.87

Data as of February 26, 2021

Source: Bloomberg, Capital Research



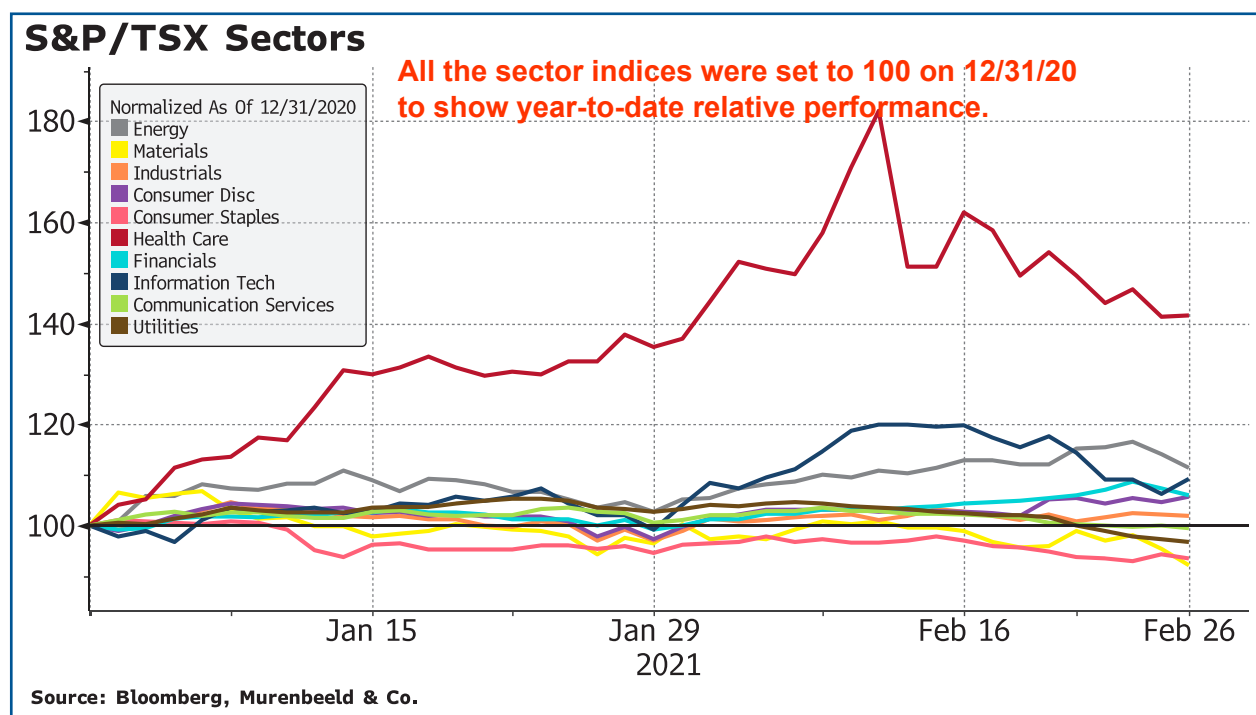
The S&P 500 index has declined 3% from its all-time high set on February 12, but squeaked out a gain of 1% for the month of February. The Energy sector, the main driver of recent increases, has increased more than 25% year to date, followed by the Financial sector.

S&P/TSX GICS Sectors (percent change)

	Value on 2/26/21	Year to Date	1-Month	3-Month	6-Month	1-Year	5-Year
S&P/TSX	18060.26	3.60	2.08	4.41	8.50	11.05	39.12
Energy	1658.24	11.43	6.09	11.30	10.29	-14.61	-16.88
Materials	2712.32	-7.87	-8.08	-7.58	-14.15	22.08	57.45
Industrials	4188.01	1.84	2.98	4.42	11.06	20.00	100.27
Cons Disc	2662.94	5.78	5.93	11.16	26.54	33.97	49.76
Cons Stap	5155.88	-6.38	-2.73	-7.04	-5.51	-1.91	15.04
Health Care	386.12	41.46	3.35	34.01	70.73	33.16	-65.59
Financials	2973.08	5.89	5.79	6.24	17.59	7.25	40.17
Info Tech	973.01	9.11	4.86	12.94	8.67	84.71	346.87
Telecom	1425.82	-0.47	-1.55	-1.81	0.37	-4.81	5.10
Utilities	2643.05	-3.24	-6.27	-2.02	6.96	2.73	42.23

Data as of February 26, 2021

Source: Bloomberg, Capitalight Research



The S&P/TSX Index has declined 2.3% since its all-time high set on February 16, but still gained 2.1% in February and 3.6% year-to-date. The Health Care sector, led by the medical marijuana companies, has increased 41% year-to-date, followed by the Energy sector at an 11.4% increase.

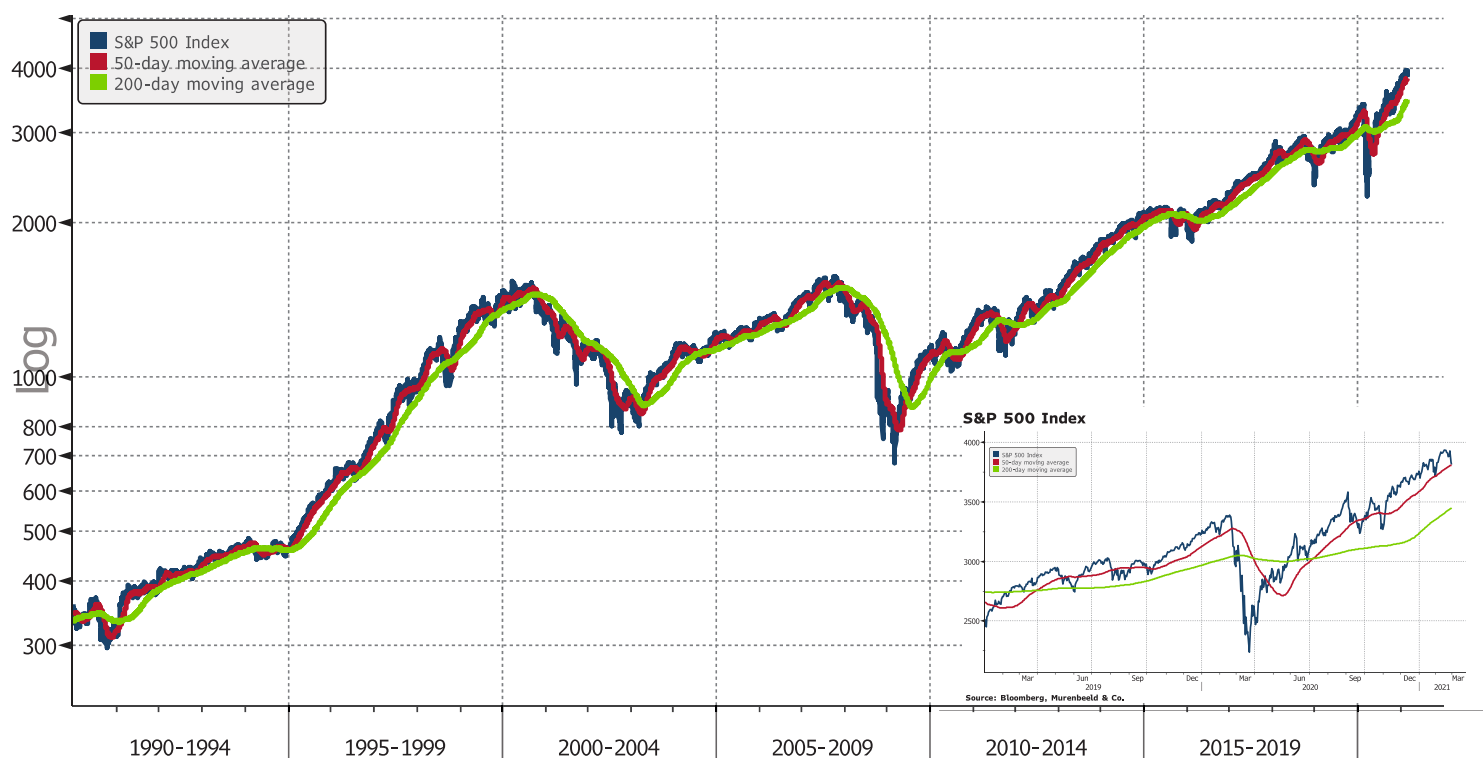
S&P 500 Models Summary Table			
	Undervalued	Fair-valued	Overvalued
S&P 500 Index		X	
Energy		X	
Materials		X	
Industrials		X	
Cons Disc			X
Cons Stap		X	
Health Care		X	
Financials			X
Info Tech		X	
Comm Serv		X	
Utilities		X	

S&P/TSX Models Summary Table			
	Undervalued	Fair-valued	Overvalued
S&P/TSX Index		X	
Energy		X	
Materials	X		
Industrials			X
Cons Disc			X
Cons Stap	X		
Health Care		X	
Financials		X	
Info Tech			X
Comm Serv	X		
Utilities		X	

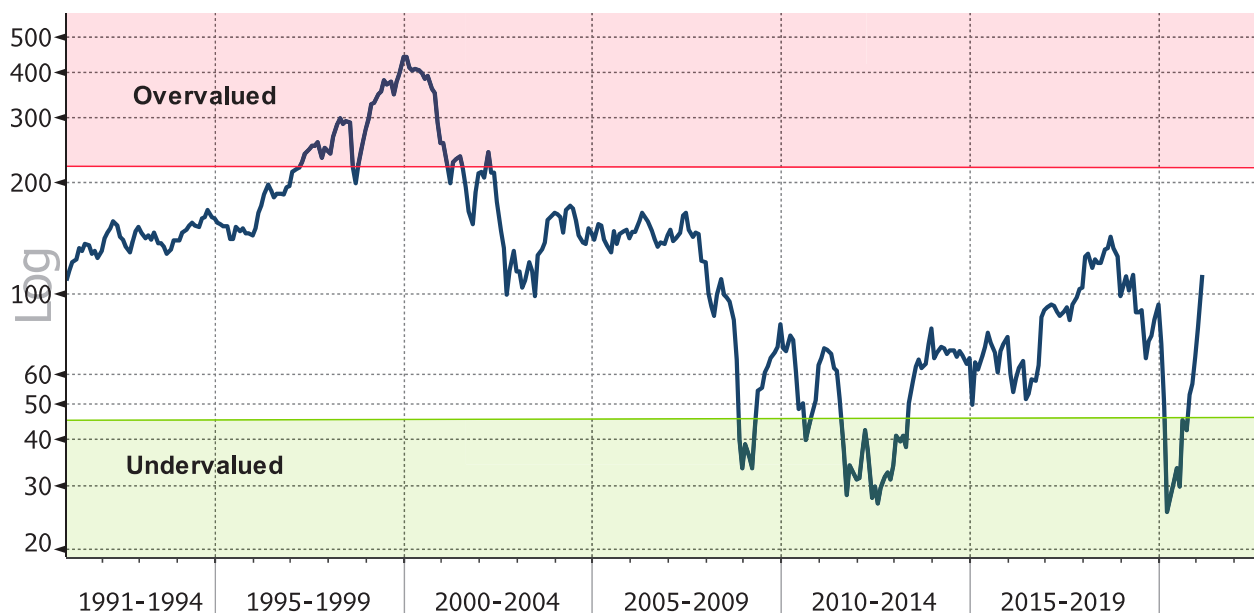
Most of the S&P 500 sectors have moved into the fair-value range with two of the sectors, Consumer Discretionary and Financials, in the overvalued range. The TSX is more mixed with three sectors still in the undervalue range, three in the overvalued range, and the remaining four in the fair-value range along with the TSX index.

S&P 500

S&P 500 Index

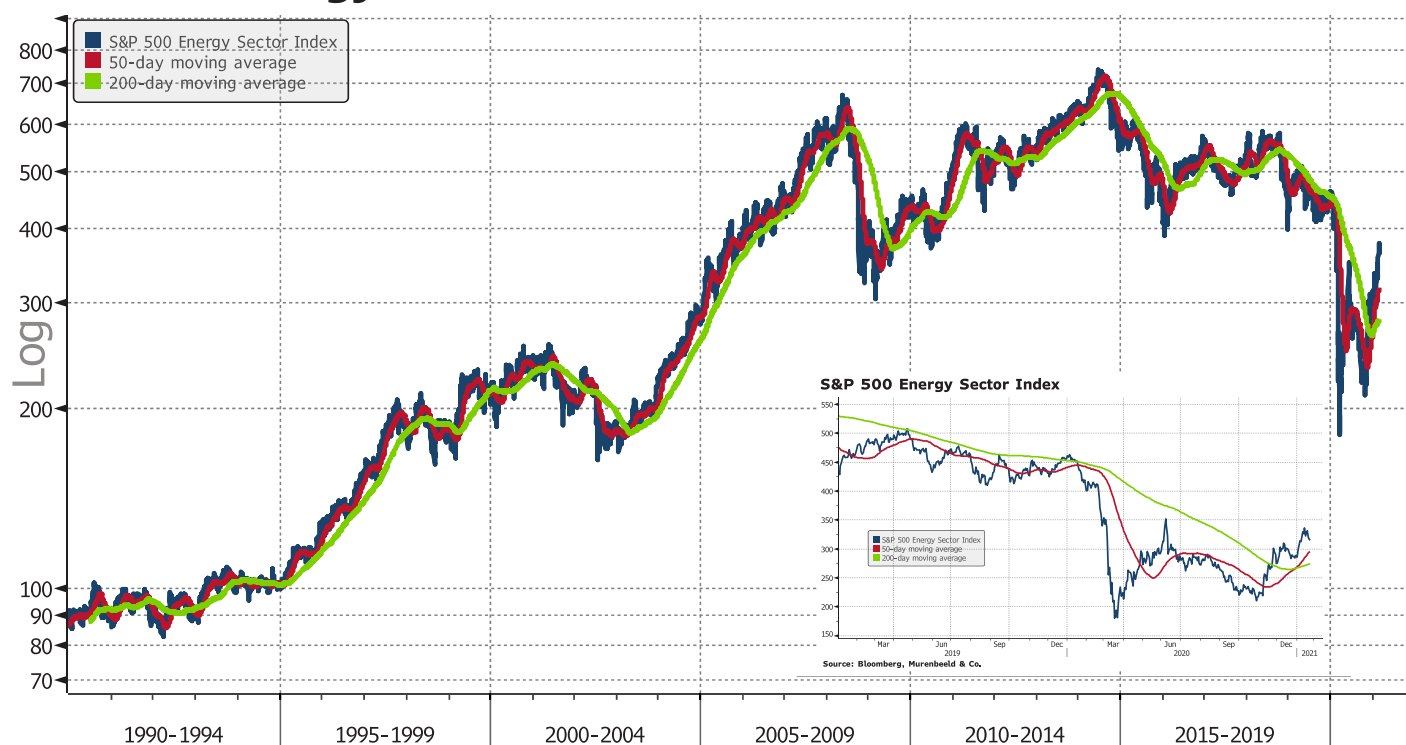


S&P 500 Index Model



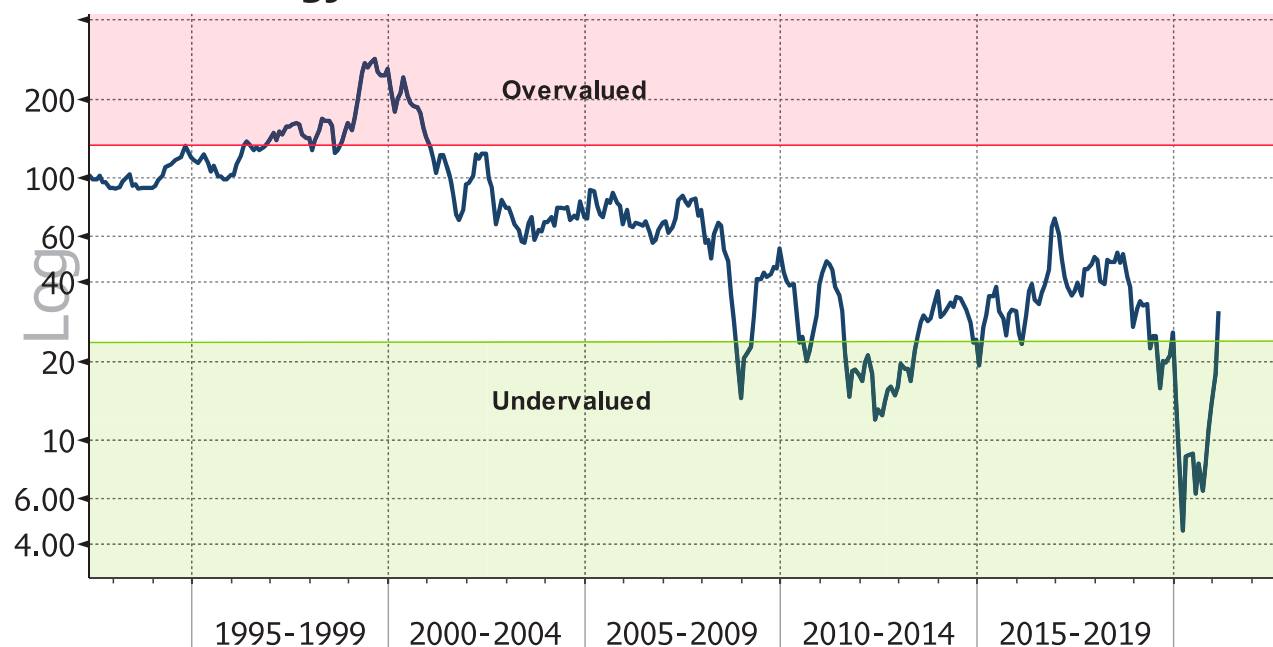
S&P 500

S&P 500 Energy Sector Index



Source: Bloomberg, Murenbeeld & Co.

S&P 500 Energy Sector Model

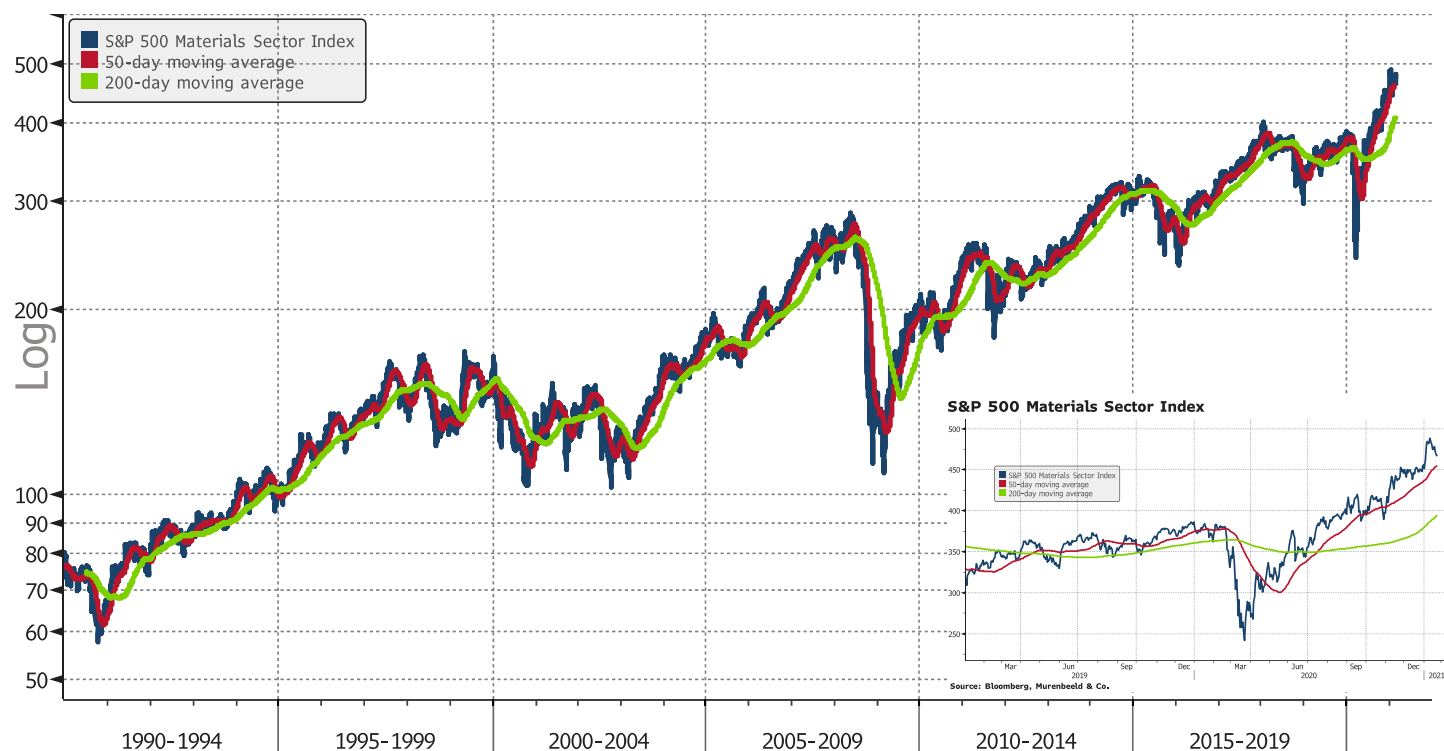


Source: Bloomberg, Murenbeeld & Co.

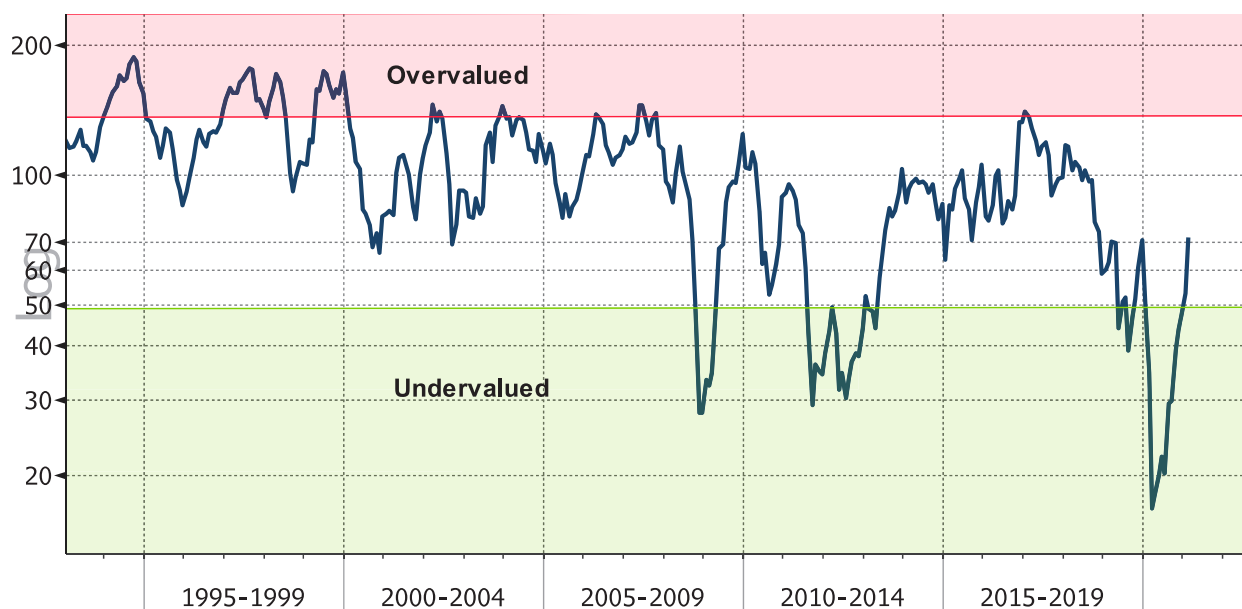
Due to a spike in the EV/EBITA for the S&P 500 Energy sector, the data was "capped" in the model for mid-2016.

S&P 500

S&P 500 Materials Sector Index

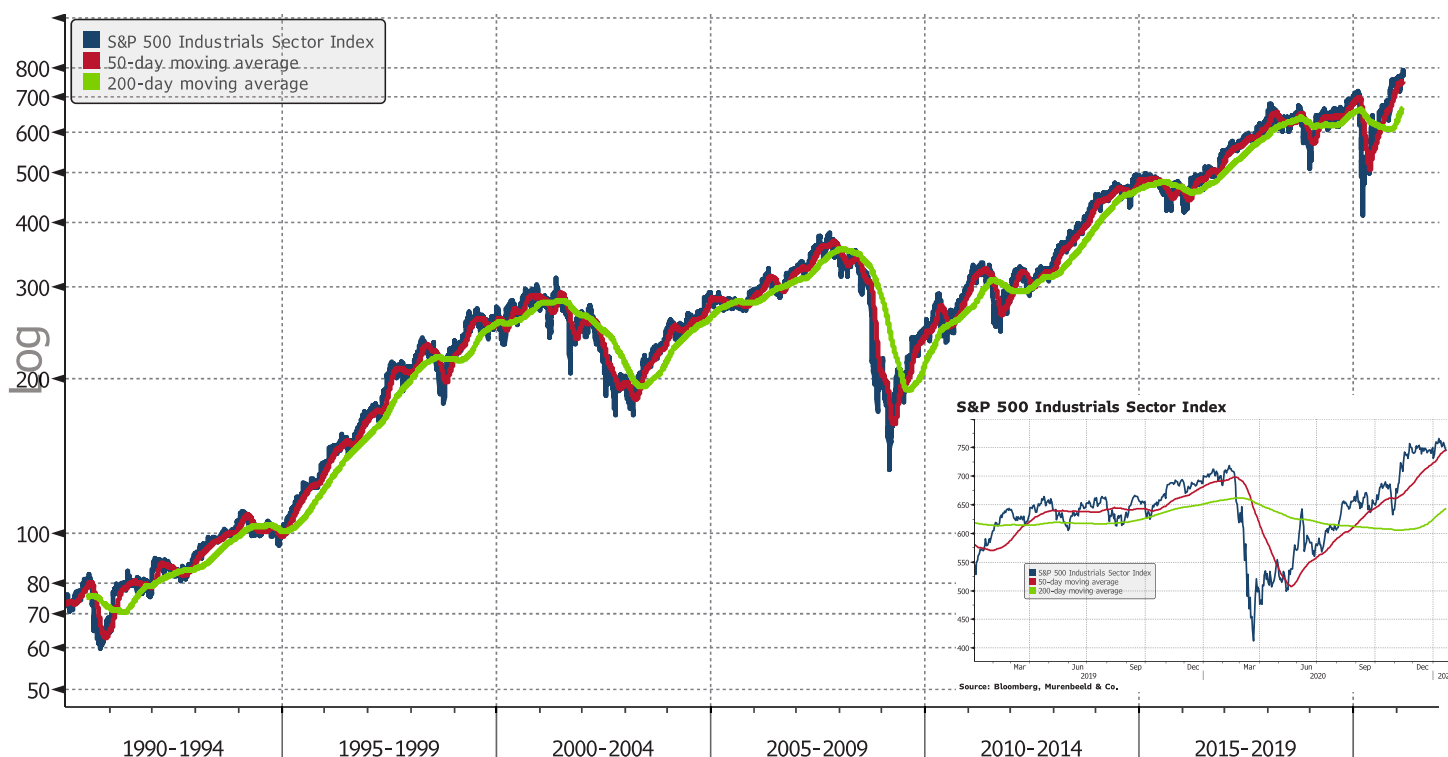


S&P 500 Materials Sector Model

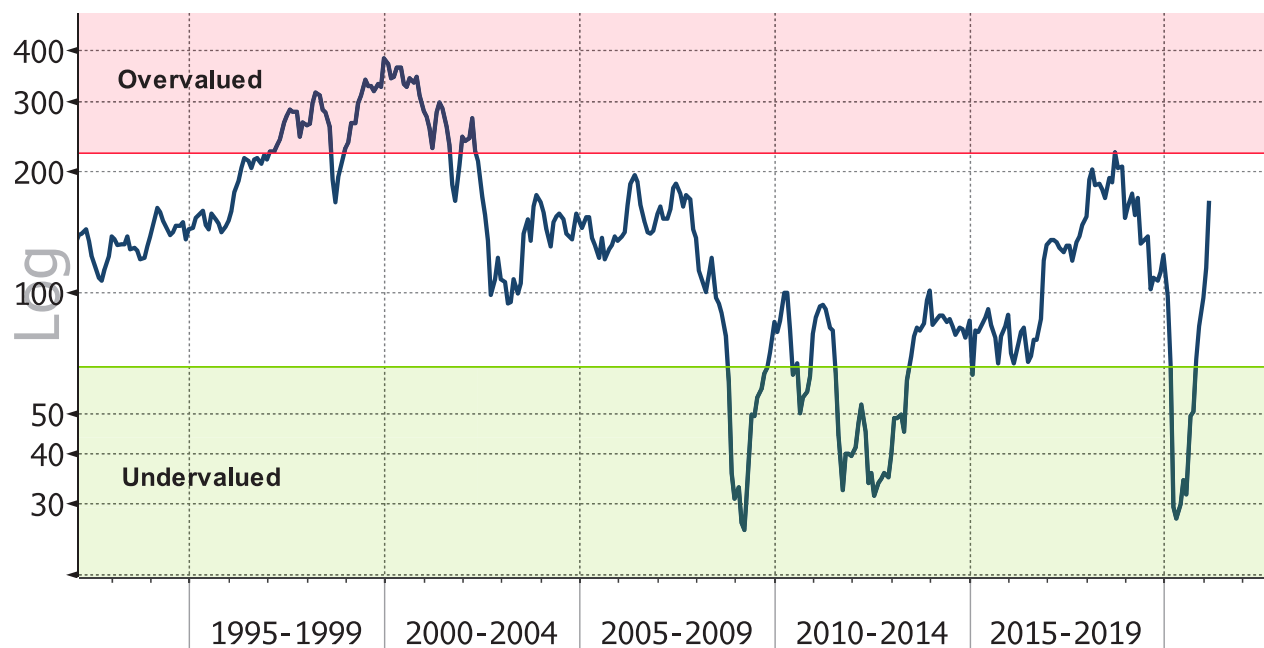


S&P 500

S&P 500 Industrials Sector Index

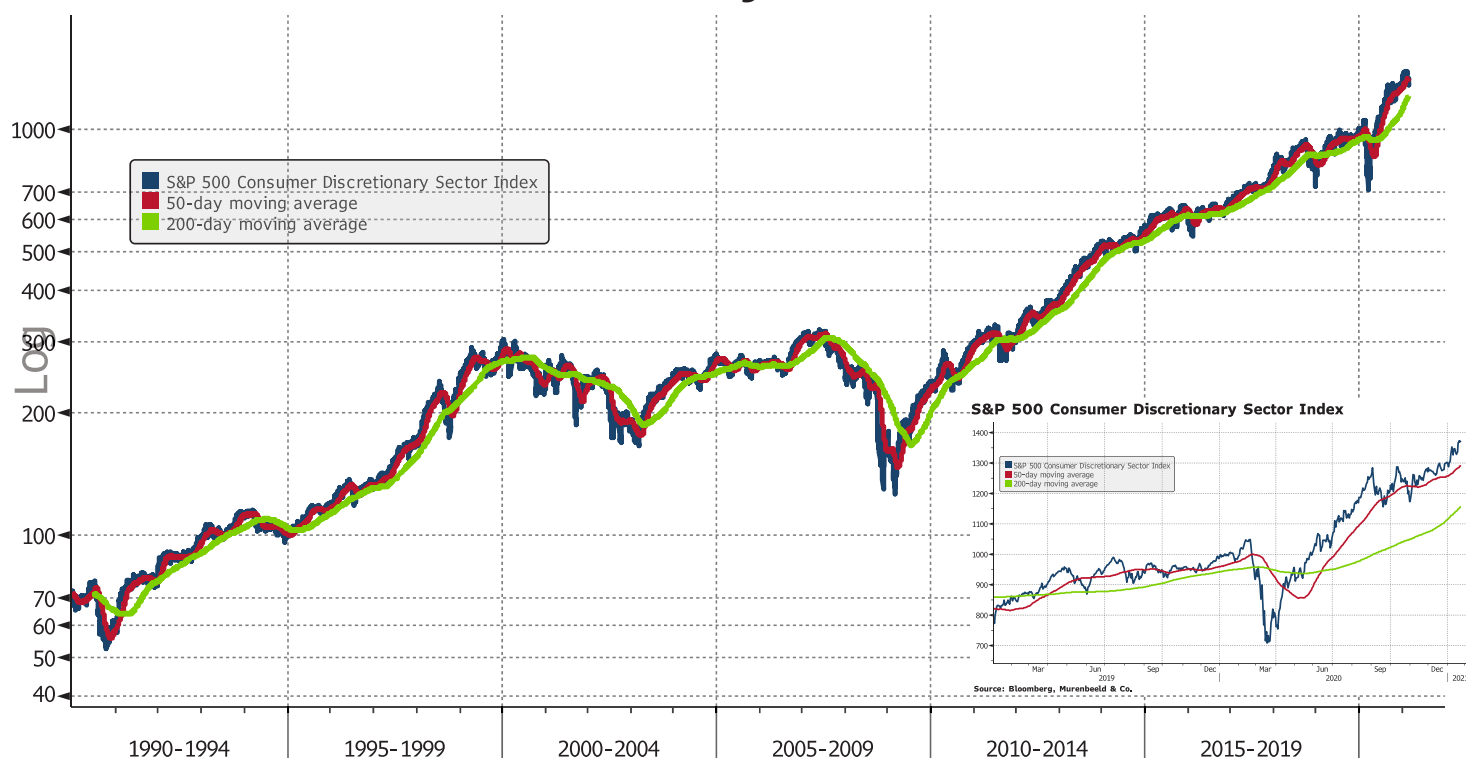


S&P 500 Industrials Sector Model



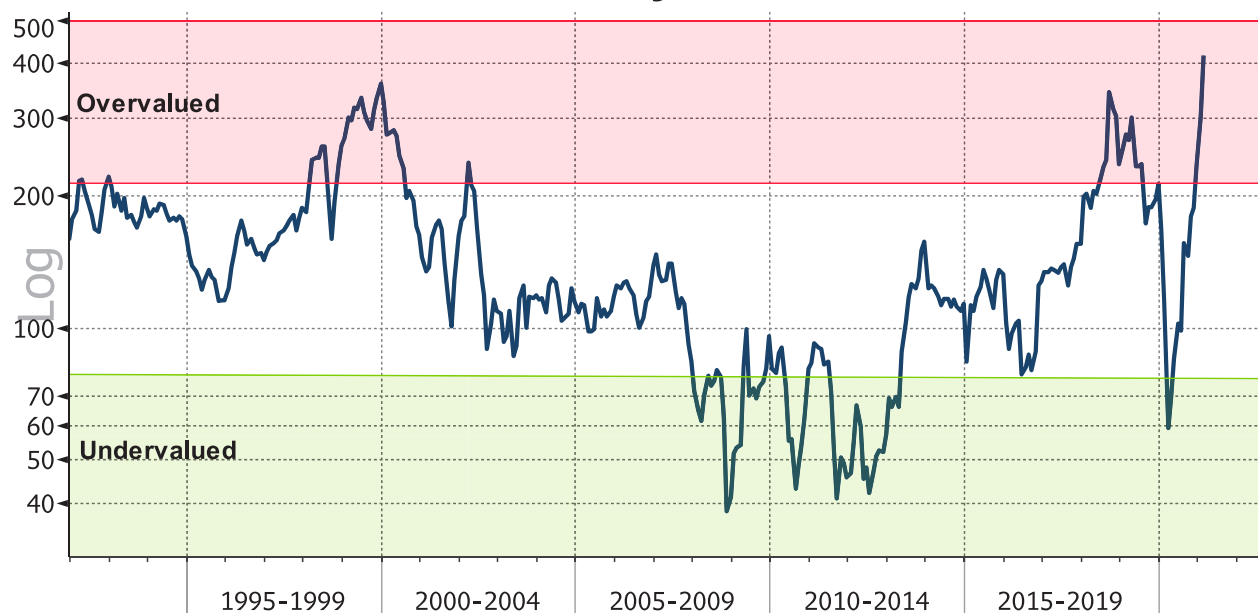
S&P 500

S&P 500 Consumer Discretionary Sector Index



Source: Bloomberg, Murenbeeld & Co.

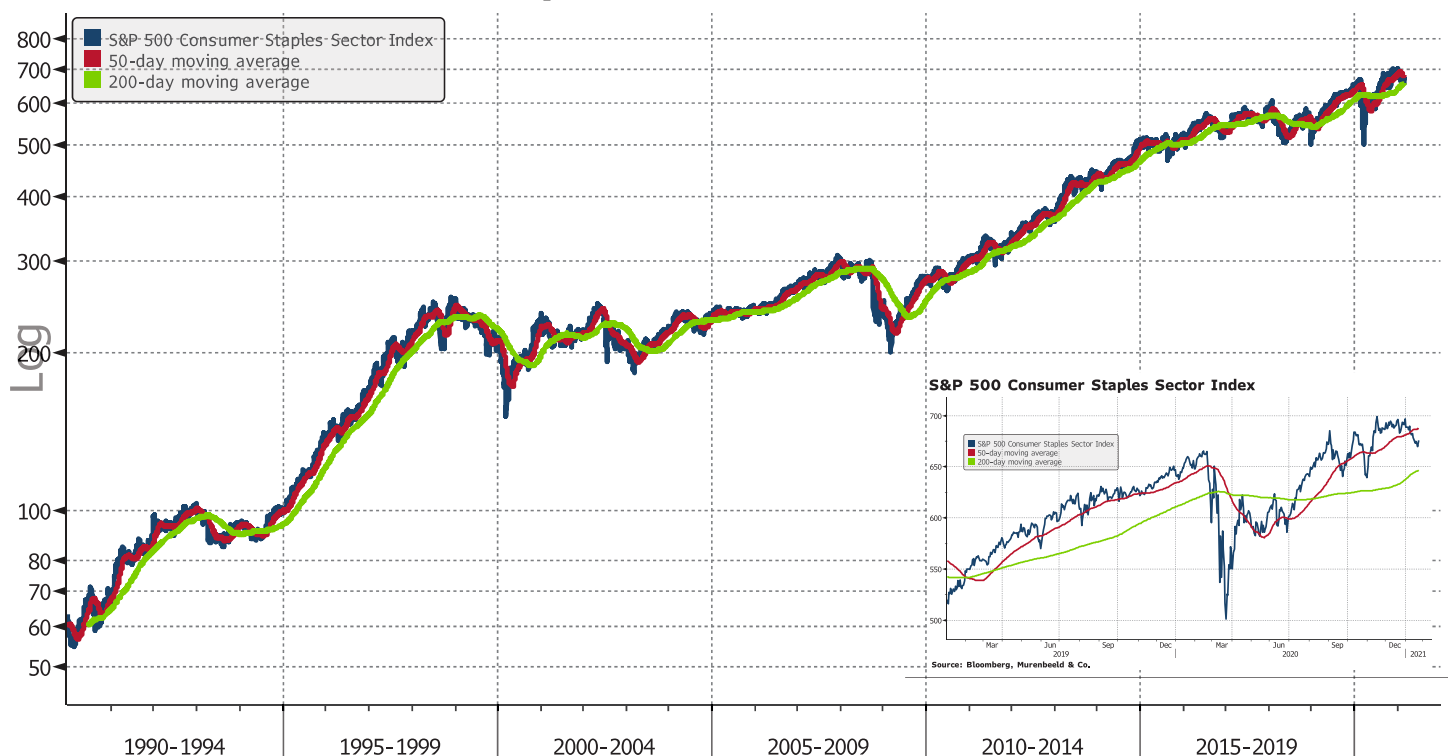
S&P 500 Consumer Discretionary Sector Model



Source: Bloomberg, Murenbeeld & Co.

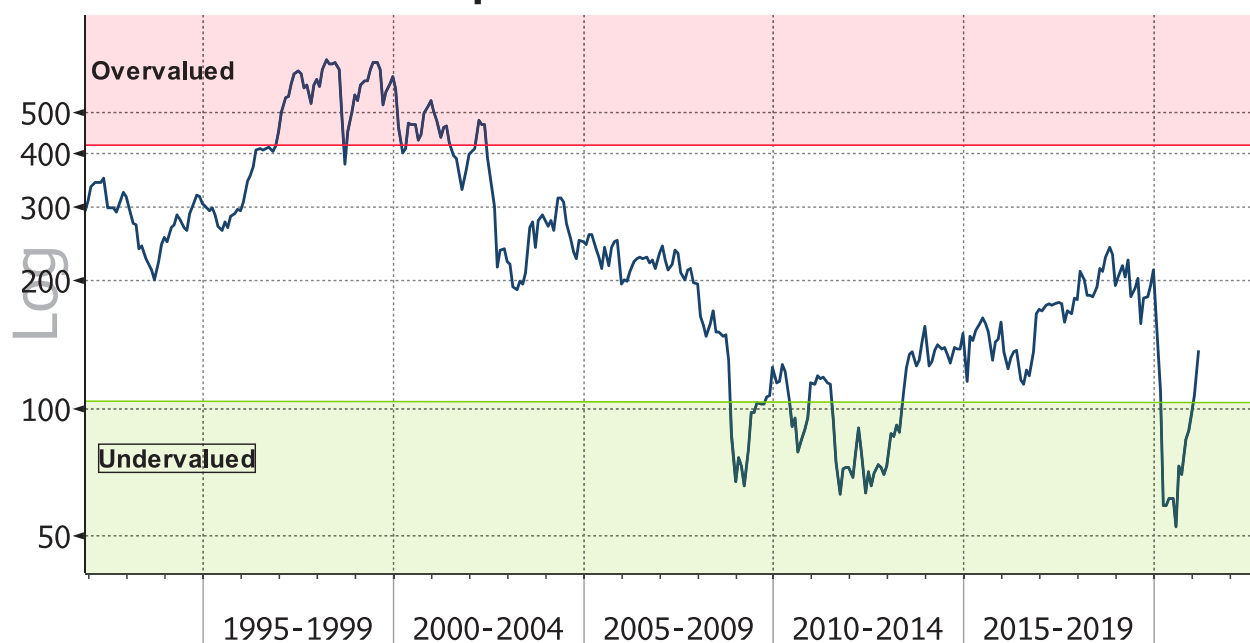
S&P 500

S&P 500 Consumer Staples Sector Index



Source: Bloomberg, Murenbeeld & Co.

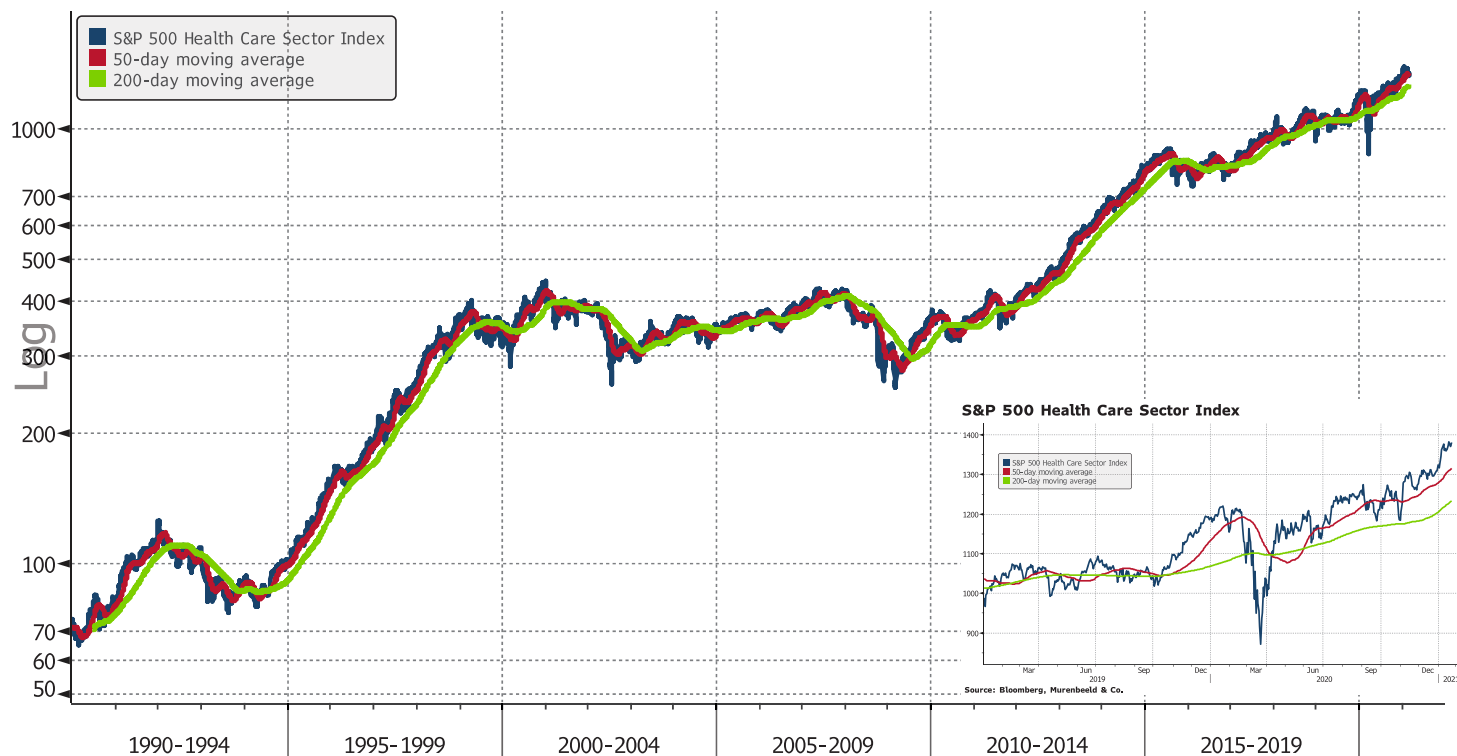
S&P 500 Consumer Staples Sector Model



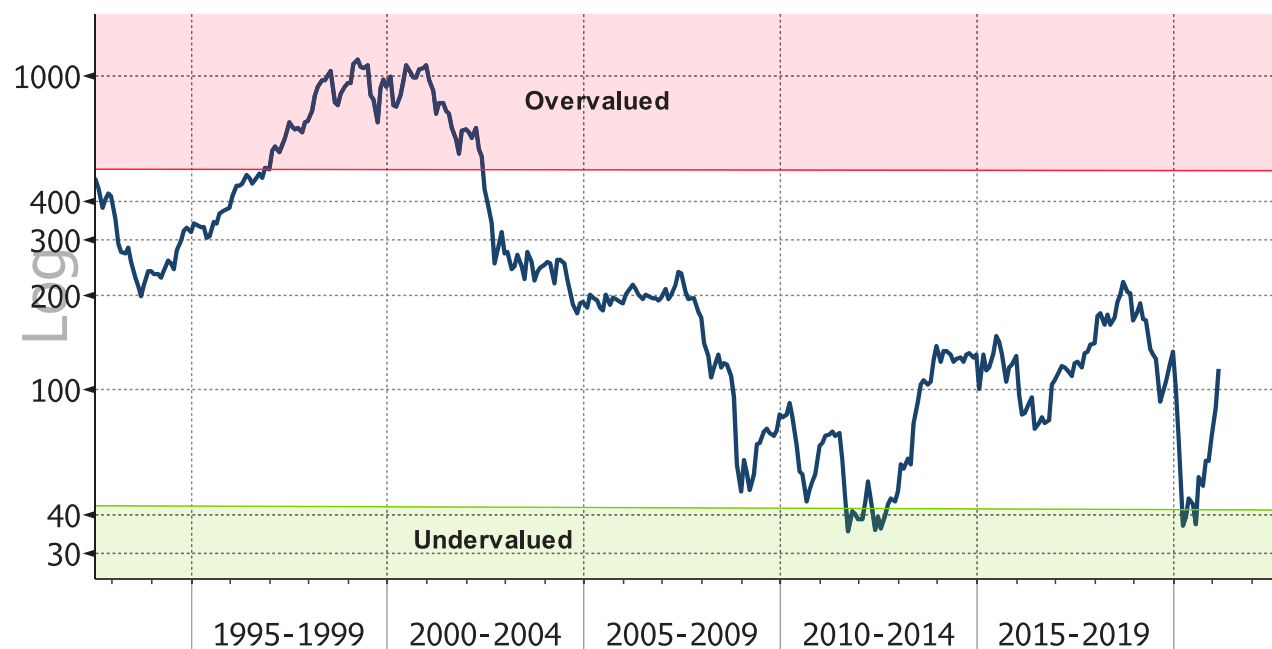
Source: Bloomberg, Murenbeeld & Co.

S&P 500

S&P 500 Health Care Sector Index

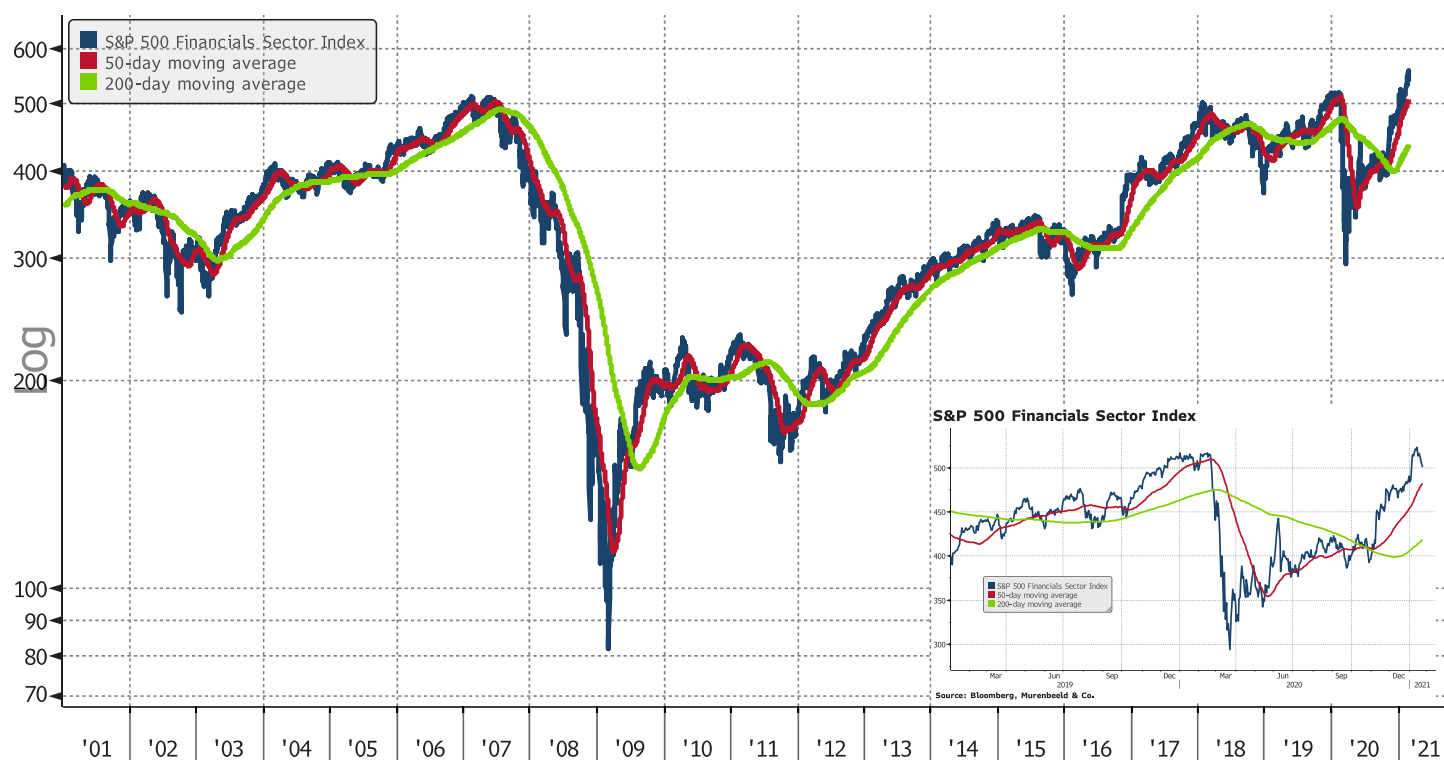


S&P 500 Health Care Sector Model



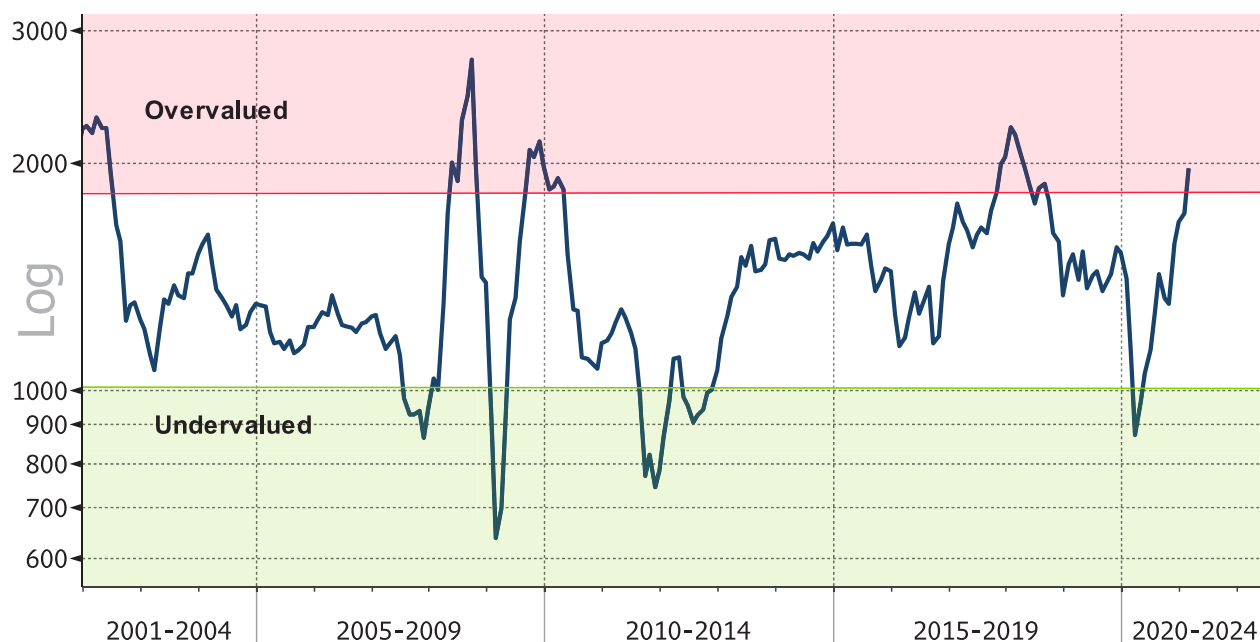
S&P 500

S&P 500 Financials Sector Index



Source: Bloomberg, Murenbeeld & Co.

S&P 500 Financials Sector Model

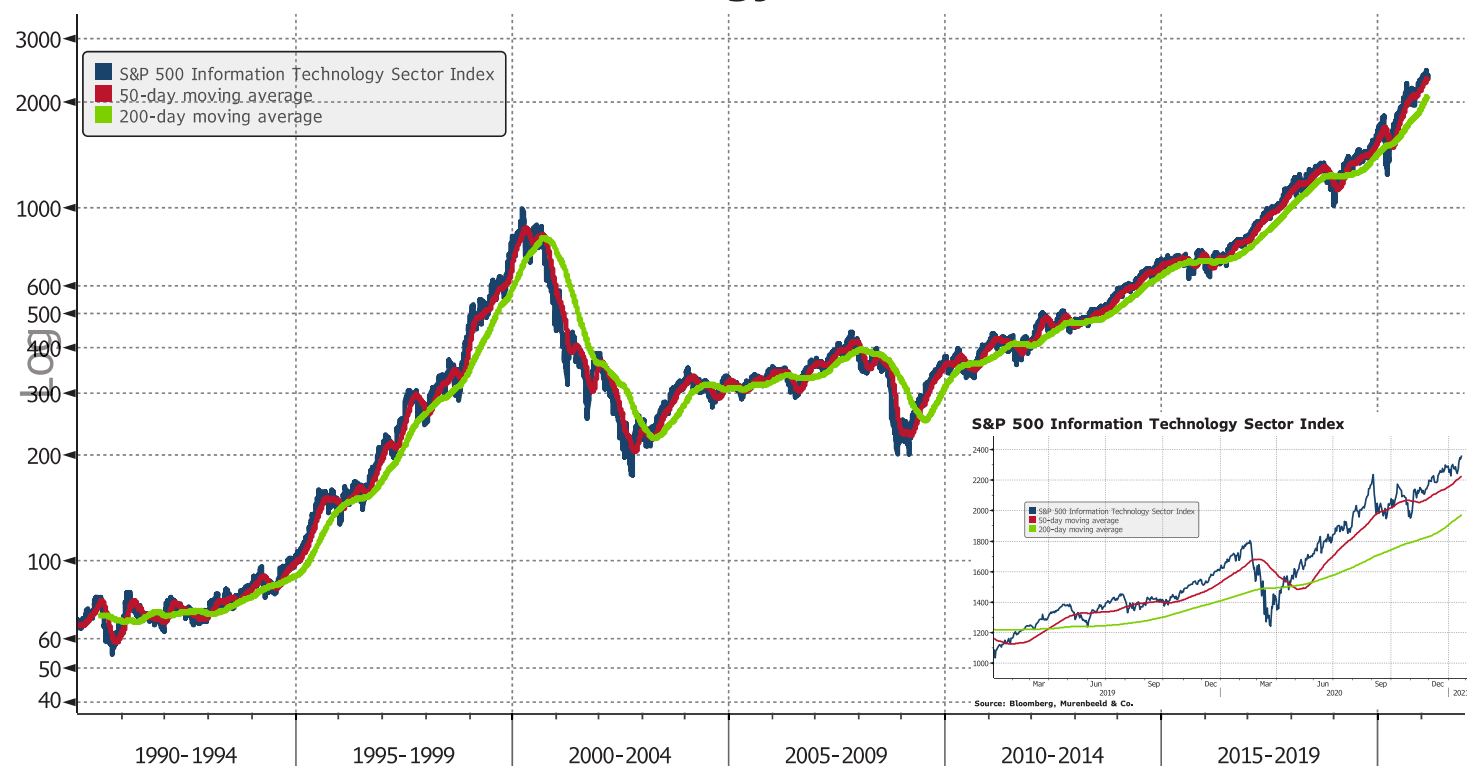


Source: Bloomberg, Murenbeeld & Co.

Due to wild swings in the EBIT for the S&P 500 financials sector, the variable was "capped" in the model for the end of 2008 and beginning of 2009.

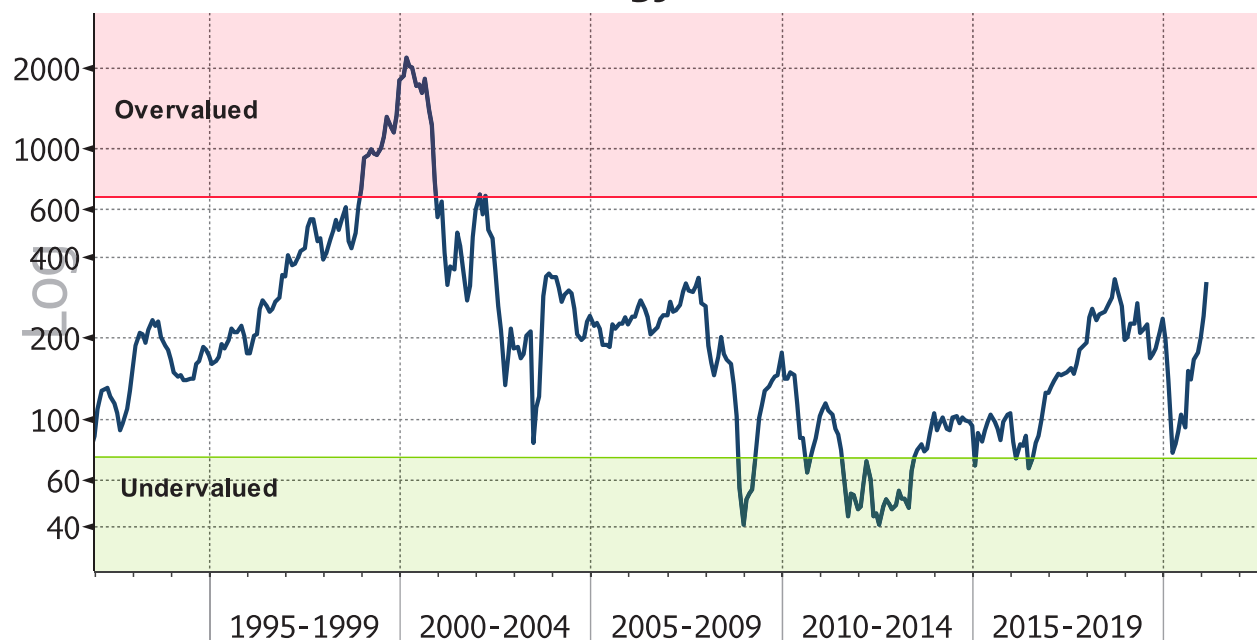
S&P 500

S&P 500 Information Technology Sector Index



Source: Bloomberg, Murenbeeld & Co.

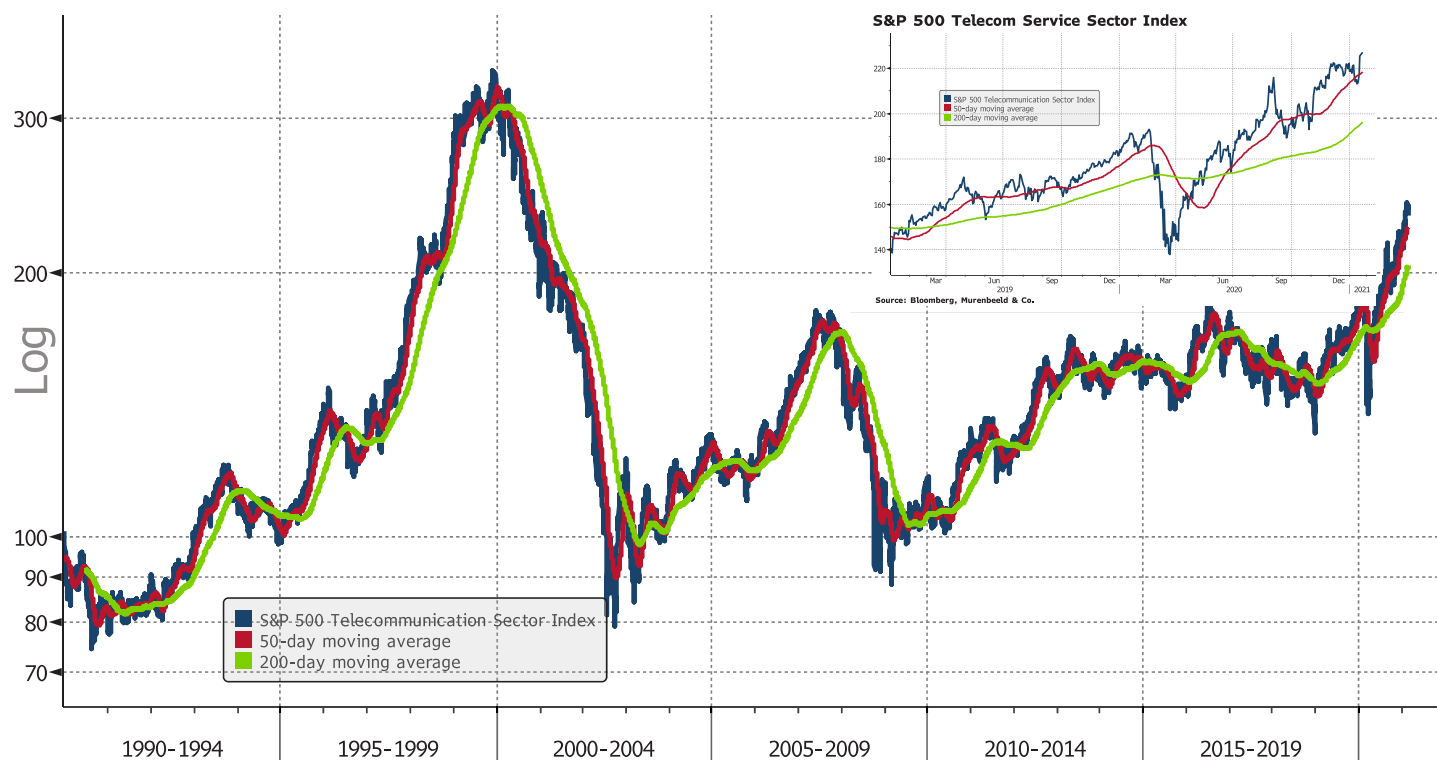
S&P 500 Information Technology Sector Model



Source: Bloomberg, Murenbeeld & Co.

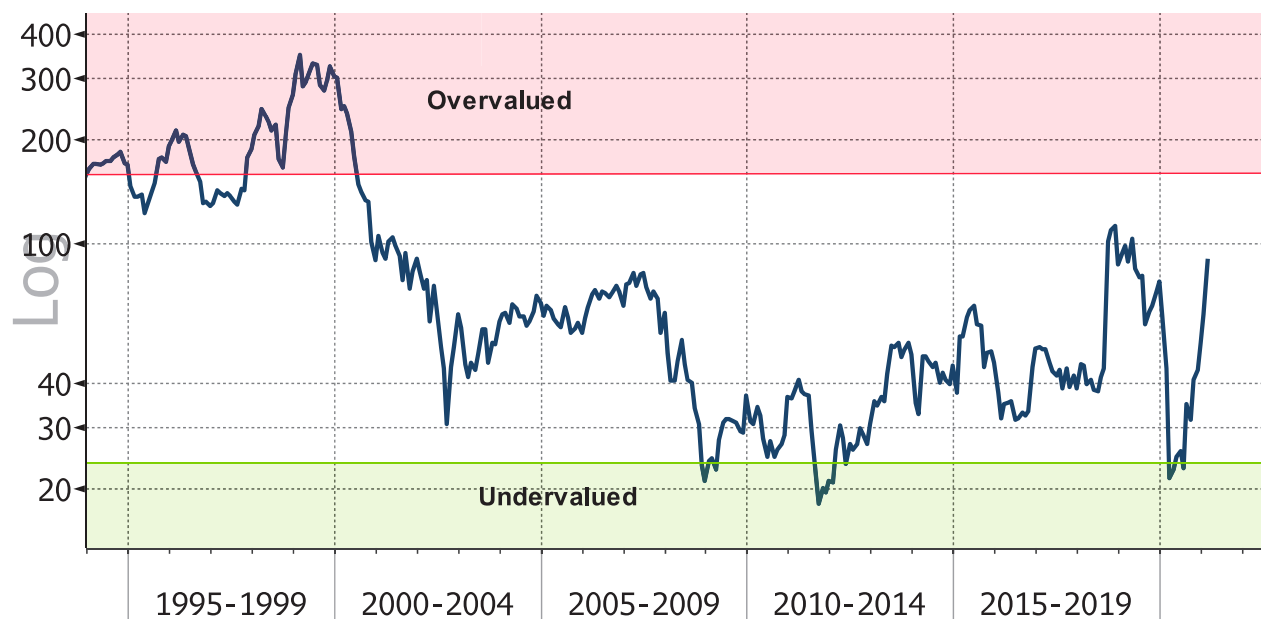
S&P 500

S&P 500 Telecom Service Sector Index



Source: Bloomberg, Murenbeeld & Co.

S&P 500 Telecom Service Sector Model



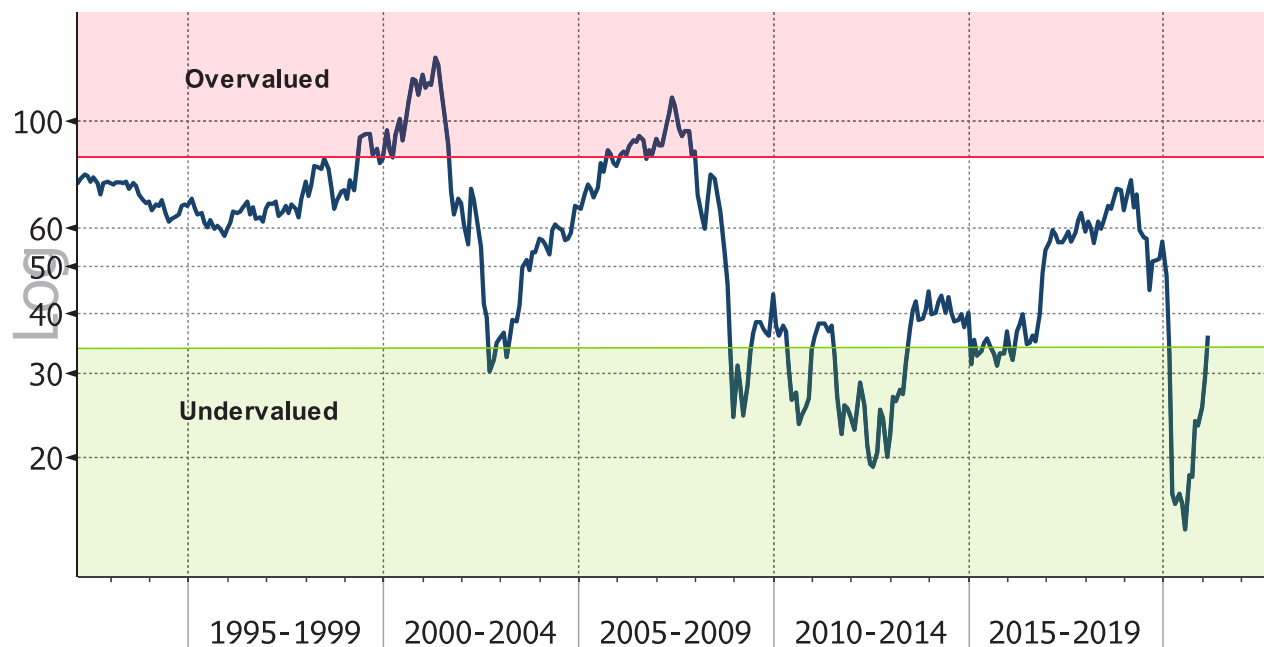
Source: Bloomberg, Murenbeeld & Co.

S&P 500

S&P 500 Utilities Sector Index

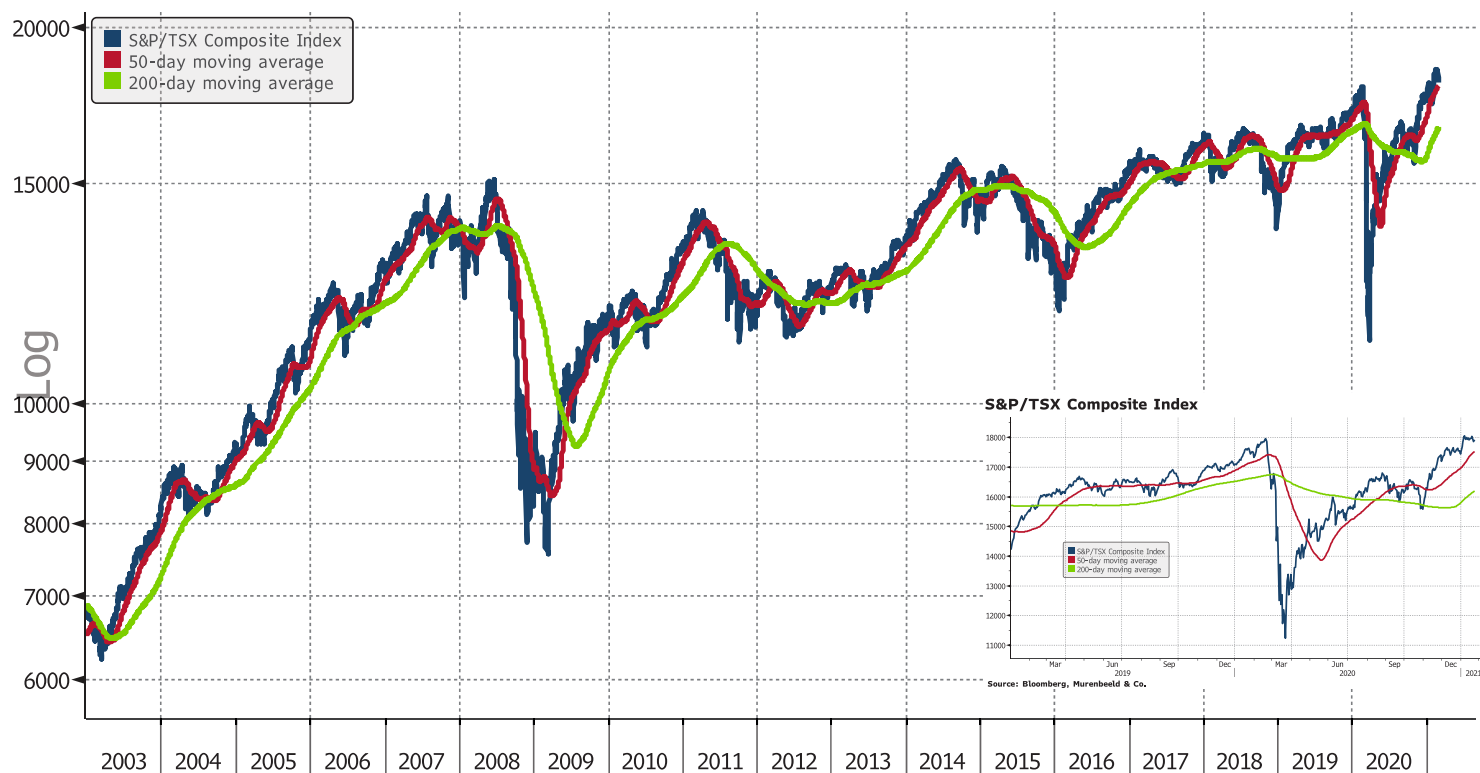


S&P 500 Utilities Sector Model



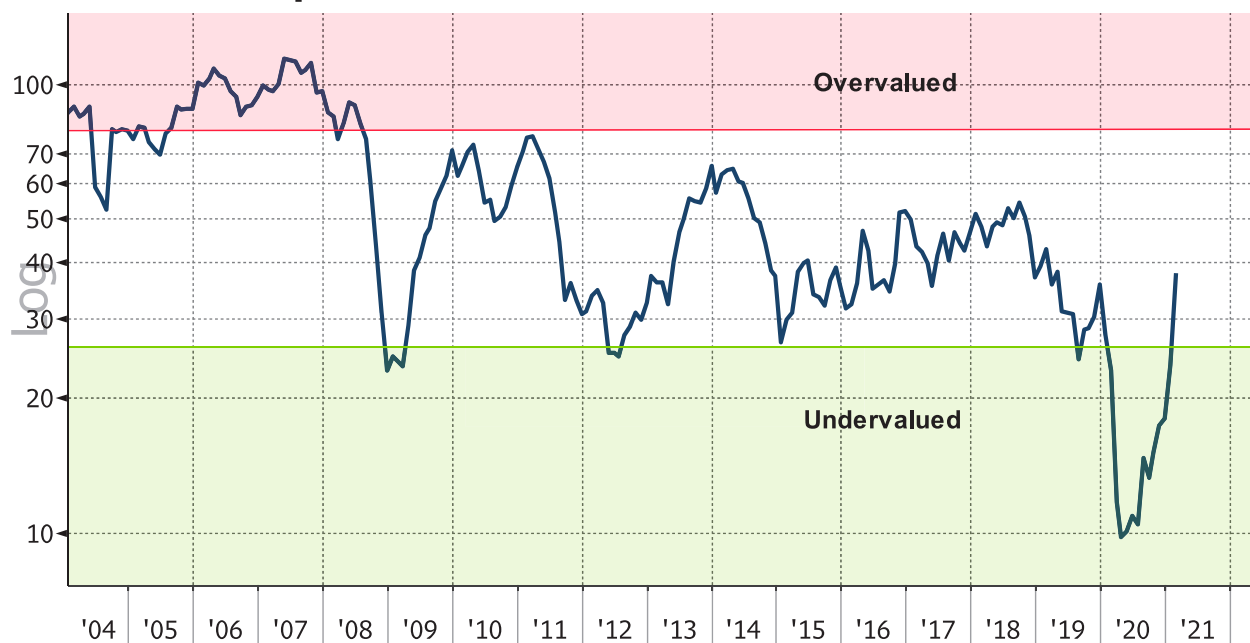
S&P/TSX

S&P/TSX Composite Index



Source: Bloomberg, Murenbeeld & Co.

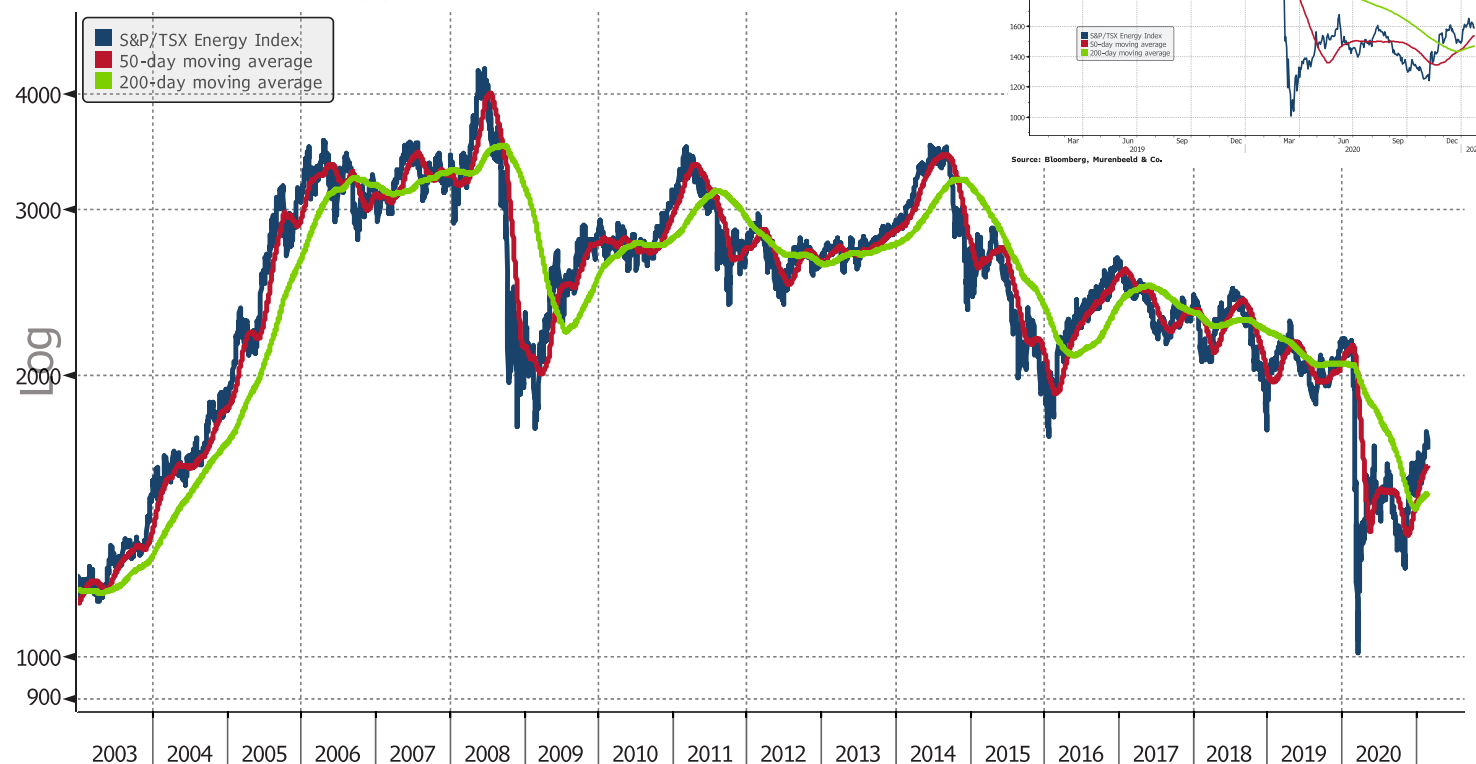
S&P/TSX Composite Index Model



Source: Bloomberg, Murenbeeld & Co.

S&P/TSX

S&P/TSX Energy Sector Index



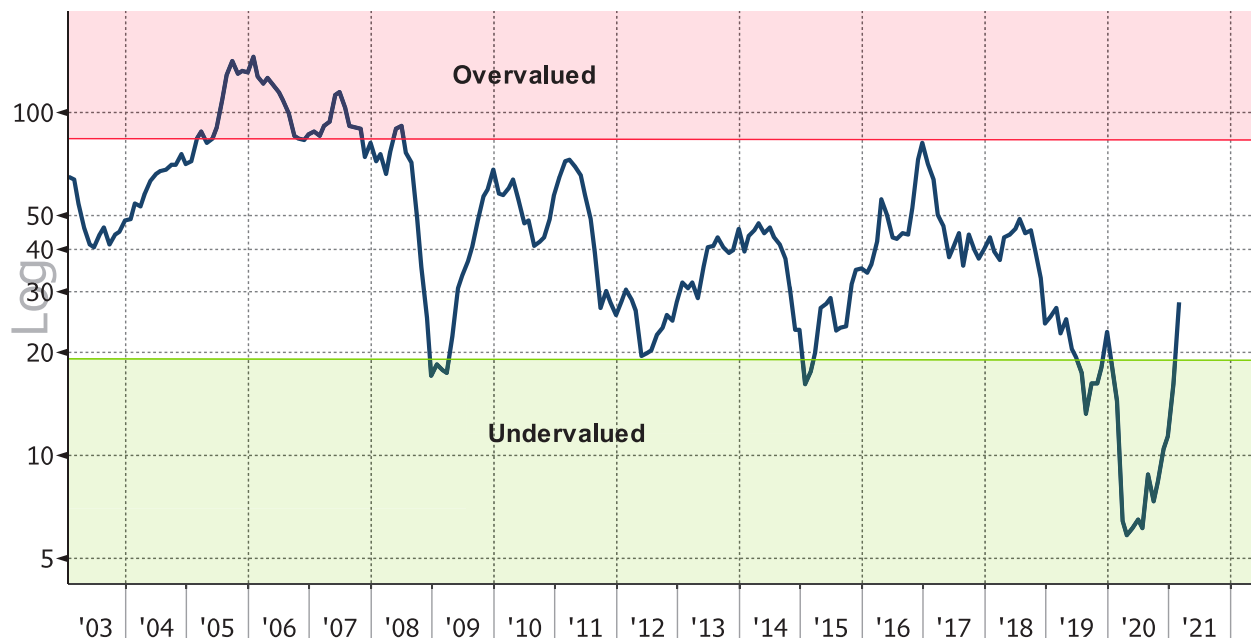
Source: Bloomberg, Murenbeeld & Co.

S&P/TSX Energy Sector Index



Source: Bloomberg, Murenbeeld & Co.

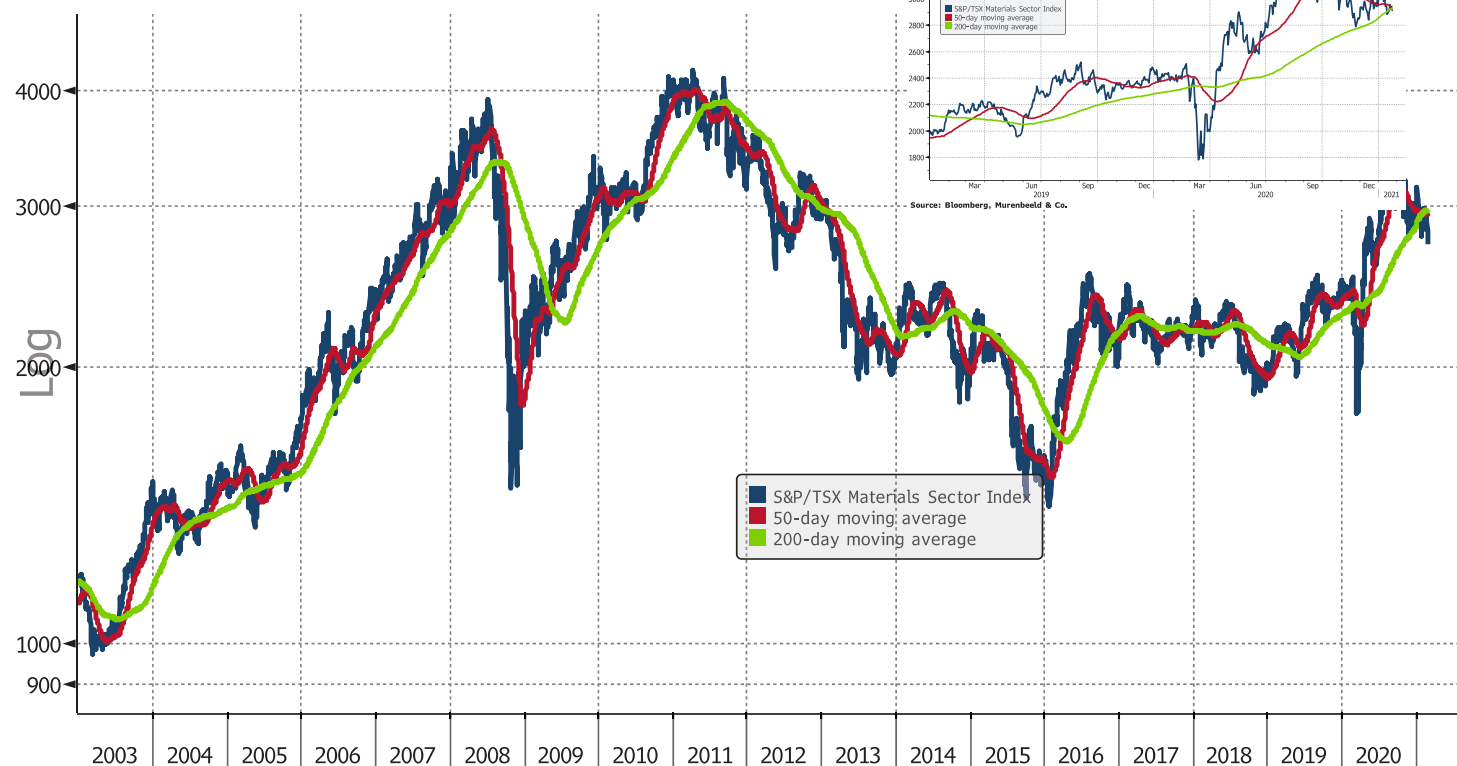
S&P/TSX Energy Sector Model



Source: Bloomberg, Murenbeeld & Co.

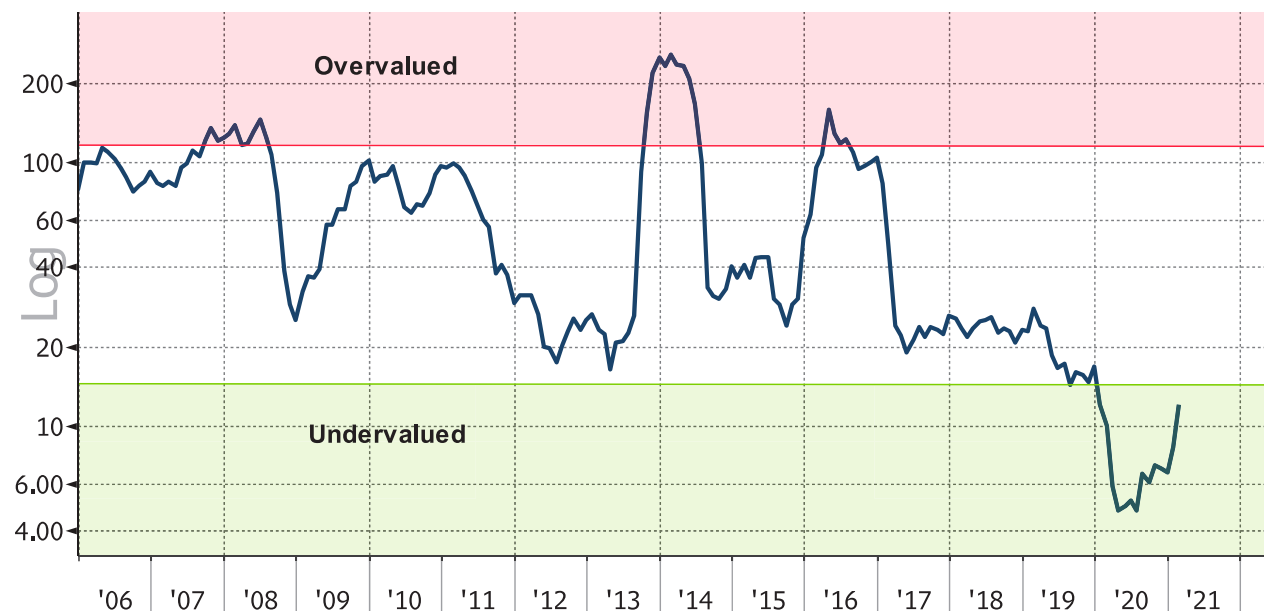
S&P/TSX

S&P/TSX Materials Sector Index



Source: Bloomberg, Murenbeeld & Co.

S&P/TSX Materials Sector Model

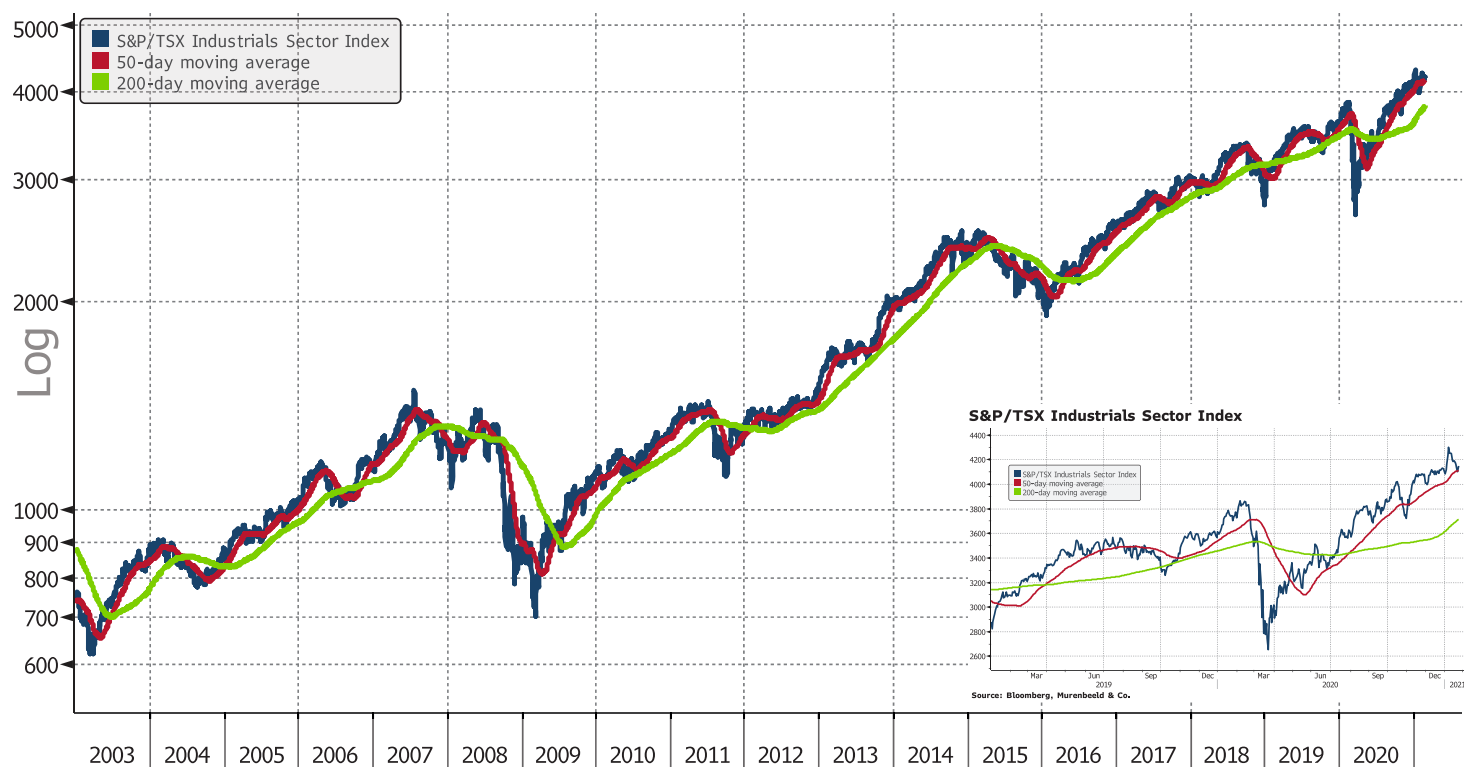


Source: Bloomberg, Murenbeeld & Co.

Due to a spike in the EV/EBITA for the TSX Materials sector, the data was "capped" in the model for the beginning of 2016.

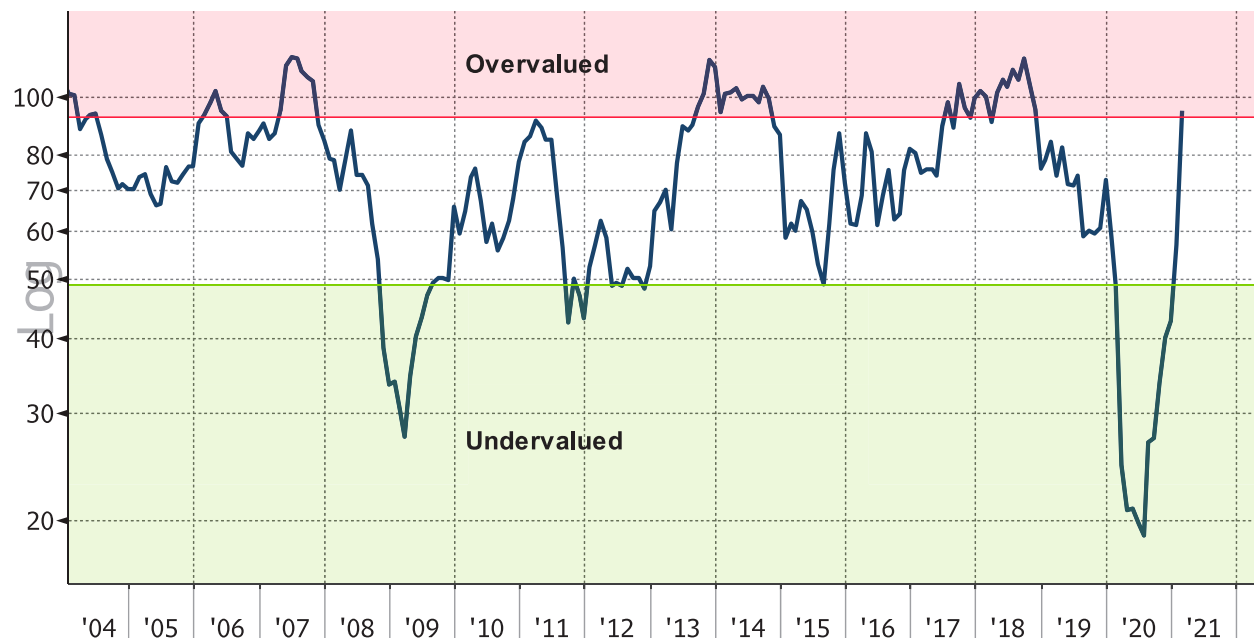
S&P/TSX

S&P/TSX Industrials Sector Index



Source: Bloomberg, Murenbeeld & Co.

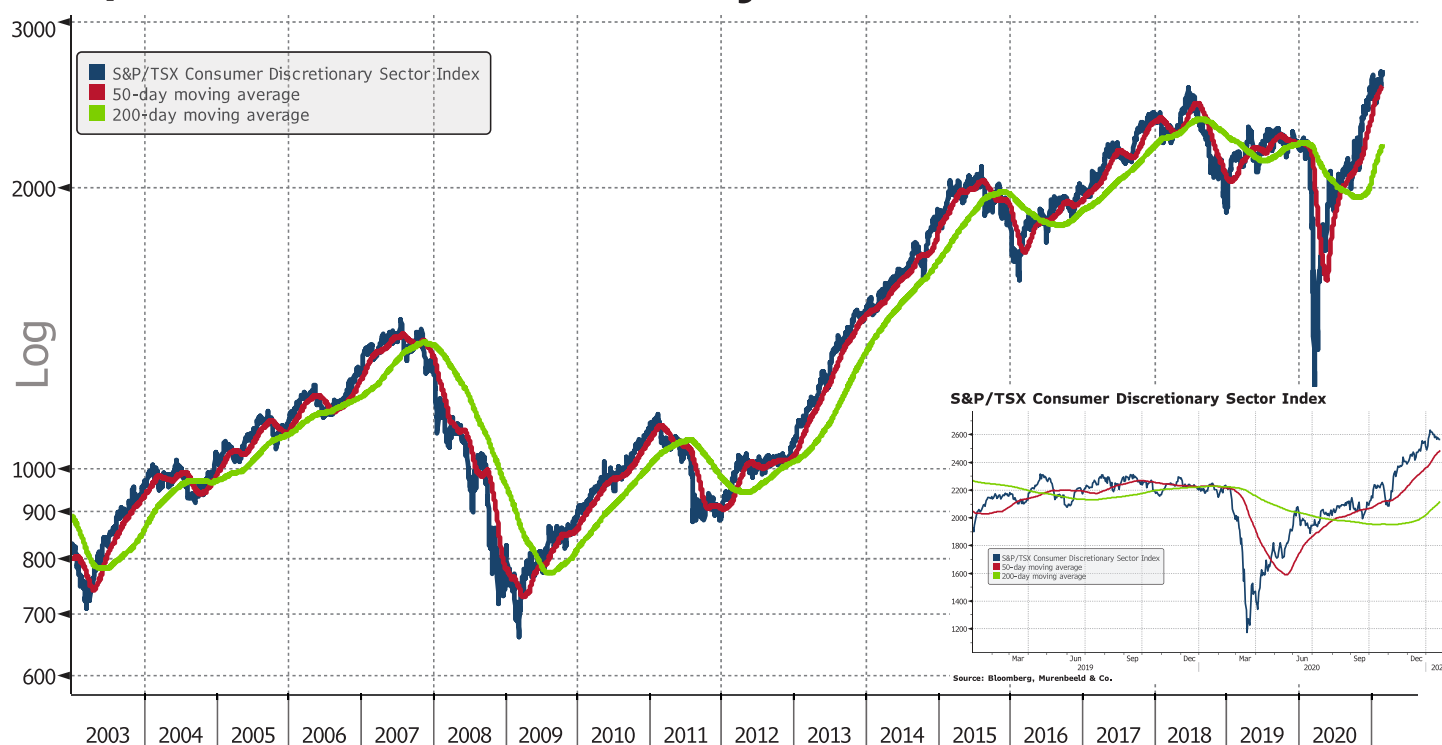
S&P/TSX Industrials Sector Model



Source: Bloomberg, Murenbeeld & Co.

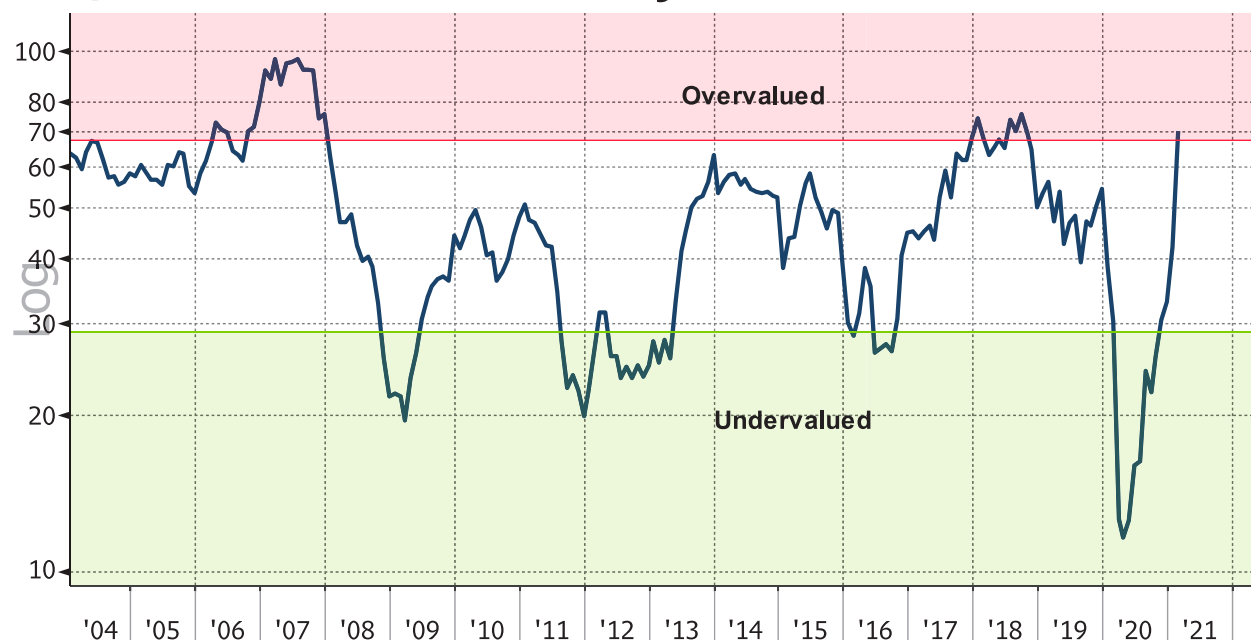
S&P/TSX

S&P/TSX Consumer Discretionary Sector Index



Source: Bloomberg, Murenbeeld & Co.

S&P/TSX Consumer Discretionary Sector Model



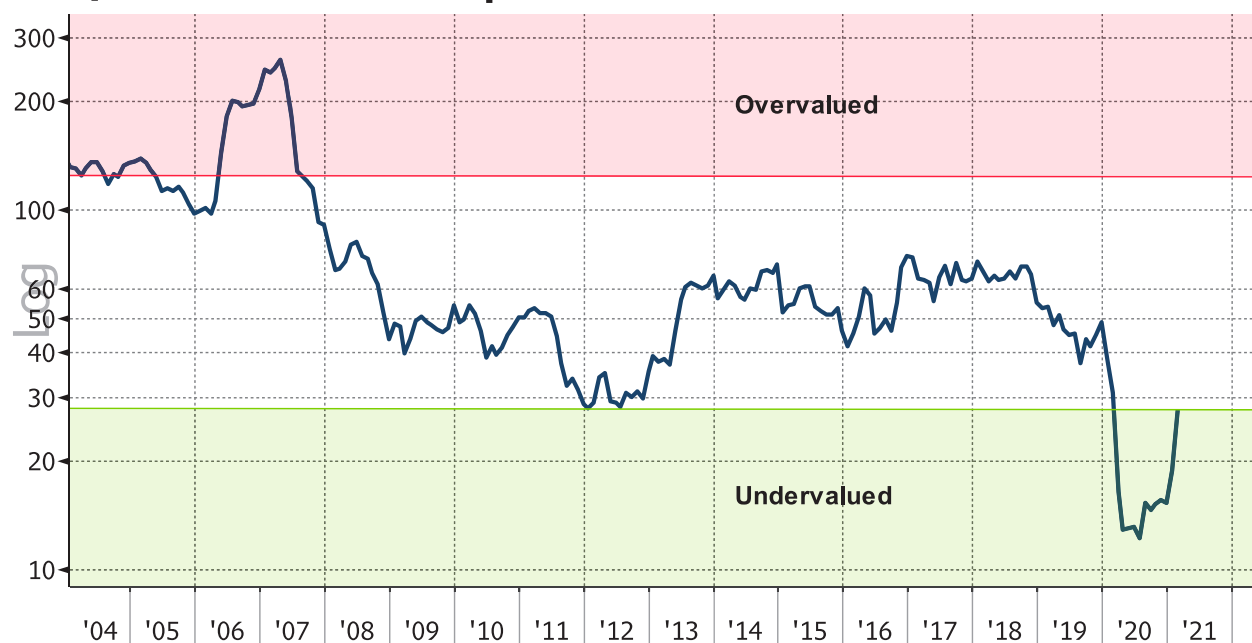
Source: Bloomberg, Murenbeeld & Co.

S&P/TSX

S&P/TSX Consumer Staples Sector Index



S&P/TSX Consumer Staples Sector Model

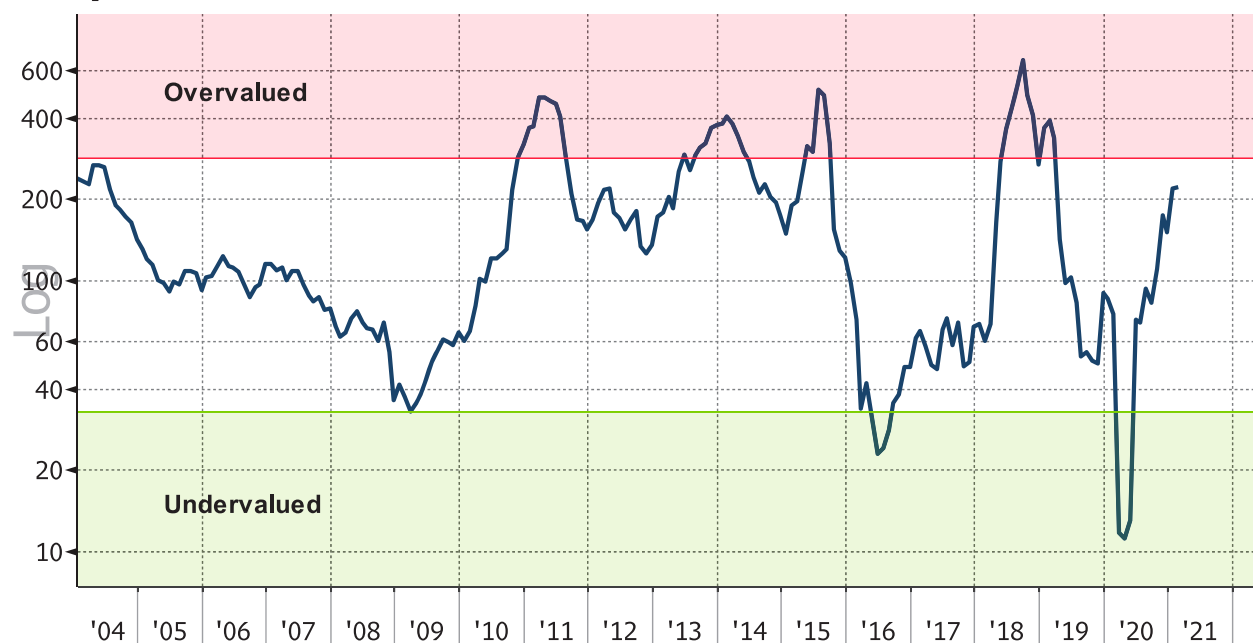


S&P/TSX

S&P/TSX Health Care Sector Index

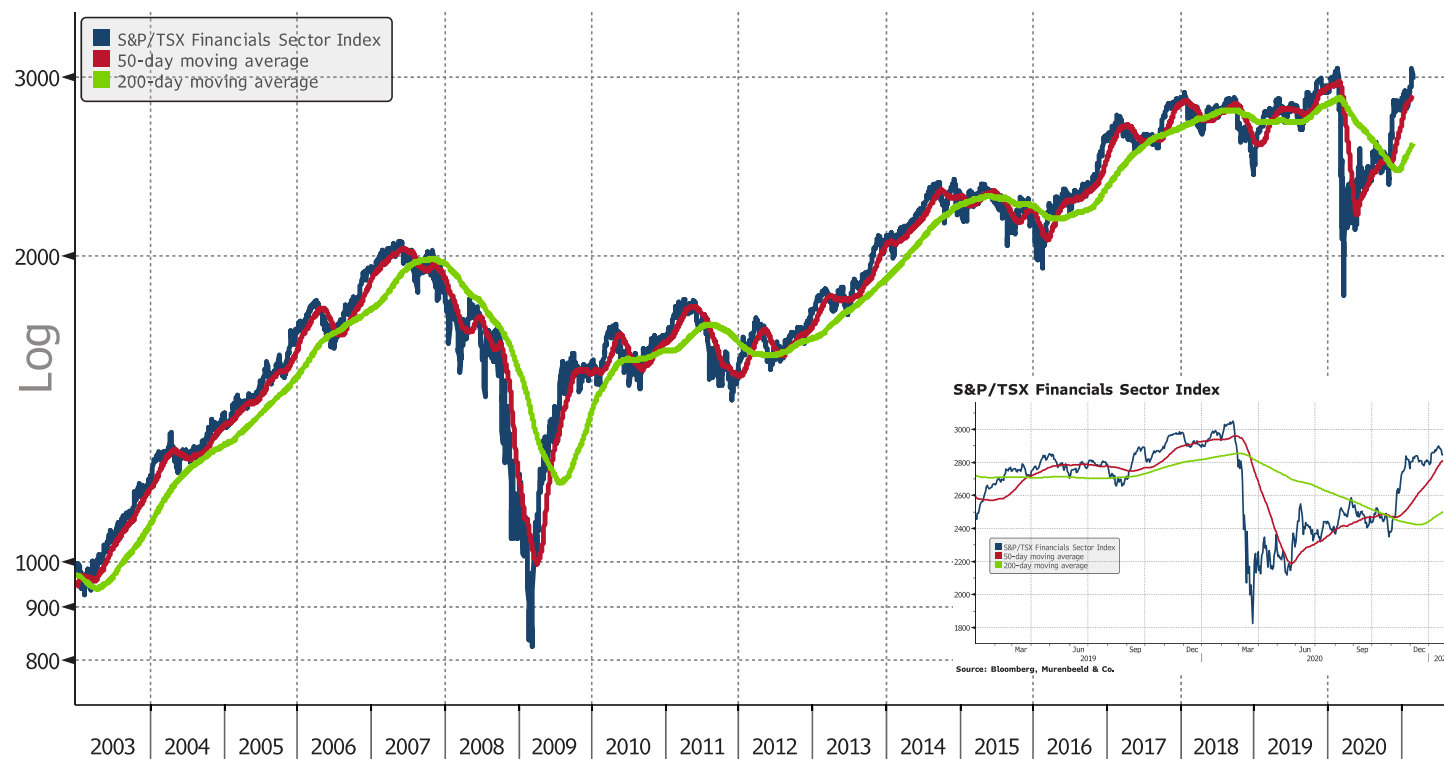


S&P/TSX Health Care Sector Model

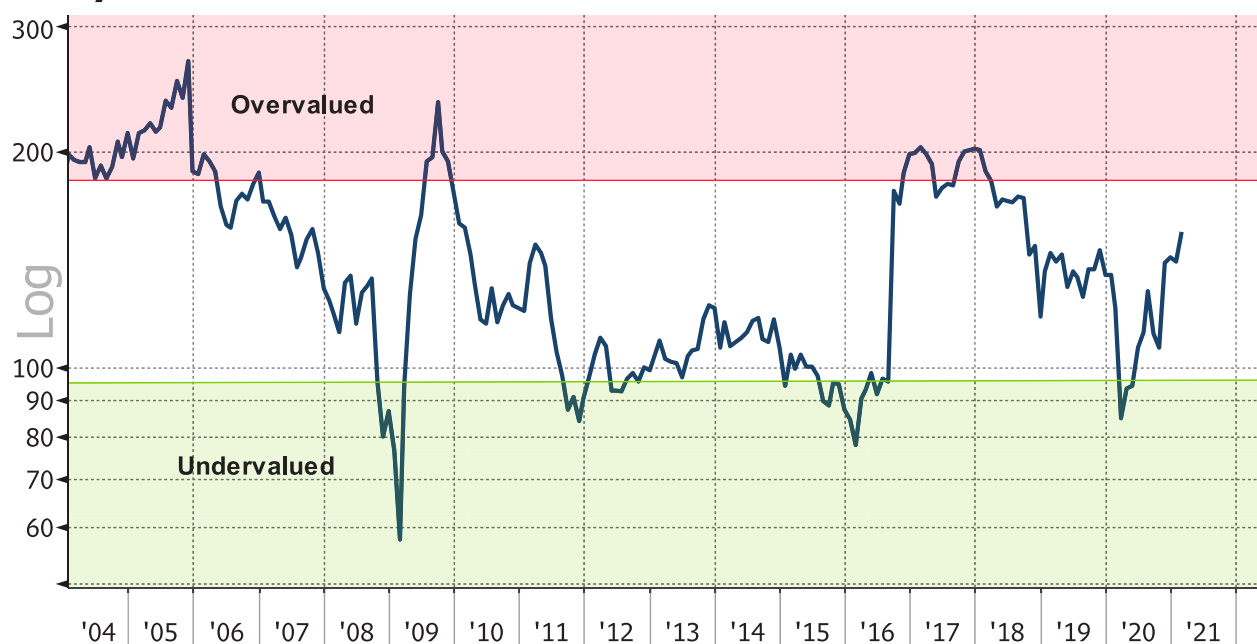


S&P/TSX

S&P/TSX Financials Sector Index



S&P/TSX Financials Sector Model



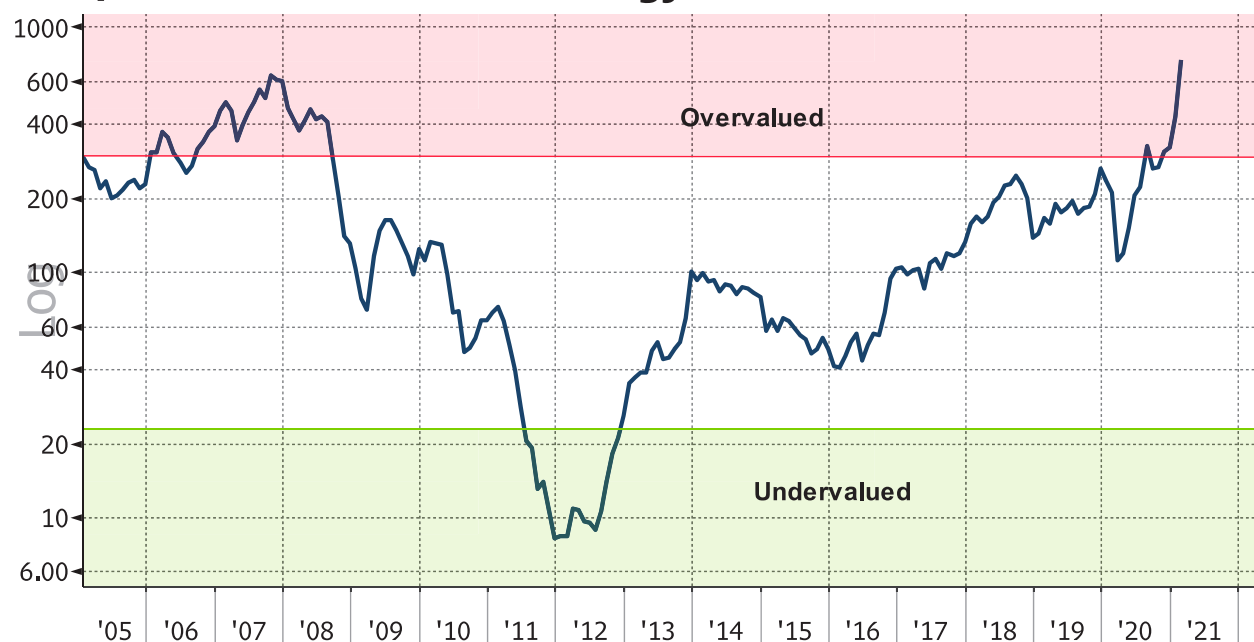
S&P/TSX

S&P/TSX Information Technology Sector Index



Source: Bloomberg, Murenbeeld & Co.

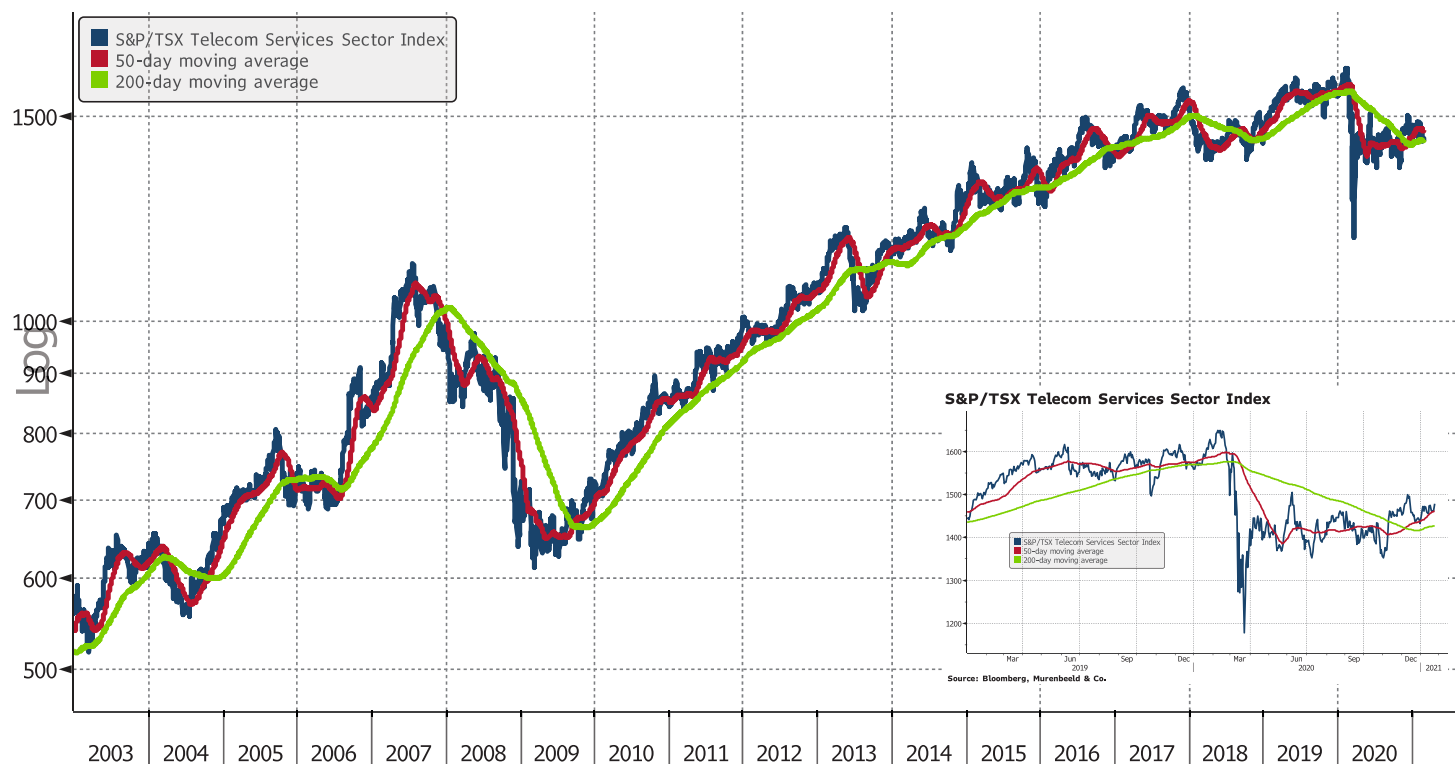
S&P/TSX Information Technology Sector Model



Source: Bloomberg, Murenbeeld & Co.

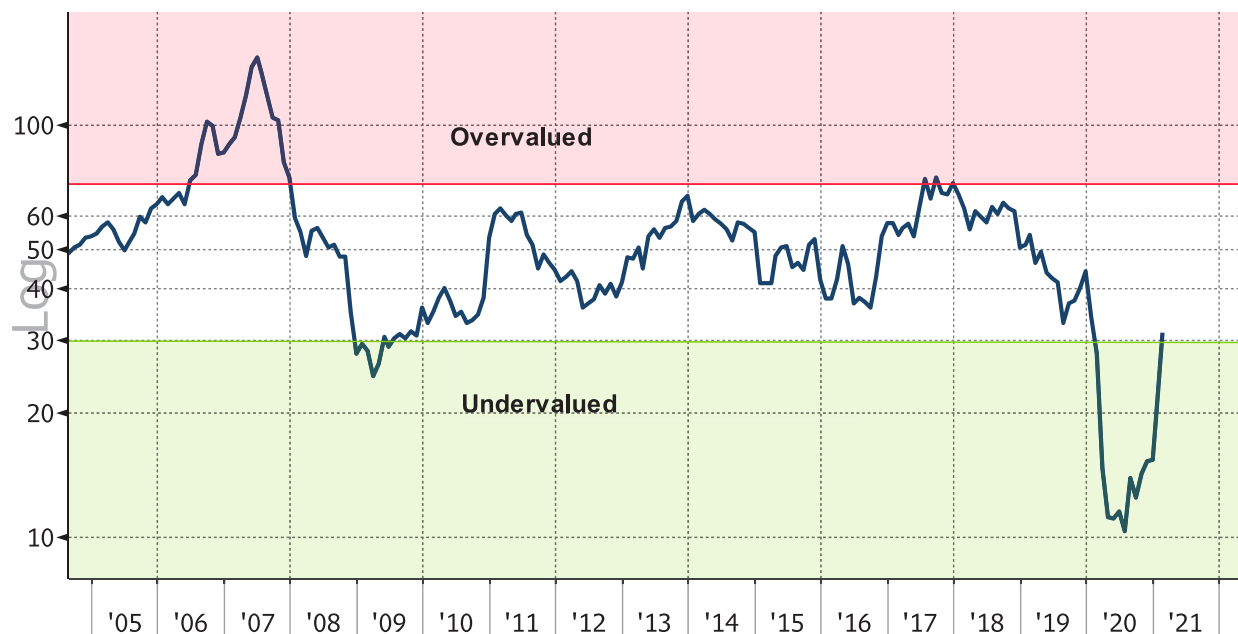
S&P/TSX

S&P/TSX Telecom Services Sector Index



Source: Bloomberg, Murenbeeld & Co.

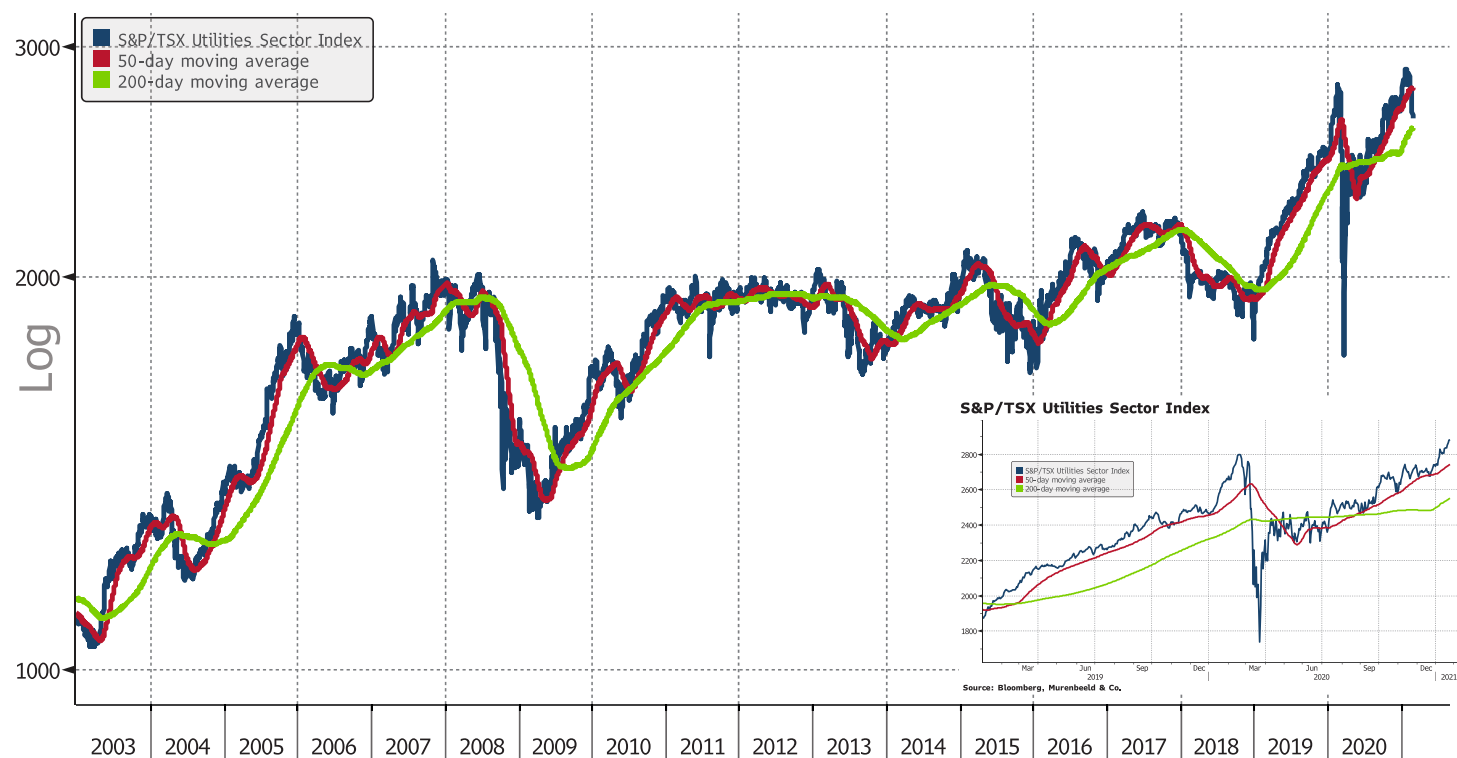
S&P/TSX Telecom Service Sector Model



Source: Bloomberg, Murenbeeld & Co.

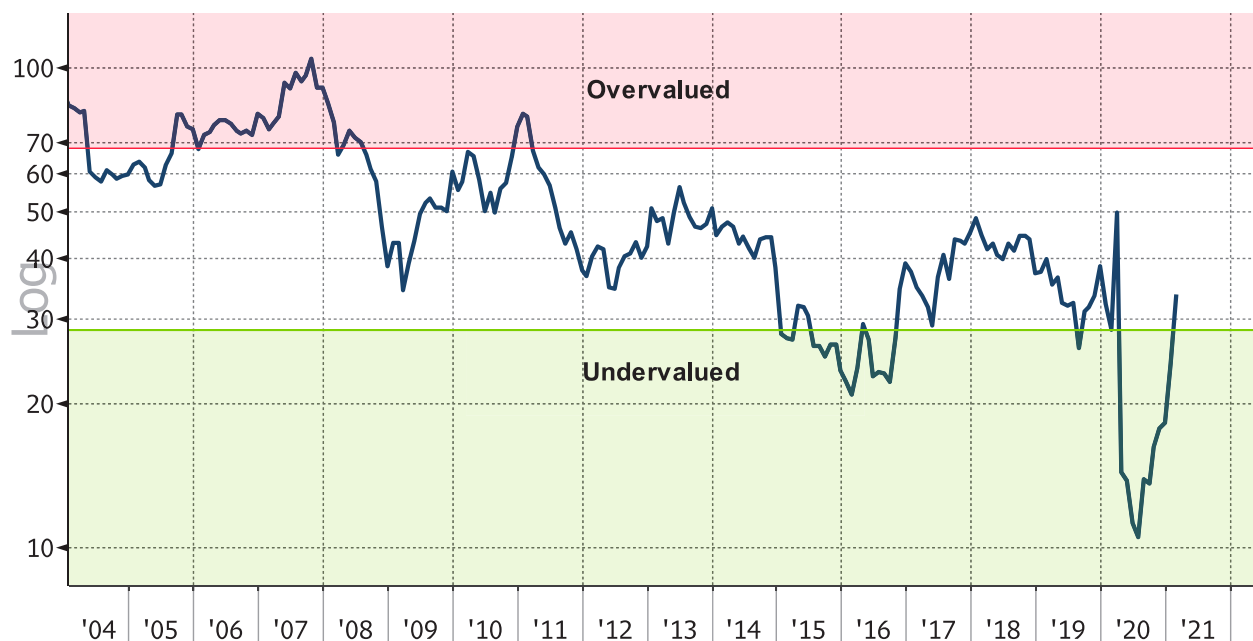
S&P/TSX

S&P/TSX Utilities Sector Index



Source: Bloomberg, Murenbeeld & Co.

S&P/TSX Utilities Sector Model



Source: Bloomberg, Murenbeeld & Co.

International – Equity Markets

Most international equity markets are also close to (or at) new highs in February but have declined in recent days.

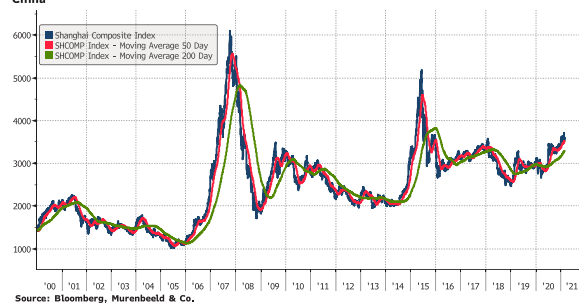
MSCI EAFE Index
Developing Market Index



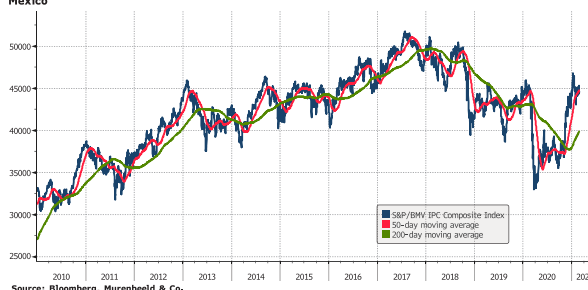
DAX Index
Germany



Shanghai Composite Index
China



S&P/BMV IPC Index
Mexico



MSCI World Index
Developed World Market Index



Nikkei Index
Japan



BSE SENSEX Index
India



RTS Index
Russia



IBOVESPA Index
Brazil

