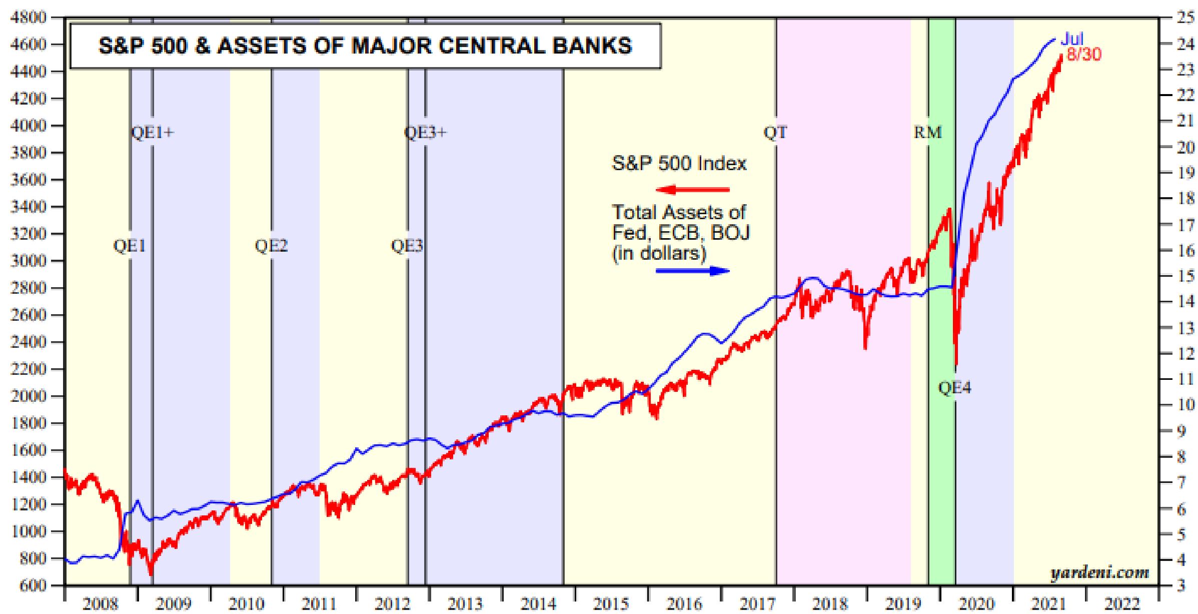
GREEN PRIVATE WEALTH HARBOURFRONT WEALTH MANAGEMENT

Monthly Commentary – August 2021

August was another strong month in the equity markets with the TSX Composite Index rising 1.5% and the S&P500 (in CAD) gaining 4.3%. The Canadian Bond Universe Index fell 0.4% and is now down 4.2% on the year, with the 10-Year Government of Canada Bond rate rising to 1.2%.

Markets

Market news continues to be quiet with most of the market moves revolving around the actions of the US Federal Reserve (FED), the US's central bank. We talk a lot about the FED because since 2009 they have had the largest impact on market moves due to the vast amount of liquidity they have and continue to pump into the economy. As we can see from below the S&P500 has moved almost in lockstep with the balance sheet of major central banks with both increasingly significantly since the Financial Crisis (the S&P500 is the red line and moves very closely to the blue line, central banks balance sheets). Additionally, anytime they've tried to reduce liquidity and/or raise interest rates we've seen the S&P500 sell-off (2010, 2011, 2015, 2018, and 2020):



Note: QE1 (11/25/08-3/31/10) = $1.24tn in mortgage securities; expanded (3/16/09-3/31/10) = $300bn in Treasuries. QE2 (11/3/10-6/30/11) = $600bn in Treasuries. QE3 (9/13/12-10/29/14) = $40bn/month in mortgage securities (open ended); expanded (12/12/12-10/1/14) = $45bn/month in Treasuries. QT (10/1/17-7/31/19) = balance sheet pared by $675bn. RM (11/1/19-3/15/20) = reserve management, $60bn/month in Treasury bills. QE4 (3/16/20-infinity).
Source: Federal Reserve Board, Standard & Poor's and Haver Analytics.

With economic growth currently very strong, now is probably the time to tighten policy with a gradual reduction in bond purchases every month until they are no longer purchasing bonds (otherwise known as a taper). Meanwhile, a few well-known analysts and economists have been saying that the current policy is overstimulating and could have future adverse effects. Most notably, last week, Rick Rider, the CIO of Blackrock, the company that owns iShares ETF's and by far the largest asset manager in the world, said the following:

"I think the Fed could have started tapering months ago. The whole discussion is moot at this point," Rieder matter-of-factly says.

"We're talking about $10B-$15B a month of treasuries. It's just time to go. The liquidity is too big," he continued.

"You've got an incredibly strong economy. If you start waiting to taper until 2023, that's when the economy isn't going to have this push to it," Rider says, making the case that the Fed is "missing its window" to taper.

We also feel that the FED should be tapering bond purchases now so that they don't make mistakes of the past and tighten credit in a weakening economic environment, which likely would cause a large sell-off. However, at this point, with ample liquidity continuing, we expect equities to maintain the strong performance as the S&P500 drives towards 5,000.

Portfolios

On an investment pool level, all of our equity pools advanced nicely this month. The Springfield Equity Pool performed the best, gaining 4.48% this month (+12% YTD) while still maintaining about 20% in cash or near cash to deploy when the opportunity arises. The gains were driven primarily on strong performance from NVIDIA, Goldman Sachs and Gildan Active Wear.

We continue to monitor the markets with our technical analysis which is not quite as bullish as the market is indicating. For the time being, "the trend is your friend" and we won't try to go against the flow.

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