



THE KWAMMENTARY

Summer 2021 Edition



ODLUM BROWN
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Everybody Loves the Sunshine

If you're unfamiliar with the title, there is a good chance you were born after 1980 or might not be into funk music. A classic, "Everybody Loves the Sunshine" was released in 1976 by Roy Ayers and, as the name implies, is about how sunshine can change your entire mood. Context is important here; at the time this song debuted, the U.S. was coming off of a stinging defeat in Vietnam; the first of two serious bouts of inflation/interest rate hikes were fading out of view; and "[The Troubles](#)" were in full swing in the U.K. Suffice it to say, it was not all sunshine and rainbows at the time. By the summer of 1976, however, the song was 51st on the Billboard 200 charts and people were really loving the sunshine.

Fast forward 45 summers later, and coming out of our own period of discomfort, that love for the sunshine is still going strong. This mood has worked its way into the markets, as evidenced by the 11% gain on the Dow Jones Industrial Average and 12.5% gain on the S&P 500 Index between April and July! So, what does all this mean for the summer's investment outlook? Similar to a typical summer day, we're likely going to have some sunshine (positive events), risk of sunburn (potential negative events) and use of sunscreen (risk mitigation). I'll get into each of these topics in more detail below.

Sunshine

We are in a significantly different place at this point in time relative to last year, or even last summer. A few examples:

COVID-19: In most developed nations, the virus has been in steady retreat. Vaccination rates and the subsequent decline in death rates have given society a clear signal that the end is in sight. In the U.S., the seven-day rolling average new case rate has plunged from its peak at roughly 260,000 in January 2021 to 13,000 at the beginning of July. Canada and the U.K. have shown similar trends over slightly different time periods (from 8,800 to [384](#) and 60,000 to [2,200](#), respectively). The theme that ties these trends together is vaccinations. The majority of these populations have received at least one dose of an approved vaccine, and almost half have been fully vaccinated.

Economy: In a shocking reversal of economic activity, U.S. Gross Domestic Production (GDP) has eclipsed levels seen pre-COVID, at [US\\$22 trillion](#) in Q1 2021 (versus US\$21.7 trillion in Q4 2019). Unemployment numbers, which peaked at approximately [15%](#) according to official sources (but were likely well above 20%) have since deflated to approximately 6%. There has been a similar theme with weekly unemployment claims; after peaking at [6.1 million](#) claims, that number has come down to 360,000. Canada has shown similar trends, with GDP in Q1 2021 recorded at [\\$2.4 trillion](#) (versus \$2.3 trillion in Q4 2019), and unemployment rates just a few percentage points above Q4 2019 numbers ([7.8%](#)) after peaking at approximately 14%. Across the board, economic activity has largely reversed course alongside the downward COVID trajectory.

Sunburn

My wife can attest to this; even though the sun may not be shining bright, you can still get burnt. Although there have been many positive developments over the course of 2021, a couple areas remain as risks to progress, including:

COVID (again): Concerns around the Delta variant are well founded and increasing. Take the U.K. for example: they hit their trough in new cases back in April (seven-day average of [2,200](#)). Since then, numbers have increased back to [roughly 46,000](#) and are almost exclusively Delta variant strains among the unvaccinated. In developed nations, there are concerns about the combination of unvaccinated individuals with the Delta variant. More concerning, however, is the severe lack of access to vaccines in developing nations, coupled with the prevalence of this new variant. We have been extremely fortunate that the current lineup of vaccines has proven to be effective against all strains, up to this point. If this does not continue to be the case over time (as the virus mutates), it could present a significant risk societally and economically.

U.S. versus China (again): One could be forgiven for thinking that, since President Biden had been elected, the U.S./China trade spat would take on a more conciliatory tone. That has not been the case. Although the measures taken by the previous administration ranged from inefficient to inept, the sentiment underlying the action had merit. Both economically and technologically, China has had an extremely impressive rise over the past 20 years. This is partly due to their knack for innovation and hard work, but also due to a set of rules and regulations put in place two decades ago that were designed to give a developing country a leg up when competing globally. It's tough to argue that those rules are still necessary, and as long as new agreements are not reached, we should expect to see volatile developments on this front.

Inflation (again): I've spoken about this topic a few times already, so I won't rehash the concept again. The fact of the matter is we've entered into a period where a lot of things are happening at once, most of which are inflationary. Demand for goods and services are up, supply chains are still constrained, labour shortages are still acute (people want to be paid more) and there are a significant number of dollars burning a hole in consumers' pockets. Recent inflation measures have been higher than anticipated, but it is still too early to tell if they are a blip or a marked change.

In conclusion, wear sunscreen

The next year is likely to bring many positive developments as we move towards a post-pandemic world, spurred by a newfound appreciation for the things we've missed out on for almost two years. It is also likely to come along with some unique challenges

that will require unconventional solutions. From an investment perspective, we remain focused on the bigger picture: buy businesses that continue to perform and generate cash flow, and build portfolios prudently. We'll apply the sunscreen to your investments for you, so you can focus on enjoying the sunshine. As always, I'm happy to chat! I hope you all have a pleasant summer, and please actually wear sunscreen.

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Sincerely,

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