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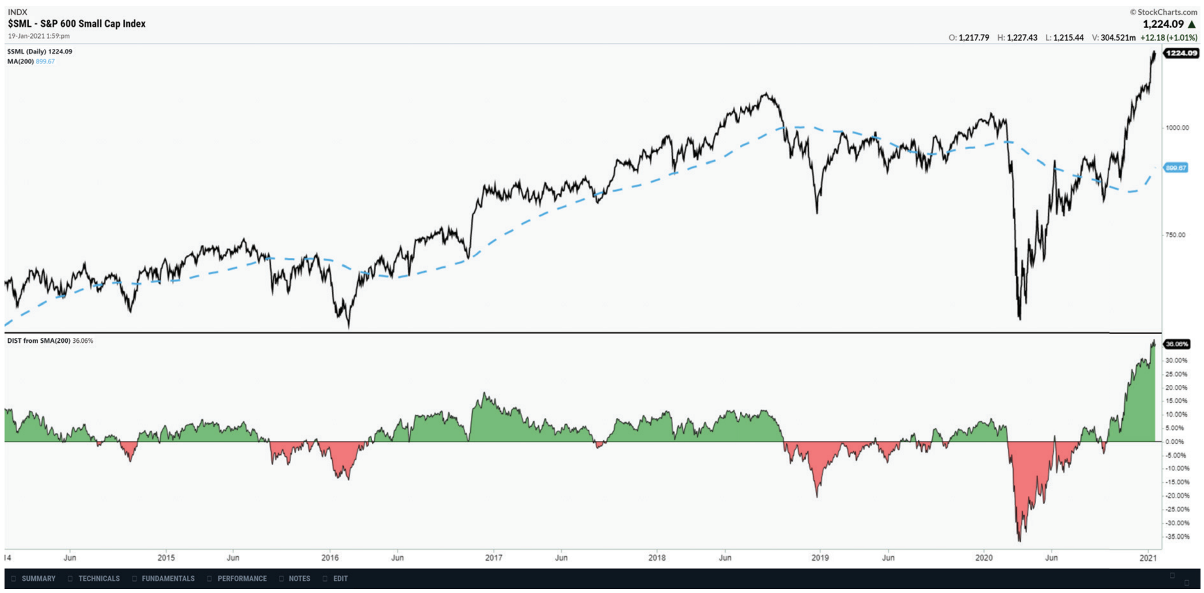
NEWSLETTER
FEBRUARY 2021

COMMENTARY

US small caps shoot above long-term moving average



The S&P 600 Index, tracking the small-cap segment of the U.S. equity market (stocks with market values of US$0.7bn-US$3.2bn), has gained substantially recently as the market continues to rotate out of larger cap stocks (those with market values above US$10bn). It is now 30% above its 200-day moving average (the blue line in Chart 1, often used as a proxy for the long-term average), the highest in five years, driving up the forward price to earnings ratio from around 10x at the March 2020 lows to over 20x currently. This begs the question: How will this be resolved? It will be either through price correction, with the index level (or price) falling, reducing valuations, or time correction, with prices remaining high, but earnings eventually growing enough to lower the valuations.

ECONOMIC HIGHLIGHTS

S&P 500	3,714.24
DIJA	29,982.62
NASDAQ	13,070.69
OIL	$52.20 /BARREL
GOLD	$1,850.30/OUNCE
10-YEAR TREASURY YIELD	6.70%
UNEMPLOYMENT	6.90%
GDP	4.0%
PPI	0.76% Year-Over-Year
CPI	1.36% Year-Over-Year

Source: ycharts.com

International (particular Emerging Markets) are showing signs of taking a leadership role in the markets.

Sentiment seems too heavy to the bullish side short-term, but not overly done from a longterm perspective.

Market Breadth has weakened some as less and less stocks are staying above their 50- and 200- day moving average.

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Yields picking up off bottom, but likely to remain low long-term

While Treasury yields were range-bound from 2011 until COVID hit in March 2020, they plummeted as the government responded to the crisis with a major monetary and fiscal stimulus and investors also fled into US bonds for safety (Chart 2). However, yields look to have bottomed (for now), and we expect that 10-Year U.S. Treasury yields will continue to pick-up this year, reaching 1.40%-1.50%. While long-term we expect yields to remain relatively low, in a range of 0.50%-3.00%, this assumes no major pick-up in inflation; the Fed's dual mandate to support growth but maintain price stability would likely drive it to intervene with rate hikes if consumer prices really took off.

In the middle of a secular bull market, but short-term volatility may remain elevated

Long-term we believe that we are still in the middle of a secular bull market, although volatility could remain elevated, as bullish sentiment from clear progress on the global health crisis, including on vaccines, is periodically cooled by news of rising cases and many major economies in various degrees and stages of lockdowns. We continue to look for intermediate-term and long-term opportunities while following our disciplined rebalancing process, which calls for adjusting portfolios between equities and fixed income as levels of exposure move outside of their targeted risk bands.

INDEX	3 mo	1 yr	3 yr	5 yr
S&P 500	14.05%	17.25%	11.70%	16.16%
MSCI EAFE	19.58%	8.94%	2.23%	8.84%
BAR AGG BOND	0.40%	4.72%	5.49%	4.00%

Source: Morningstar Direct

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The index, a member of the Dow Jones Total Stock Market Indices family, is designed to measure the performance of large-cap U.S. equity securities that are classified as "growth" based on a multi-factor analysis.
The index, a member of the Dow Jones Total Stock Market Indices family, is designed to measure the performance of small-cap U.S. equity securities.
The index, a member of the Dow Jones Total Stock Market Indices family, is designed to measure the performance of large-cap U.S. equity securities that are classified as "value" based on a multi-factor analysis.
The index, a member of the Dow Jones Total Stock Market Indices family, is designed to measure the performance of small-cap U.S. equity securities.
The S&P 500® Information Technology comprises those companies included in the S&P 500 that are classified as members of the GICS® information technology sector.

The S&P 500® Health Care comprises those companies included in the S&P 500 that are classified as members of the GICS® health care sector.
The S&P 500® Consumer Discretionary comprises those companies included in the S&P 500 that are classified as members of the GICS® consumer discretionary sector.
The S&P 500® Utilities comprises those companies included in the S&P 500 that are classified as members of the GICS® utilities sector.
The S&P 500® Communication Services comprises those companies included in the S&P 500 that are classified as members of the GICS® communication services sector.
The S&P 500® Real Estate comprises stocks included in the S&P 500 that are classified as members of the GICS® real estate sector.
The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.
The S&P 500® Consumer Staples comprises those companies included in the S&P 500 that are classified as members of the GICS® consumer staples sector.
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The S&P 500® Industrials comprises those companies included in the S&P 500 that are classified as members of the GICS® industrials sector.
The S&P 500® Financials comprises those companies included in the S&P 500 that are classified as members of the GICS® financials sector.
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The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the Nasdaq. The Nasdaq is a global electronic marketplace for buying and selling securities, as well as the benchmark index for U.S. technology stocks and is also used to refer to the Nasdaq Composite, an index of more than 3,000 stocks listed on the Nasdaq exchange. The NASDAQ Composite Index includes all domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite Index is a broad based index. The MSCI EAFE index is designed to measure the equity market performance of developed markets (Europe, Australasia, Far East) excluding the U.S. and Canada. The Index is market-capitalization weighted. The Bloomberg Barclays US Aggregate Bond Index, which was originally called the Lehman Aggregate Bond Index, is a broad based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government–related and corporate debt securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency) debt securities that are rated at least Baa3 by Moody's and BBB- by S&P. Taxable municipals, including Build America bonds and a small amount of foreign bonds traded in U.S. markets are also included. Eligible bonds must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 8.25 years. This total return index, created in 1986 with history backfilled to January 1, 1976, is unhedged and rebalances monthly.

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