

# The Market in Review

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## This week's articles and insights

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**“Behind every stock is a company. Find out what it's doing.”**

— *Peter Lynch*

## Your Index Report

	Current	Last Week	Year-to-Date
Dow Jones Ind. Avg.	34,084	+ 0.19%	+ 11.36%
S&P 500	4,159	+ 1.13%	+ 10.73%
TSX	19,545	+ 2.13%	+ 12.10%

We are constantly on the look for new investment ideas. This means chasing down themes, ideas, and trying to anticipate where money is going before everyone else. Follow along this week as we explore dramatic changes and their repercussions.

## I'm Leaving, On a Jet Plane

The Covid-19 pandemic has had more than its share of unintended consequences. Some of these accelerated trends that were already in place, but weren't moving very fast. Teleconferencing, for example, has been around for years but was never a mainstream activity. With millions locked in their homes, Zoom Video Technologies (**NASDAQ ZM**) took off. And with doctors unable to physically see patients, we saw a surge in online visits through Teledoc (**TDOC**) and Babylon through Telus (**TSX T**). These took off like rockets. We already own Telus in portfolios and are happy with the new area of growth.

Other consequences, such as the decline in air travel, are obvious. And yet, there are some interesting angles few are talking about much yet. Follow along with this logic chain.

After the events of September 11, 2001, many experts assumed air travel would never be the same. People were terrified of terrorists taking over their aircraft and so stopped flying. Not for long, though. Within a few years, global air travel had boomed back to new highs. Passengers trusted the new security procedures at airports and forgot their fears.

Those same fears exist today. Who wants to get on an airplane (or cruise ship) with people who might be infected with Covid-19? Air travel has plummeted due to closed borders and long quarantines. Refiners had surplus jet fuel coming out of their ears and so had to mix it with lower grades (like diesel) to get rid of it. Airlines incurred huge losses, and so did the oil refiners who couldn't give their expensive jet fuel away.

Meanwhile, on-line ordering and delivery of packages was booming. Airlines converted many passenger planes to cargo usage, and filled the holds with packages to offset the empty cabins above. This helped defer some of the losses. Cargo can also be quite lucrative, and doesn't complain about the cramped seating and crappy pretzels!

China – the country first into the pandemic and the first out – has already seen its air travel return to 2019 levels. As the U.S. lowers travel restrictions, airlines are seeing a resurgence of flights to Maui, Europe, and even Africa.

“*Anywhere but my basement*” seems to be the destination of choice for 2022.

Are we going to avoid air travel because of virus fears? Hardly. The global travel analysts at Capital Group see air travel levels surpassing 2019 levels by 2023, led by China, the U.S. and the U.K. Yes, business travel will be affected more (thanks to Zoom and teleconferencing), but mostly in the west. Most emerging markets will see business travel continue to increase in the years ahead.

An interesting point to note is that **only 20% of people in the world** have ever ridden in an airplane. As emerging markets prosper, they travel more. Just like China has.

The investment theme might be to buy airline stocks. However, these are better trades than investments – even Warren Buffett gave up on owning airlines. Better options may be leisure companies such as Airbnb (**NASDAQ ABNB**), Marriot (**NYSE MAR**), or Disney (**NYSE DIS**).

Meanwhile, the refiners are also seeing profits improve. Why? When you “crack” a barrel of oil, you get basically three types of fuel: diesel, gasoline, and jet fuel. Refiners sold their diesel fuel easily during the pandemic (think Amazon deliveries and ships transporting steel and wood for houses) but little gasoline and jet fuel. With fall 2021 setting up to start the ‘driving season of the century’, refiners will need every drop of jet fuel and gasoline they can make.

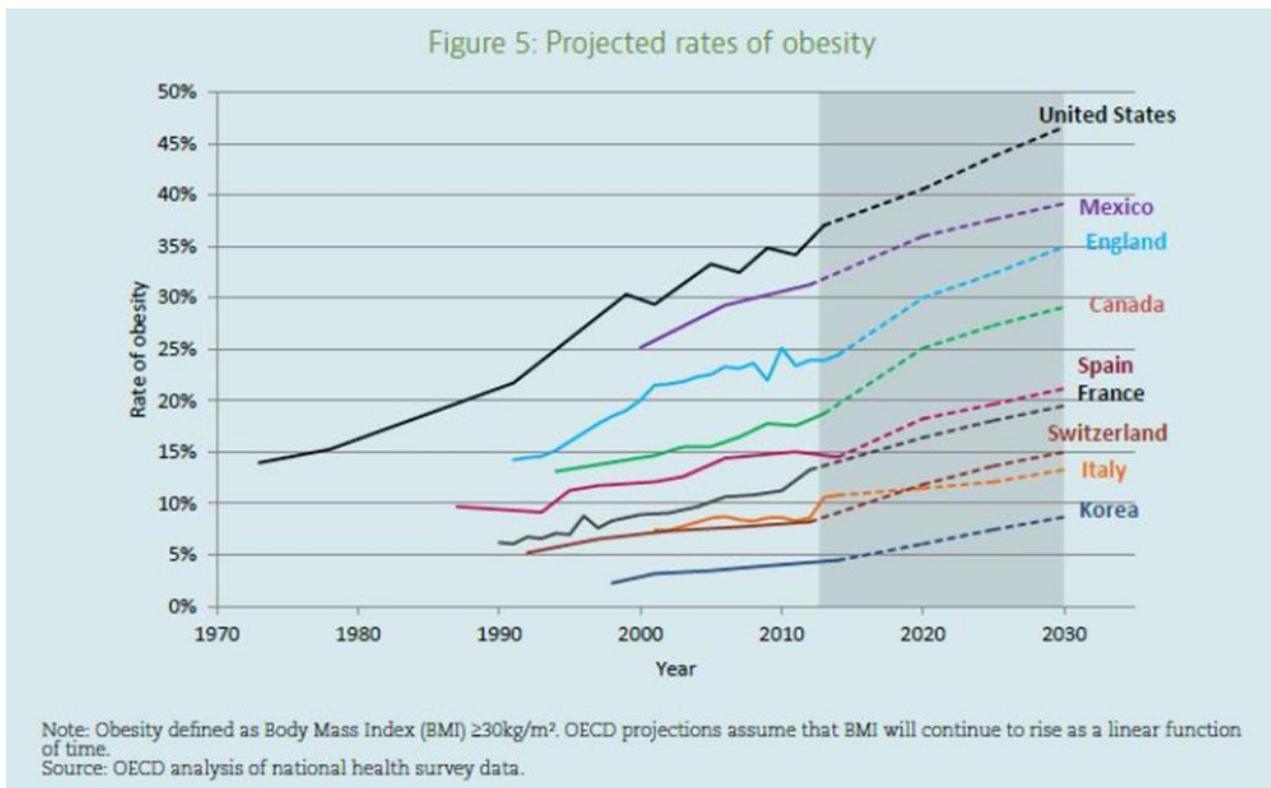
Back to the unintended consequences theme.

Developed nations have been getting fatter since the 1970s. Some evidence points to the introduction in the 1970s of high fructose corn syrup as a culprit. Most sugar used before then was glucose, which is metabolized differently in the body. Glucose was derived from sugar cane, but high duties made it too expensive. Corn syrup – heavily subsidized in the U.S. – can be converted to

fructose, which does not have the same insulin response in the body. Fructose became the new cheap new sweetener, and it allowed companies to super-size drinks, as well as add sweetness to just about everything from meat glazes to salad dressings.

Forbes magazine says "the average weight of an American has increased 24 pounds since 1960," as a result.

Obesity rates in the U.S. have soared from 15% in the 1970s to over 42% today. Canada is relatively better at 27%, but we are still #4 of developed nations and double the rate of the U.S. just 50 years ago.



As it turns out, obesity is a key comorbidity for Covid-19. The Centers for Disease Control says that being obese can **triple** your risk of hospitalization and the need for ventilation if you get Covid-19.

78% of all U.S. patients hospitalized with COVID-19 were overweight or had obesity. Obesity was the dry tinder and Covid-19 the fire.

Being overweight leads to higher incidences of diabetes, as well. And it isn't just us North Americans. The U.S. has the 3<sup>rd</sup> highest level of diabetes in the world, but who is second? India.

India has some surprising statistics. A recent survey of 4,000 children in Delhi showed that 22% of them were obese (source: CNN) – this in a country where 40% are underweight!

Does this have anything to do with the terrible number of Covid-19 deaths in India? It could. Maybe we will finally start putting less sugar in our food. Don't count on it.

Jumping back to air travel. Airlines do all sorts of crazy things to cut down on weight. They have eliminated olives, cut limes into 16 slices instead of 10 when used in drinks, and offer fewer blankets and pillows. Airlines are charging more and more for baggage to make room for extra cargo down below.

In fact, they have been sneaking in extra cargo for years. The website Flexport says a suitcase that costs \$25 in baggage fees compares to \$40 to \$100 for the equivalent air cargo. Airlines make more if you travel with a carry-on and this is how they induce you to do it – by charging baggage fees.

The pandemic has had another nasty surprise for all of us. The biggest risk factor for Covid-19, as discussed above, is weight gain. What did we all do when we were in lockdown due to Covid-19? We gained weight!

A recent study at Dalhousie University surveyed almost 10,000 Canadians. It showed almost 60% had gained weight, with the average being 6-10 pounds.

It has been even worse in the U.S. A smaller study of 3,100 Americans showed an average weight gain of 29 pounds during the pandemic.

Meanwhile, new Federal Aviation rules may force U.S. airlines to start ***weighing customers before flights***. Aircraft – particularly the smaller ones – need to have the right weight and balance to fly safely. The FAA is now admitting that the assumptions they have been using for passengers weights are outdated and so the federal government wants to know how heavy their customers really are. This may be done by hidden weigh scales at the boarding gates, or it may eventually transform into a system like that introduced by a small Samoan airline – it charged people by the pound to fly.

An investment idea here might be Weight Watchers (**NYSE WW**), which could do well as people seek to shed the pounds added during lockdown.

Expect many more unintended consequences in the years ahead. We will try to stay ahead of them.

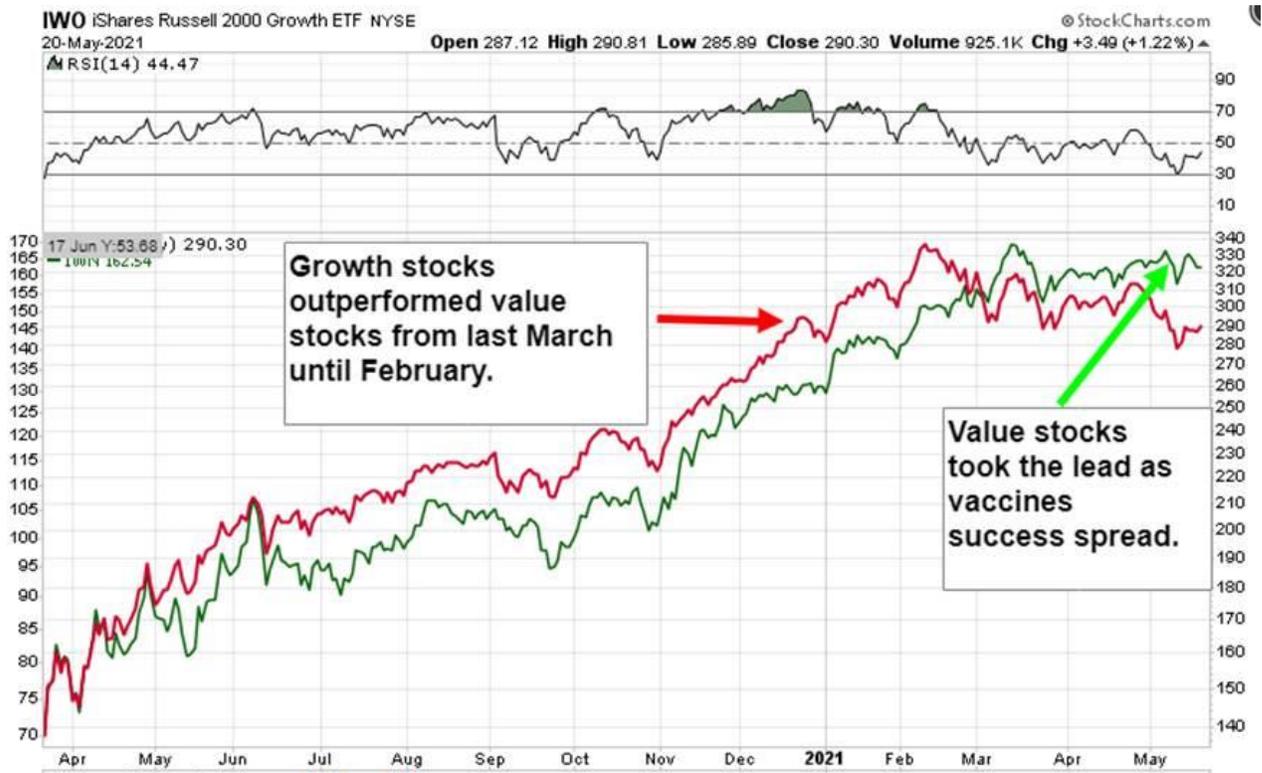
## **Markets This Week**

It was a rocky week for most stock markets. Earnings have been very good, which has helped to lower valuations (and fears that stocks are too expensive), but a new war in the Middle East certainly doesn't lead to more confidence.

There is also the idea of a global tax on corporations to help pay for all the stimulus. You didn't think this would all be free, did you?

Wars and taxes don't matter as much to stocks, however. The biggest issue is rising inflation, and when interest rates will have to rise to compensate. Money has been flowing out of growth stocks and into gold recently – a sign people are becoming more worried about inflation.

We can see the shift when we compare growth and value indexes – growth being companies like Amazon (**NASDAQ AMZN**) and value including industrial companies like Caterpillar (**NYSE CAT**):



The spread is getting a bit too wide, however. Many growth-oriented mutual funds are actually negative so far this year, which makes for an appealing entry point.

On the inflation side, we may get some relief. Iran and the U.S. are in discussions to return Iran to the previous nuclear agreement, which will end the oil sanctions. Iranian oil is already beginning to return to global markets, which could mean oil prices moderate with the extra supply.

## Bittercoin

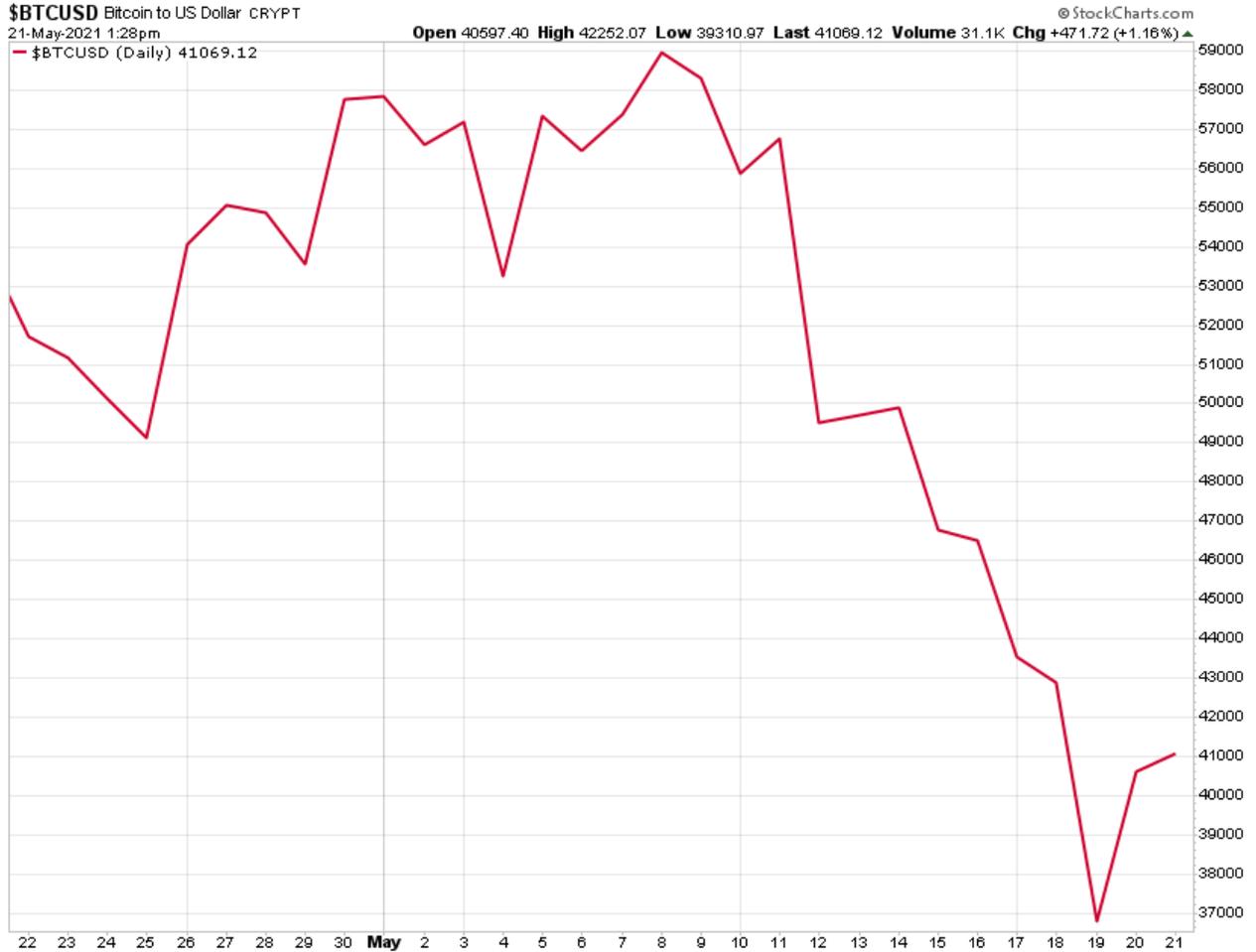
We continue to get many questions about bitcoin.

Here's a question: Is bitcoin the AOL (America On-Line) of cryptocurrencies?

There will be a cryptocurrency that ultimately rules the world, but it likely won't be bitcoin. Let's look at previous periods of new eras of innovation and see how the early leader fared:

- There were 253 automobile companies in the U.S. in 1908. The very first in the U.S. was the Duryea Motor Wagon Company in 1893. Heard of it? This fell to 44 by 1929, and Duryea wasn't one of them. 80% of auto sales went to the Big Three by 1929 – Ford (**NYSE F**), General Motors (**NYSE GM**), and Chrysler. General Motors didn't emerge in its present form until 1918.
- There were dozens of search engines in the 1990s, led first by AOL and Yahoo! Google did not appear until 1996 and only emerged as the leader around 2004. AOL still exists but few use it any longer.
- There are over 5,300 cryptocurrencies in the world today (source: Yahoo Finance) with the leaders being bitcoin and ether. Worries about bitcoin's energy usage could limit its use in future. Maintaining the bitcoin network requires more power than all of Norway, and most of the "mining" takes place in China and is fueled by coal.

Coincidentally, bitcoin was cut in half this month as China banned its financial institutions from accepting or conducting business in the cryptocurrency.



## Aging in Place

Another investment theme arises from the renovation boom we are experiencing. Many people have been forced to stare at the inside of their homes, and they don't like what they see. With the money they have not travelling, they are sprucing up their homes.

We have several clients who have upgraded their televisions screens to larger sizes and bought new recliners. The problem now is delivery dates can be months away due to shortages. Companies like Best Buy (**NYSE BBY**) and La-Z-Boy (**NYSE LZB**) may be worth digging into further.

There's a bigger theme here, though. The pandemic has made us think about staying in our homes longer.

Yes, a retirement home may be inevitable someday, but people are now very aware of the risks. 33% of U.S. Covid-19 deaths occurred in nursing homes and Canada was even worse at 69% (Canadian Institute for Health Information). Staying in your home looks appealing compared to these numbers.

Aging at home can mean locating sleeping, cooking, washing, and TV viewing on one floor. It can also mean a larger TV screen, more comfortable chairs, and faster Wi-Fi.

Joseph Coughlin runs the M.I.T. Age Lab and just produced an entertaining video called Navigating the Longevity Economy for Raymond James. Aging longer at home is a key topic.

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