

The Market in Review

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This week's articles and insights

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"I'm willing to admit that I may not always be right, but I am never wrong."

— Samuel Goldwyn

Your Index Report

	Current	Last Week	Year-to-Date
Dow Jones Ind. Avg.	35,213	+ 0.91%	+ 15.05%
S&P 500	4,470	+ 1.46%	+ 19.01%
TSX	20,504	+ 1.28%	+ 17.61%

The Immigration Divide

On August 27th, 1882, a man named Samuel Goldfish was born in Warsaw, Poland. He was orphaned as a child, but was able to immigrate to London and then to New York, like millions of other Europeans of the day. He went to work in a glove factory, and by age 18 he was one of the top glove salesmen in all of America, and was now a partner in the company. He changed his name to Samuel Goldwyn, used his growing wealth to form a movie company called Metro-Goldwyn-Mayer, and the rest is history. Films such as Gone With The Wind and The Wizard of Oz made the company an icon in Hollywood. It jumped back into prominence this year when Amazon (**NASDAQ AMZN**) offered \$8.45 billion to buy the company and make it part of its Amazon Prime division.

Samuel Goldwyn was known for his film acumen as well as his wit. In his day, 'Goldwynisms' were famous:

- We want a story that starts out with an earthquake and works its way up to a climax.
- If I look confused it is because I am thinking.
- If I could drop dead right now, I'd be the happiest man alive.
- I read part of it all the way through.
- Give me a smart idiot over a stupid genius any day.

Canada is on track to welcome over 400,000 immigrants in 2021. Most are Economic entrants (skilled), followed by Family and Compassionate immigrants.

Mass immigration is not without its perils. Newcomers need places to live, and Canada's restrictive housing policies have pushed prices through the roof as demand has exceeded supply for years. Immigration can be chaotic, noisy, and challenging at times, especially with large influxes that take several generations to integrate.

Immigration is front page news this month with the collapse of the Afghanistan government and the airlifting of people out of the country as the Taliban take over. Canada has committed to take more Afghan refugees as has the U.S. China has a renewed interest in Afghanistan, although not for new immigrants. China is eager to sign deals with the Taliban to access the rare earth mineral deposits inside the country.

Immigration is an area of stark contrast in the new bi-polar order of the world. As mentioned above, Canada will take in over 400,000 people this year (1% of its current population). The U.S. allows in about 1 million legally, although almost 1

million have crossed illegally into the country this year (0.6%). Contrast this with China, which saw 1 million leave in 2016 and could see as many as 1.7 million depart in 2021 (knoema.com). For now, China's births outnumber those leaving but it does compound that country's problem with its rapidly-aging population.

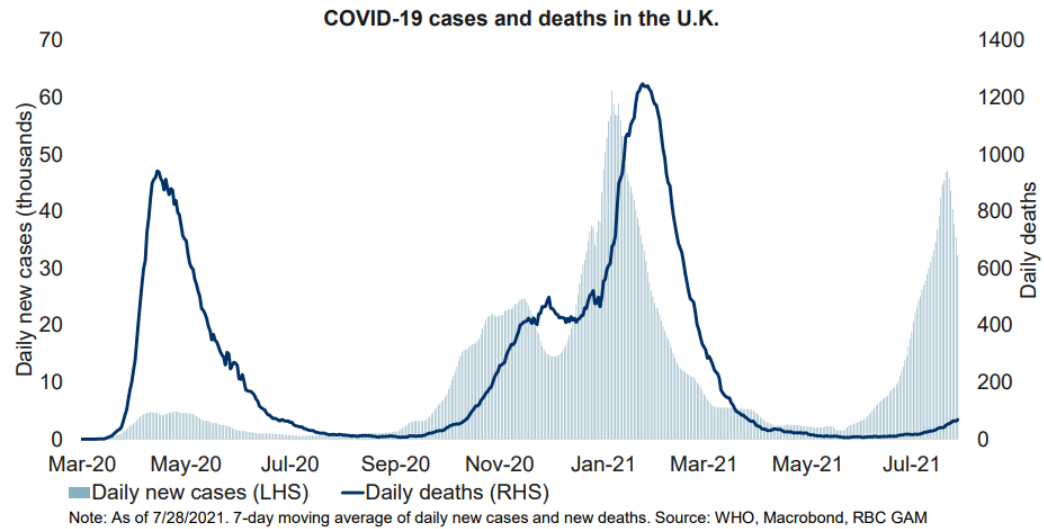
It will be interesting to observe the dynamism of both China and the west over the ensuing decades as these waves of immigrants settle in. Will there be a Samuel Goldfish among our newest citizens? Sergey Brin, the co-founder of Alphabet (**NASDAQ GOOGL**) is a Russian immigrant and Steve Jobs of Apple (**NASDAQ AAPL**) was the son of a Syrian immigrant. Both Canada and the U.S. have thrived on the diversity and energy of its newcomers, so the answer is likely yes, there will be a Samuel Goldfish somewhere in the wave of new entrants to North America. One estimate suggests 25% of new businesses in America are started by immigrants.

Delta Delays

Delta is the Covid-19 variant first discovered in India. It has since spread around the world and, due to its higher transmission rate, now accounts for most new cases. Despite increasing worries, the new-case count is likely cresting here. Each new wave of Covid-19 races through the population in 40-45 days until it runs out of bodies to infect. This means we are likely going to see infections begin to drop, even as deaths – a lagging indicator – keep rising for a few more weeks.

Shown below are the U.K. statistics we hope to replicate. Even though Delta infections surged, even among the vaccinated, the number of deaths remained low. This is likely due to the U.K.'s high vaccination rate.

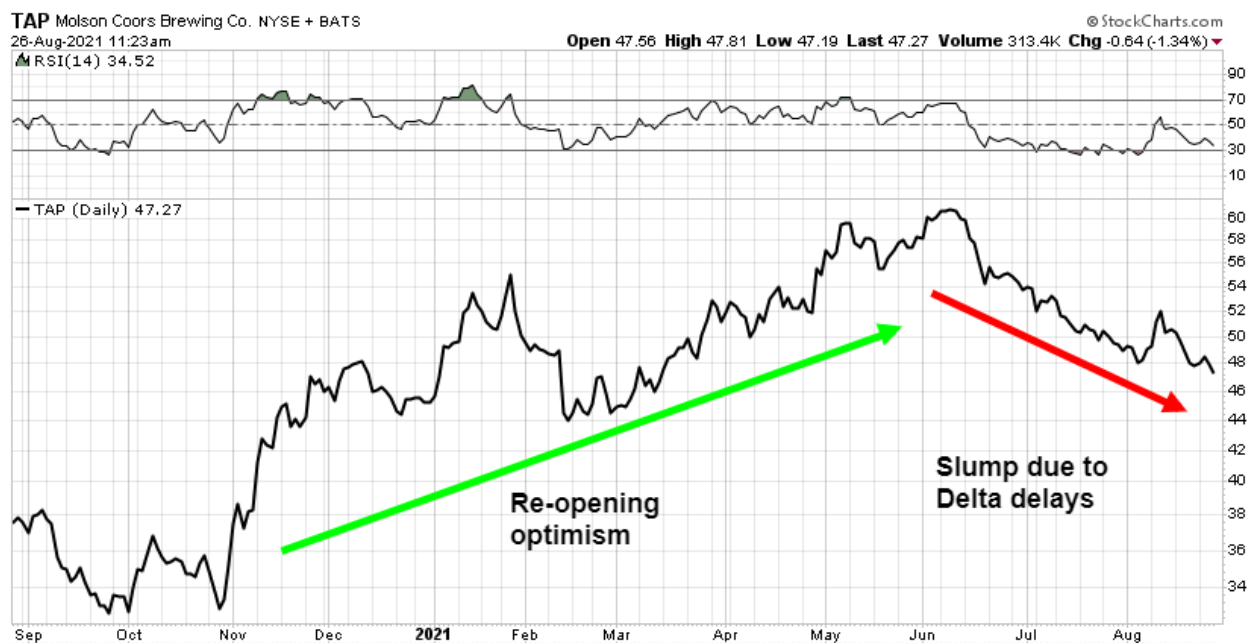
The U.K. is a fascinating test case: it has completely reopened and has a fairly high level of vaccination – cases have spiked, but now seemingly easing; the country is tolerating infections so long as deaths remain low



That said, travel, shopping, sporting events, and eating out have slowed in recent weeks due to tightened mask rules and fear of transmission. We all hoped we would be done with Covid concerns after our second vaccination, but renewed restrictions have thrown a wet blanket on the fires of hope. Each new variant wave is lower than the last, like the spreading ripples after a rock is tossed into a pond. But these ripples last longer than we think, especially with cooler weather and traditional flu season ahead. The Lambda and Epsilon variants may be next.

Most economists had expected air travel to rebound to pre-pandemic levels by the end of 2021. With renewed travel bans, this has now been pushed out into early 2022. We have seen a dip in economic numbers, but so far, that is all it is: a dip.

An example of this can be seen in the price of a stock we recently added to portfolios: Molson Coors Brewing (**NYSE TAP**).



Molson Coors is the 5th largest brewer in the world. Due to its size, it enjoys enormous cost advantages. While not known as the best beer in the world, it is sold in very large quantities at sports events and concerts. It has bought at least six smaller craft brewers in recent years, including Granville Island Brewing (a local favourite), has partnered with Coca-Cola (**NYSE KO**) in a new venture, and introduced a cannabis-infused beverage. Molson Coors cut its dividend in 2020 but recently reintroduced it, to yield about 3%.

Things were improving until this recent surge of new cases. Now, we are seeing travel restrictions, mask requirements, and vaccine passports as impediments to group events.

In other parts of the world, the Delta wave has largely passed. India has already rebounded and China's draconian lockdowns have allowed them to re-open a key shipping port.

Again, a speedbump in the greater recovery, but certainly an annoying one.

A Supply Problem, Not a Demand Problem

There are many things different about this market cycle. The primary difference is that this downturn was caused by a pandemic rather than a recessionary contraction.

In most recessions, demand drops off a cliff because people lose their jobs and don't have any money. Demand did drop off in 2020 in some sectors, like air travel, but because governments supported millions of people with stimulus cheques, most avoided the economic pain of losing their jobs. In fact, savings went up. In sectors like home purchases, home renovations, pet purchases, ordering out, online buying, and used cars, **demand** went through the roof.

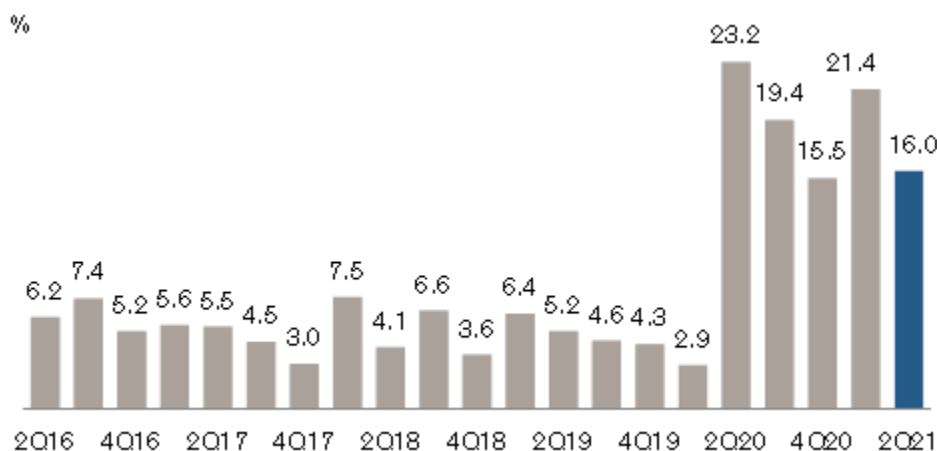
At the same time, **supplies** of just about everything were halted due to closed ports and halts to manufacturing. And don't forget about the U.S.-Chinese trade war that has been going on since you-know-who was in the White House. In other words, we don't have a *demand* problem, we have a *supply* problem.

Why does this matter?

Because supply problems resolve themselves more quickly and more sharply. And economists don't know how to model snapbacks like this very well.

After years of steady earnings growth, and then a decline in early 2020, we have had a huge rebound in earnings as all this stimulus money was put to work. Economists – and investors – have scrambled to keep up with earnings surprises:

Historical EPS Surprise

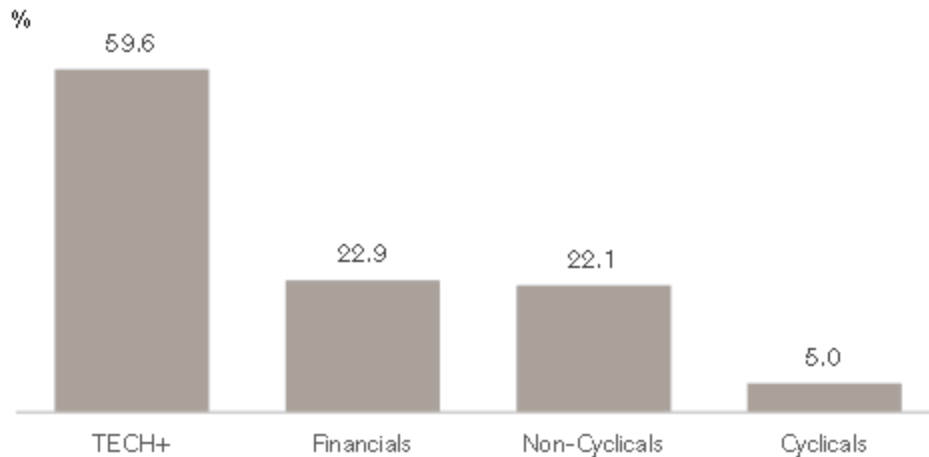


It has also been very uneven.

If you owned a restaurant, theatre chain, auto or clothing company, your earnings have only started to lift themselves off the floor recently. And not by much yet.

But if you were a technology company whose products are digital bits transmitted over wires (i.e. no ships, no trucks), it has been the world's fair for you:

2Q19-2Q21 Cumulative Earnings Growth



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As long as government supports continue buoying demand, both the economy and markets are likely to continue their climb.

That is, after the usual autumn weakness.

Time For “Fall” in the Markets?

Perhaps it is wishful thinking for those of us with money to invest, but September and October are normally times when stocks take a breather.

Why is this? Well, kids go back to school and summer vacation spending ends. And people go back to work – including central bankers. This autumn, it is expected that the U.S. Federal Reserve will begin its “taper”, which is the gradual reduction of its bond-buying program. Governments have been able to issue all the debt they want because central banks have bought most of it. Canada’s central bank was buying \$5 billion in government bonds every week up until last October, and is now down to \$2 billion per week. Our program could end later this year. The U.S. bond buying is slated to end fully sometime in mid-2022 with the first “tapering off” of purchase to start as early as November.

Markets don’t generally like tapering events. It is like taking away the punch bowl at a party.

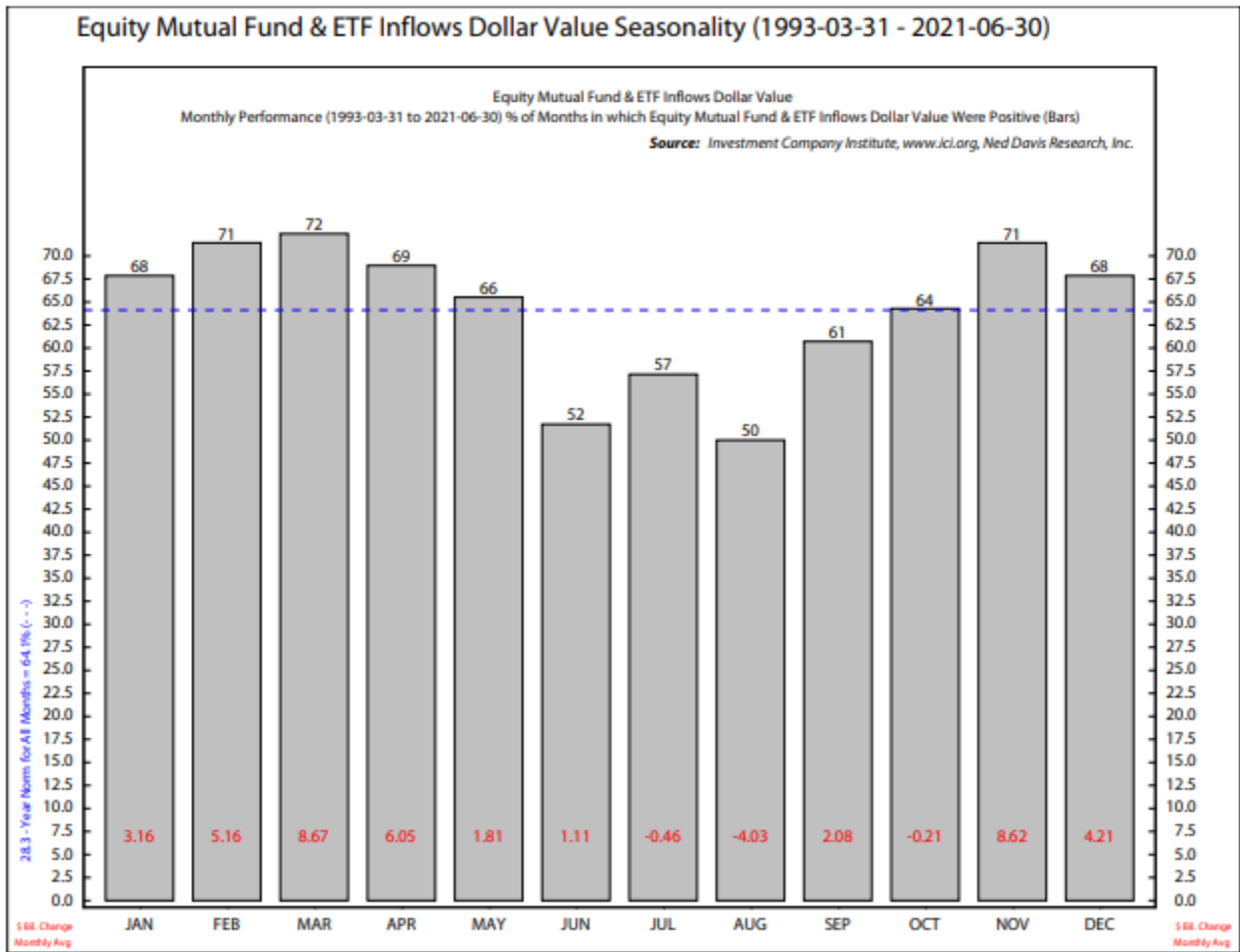
The U.S. Fed has had similar tapering phases in the recent past. Each of these tapers – 2010 (QE1), 2011 (QE2), 2015 (QE3) - caused some stock market weakness. One of the more severe declines happened in late 2018 when the Fed tightened rates too quickly. The authorities are being careful this time to communicate any tapering moves well in advance so as not to spook investors.

What else cause indigestion in stocks in the autumn?

As mentioned above, there are the geopolitical implications of the U.S. pullout from Afghanistan. Politics move markets less in the short-term than we think, but more in the long-term than we know. While our allies fret and our enemies cheer about the West's hasty retreat, it is interesting to see the stocks of defense companies decline while domestic engineering companies rise. In other words, the \$1 trillion the U.S. spent on this foreign war over the last twenty years might now be spent on upgrading its infrastructure. The U.S. Congress is pushing through over \$4 trillion in two bills to do just that. Part of the funding will come from cutbacks to the defense budget.

Also, investors usually slow down their investing over the summer and early fall...

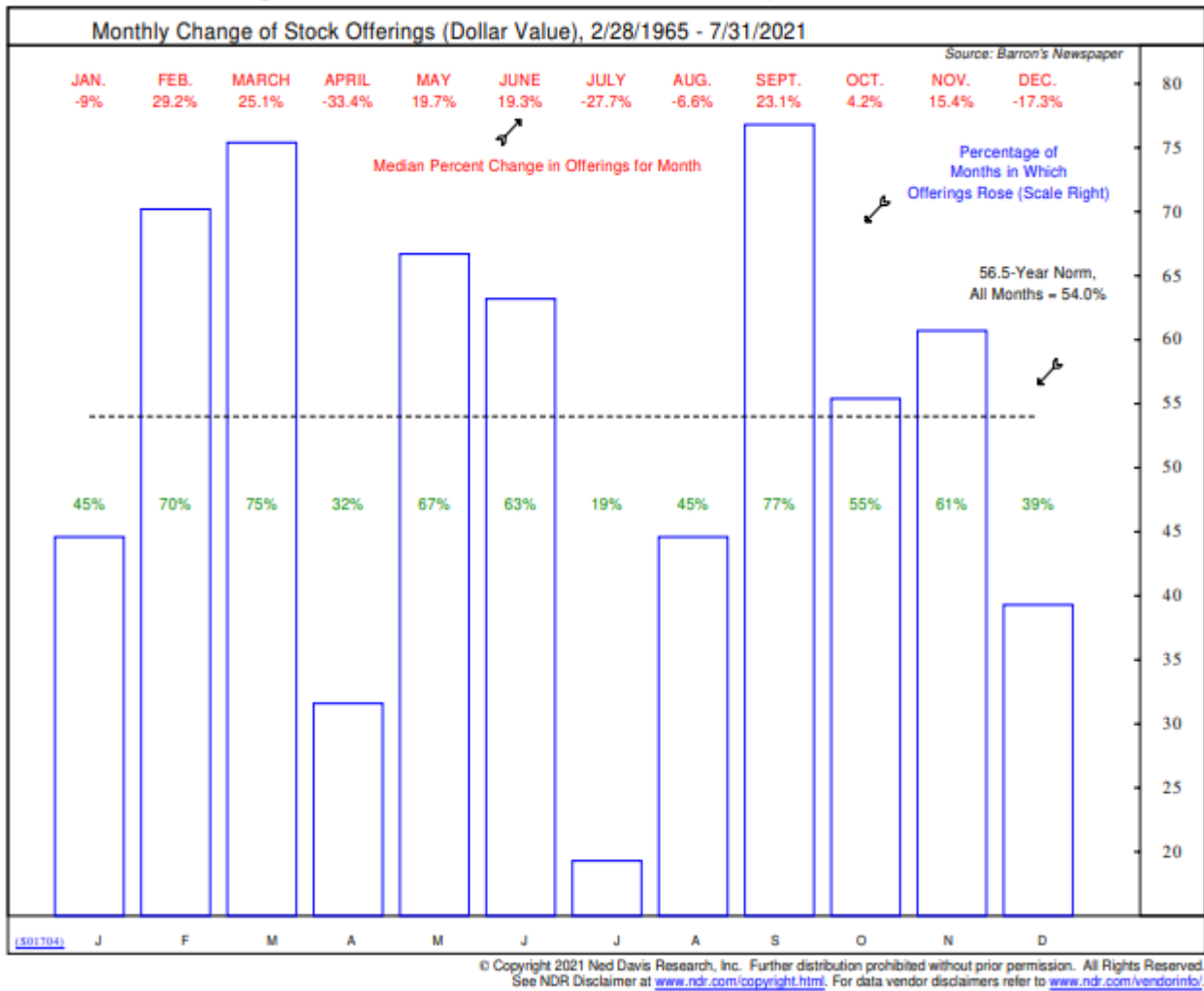
Mutual fund and ETF flows weakest June-Sept



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...and a lot of new stock issues are dumped into the market in September.

Stock offerings increase after Labor Day



We don't expect a large correction this year since interest rates remain low and government stimulus is still flowing. A pause to make some new investments at lower prices would be nice.

Energy's Holy Grail

The Holy Grail of renewable energy enthusiasts goes far beyond wind, solar, blue hydrogen, or any of the other "green" sources now enjoying popularity.

It is nuclear energy. Not fission, with all those nasty radioactive byproducts, but fusion energy. The stuff that powers the sun with virtually zero emissions other than light and heat.

Nuclear fusion is different from nuclear fission in that instead of breaking uranium or plutonium atoms apart to release energy, two hydrogen atoms are fused together to make helium. This releases way more energy and does so cleanly.

Fusion is the Holiest and Grailiest of all the energy Holy Grails because the world has worked on it for many decades and still can't make it work. You need sun-like pressure and heat to get those pesky hydrogen atoms to squish together, and that is no easy task. The Russians tried using giant magnets to force the atoms together. They are still trying, but without much success. America's effort involves a circle of high-powered laser beams concentrated on a pea-sized target to create the enormous pressure found inside stars. The experiment lasted 100 trillionth of a second.

The standard of success is that you get more energy out than you put in. In 2018, they got just 3% of the energy back using this method. In early 2021, they made it up to 8% back. In August, they got all the way up to 67% of the energy back than what was put in. A failure, yes, but very close to the mark of successful fusion ignition.

The scientists remind us that the first Wright brothers flight at Kittyhawk lasted 12 seconds. Reaching successful fusion ignition with 100% in energy output would be the same threshold. After that, we will know how to do it, and the rest is just scaling up.

Still decades away, it would be an enormous step toward truly renewable energy in the century ahead. Stars like our own sun burn with nuclear fusion for about 9-10 billion years, which would qualify as renewable in anyone's book.

While not as newsworthy as Afghanistan or the taper talk in Washington, this huge leap in fusion research could have much, much larger implications in the century ahead.

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