



MAKING CLIENTS WEALTHY
OUR MISSION



MARKET COMMENTARY

Q1 2021

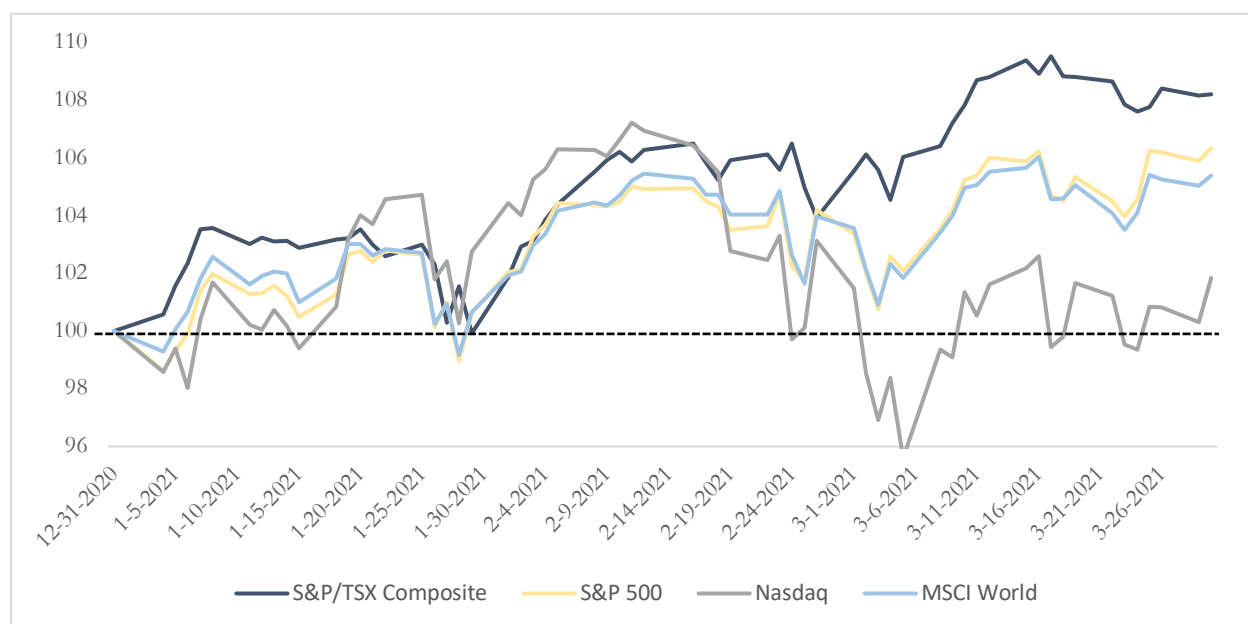
JESSE L. KAUFMAN, CAIA, CIM, AIF, FCSI
CHIEF INVESTMENT ANALYST

MANDEVILLE MARKET PERSPECTIVE – Q1 2021

MARKET OVERVIEW

The first quarter of 2021 brought a change in leadership, not just in Washington, but in all corners of the market. That which had been hot for so long, ceased to be, while that which had been cold, warmed up. Dividend stocks rose, the energy sector bested them all, and inflation reared its head.

Global equity markets posted positive returns in Q1 on the back of strong momentum experienced in 2020. The S&P/TSX, S&P 500, NASDAQ and MSCI World indices posted returns of 7.3%, 5.8%, 1.7% and 4.5% respectively.



Source: Bloomberg

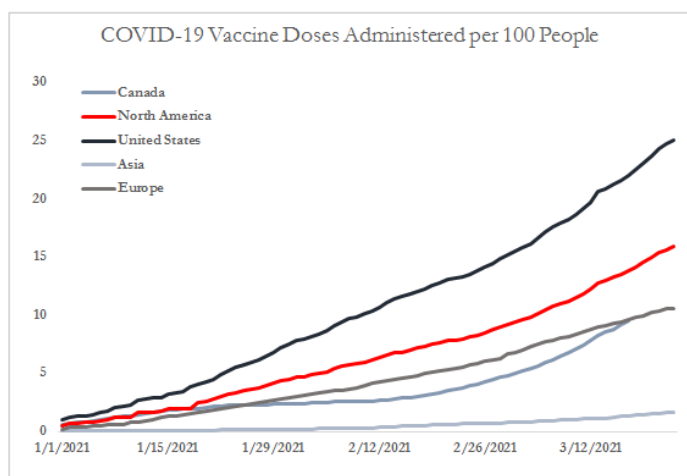
On a one-year basis, North American have equities rebounded remarkably from their March 2020 lows. Canadian equities, as measured by the S&P/TSX Composite Index, returned 43.6% while the S&P 500 returned 51.2% over the same period. Whereas growth stocks, namely technology companies, were favoured in the first half of the 2020 as working-from-home became commonplace, a structural rotation into value stocks was seen in the back half of the 2020 and into Q1 2021 – this being a direct result of an anticipated economic re-opening.

We saw three key themes materialize in Q1 2021:

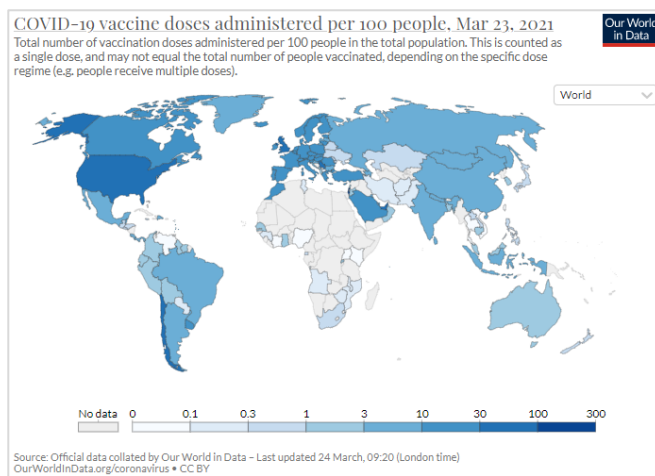
1. A rotation from growth stocks to value stocks
2. Frothy speculation driven largely by retail investors and social media
3. An up-tick in real rates as Portfolio Managers' economic outlooks turn positive

GROWTH TO VALUE

The vaccine-led recovery has been one of the most important catalysts for global economies as global vaccination rates have progressed at different speeds. Under its new administration, the United States has taken an aggressive approach by invoking a Korean War era law called the Defense Production Act. This approach gives the President powers to primarily allocate vaccine supplies domestically with stock that had been planned for foreign export.



Source: OurWorldInData



The United States leads many other countries in COVID-19 vaccine rollouts, contributing to strong outperformance by U.S. equity markets. For example, the S&P 500 index returned 7.75% over the first quarter of 2021 compared to the STOXX Europe 600 index returning 6.95% and the Hang Seng Index, representative of the stock-market index in Hong Kong, returning 3.30%. With the regional bifurcation underway, investors are now pricing in a faster economic recovery as vaccine administration progresses.

With the encouraging vaccine news in mind, the Purchasing Managers' Index (PMI) provides further evidence to support the economic recovery. The manufacturing PMI index is intended to provide information regarding the direction of economic trends in the manufacturing and service sectors. As such, economically sensitive companies (cyclical stocks) should continue to benefit from growing manufacturing confidence.

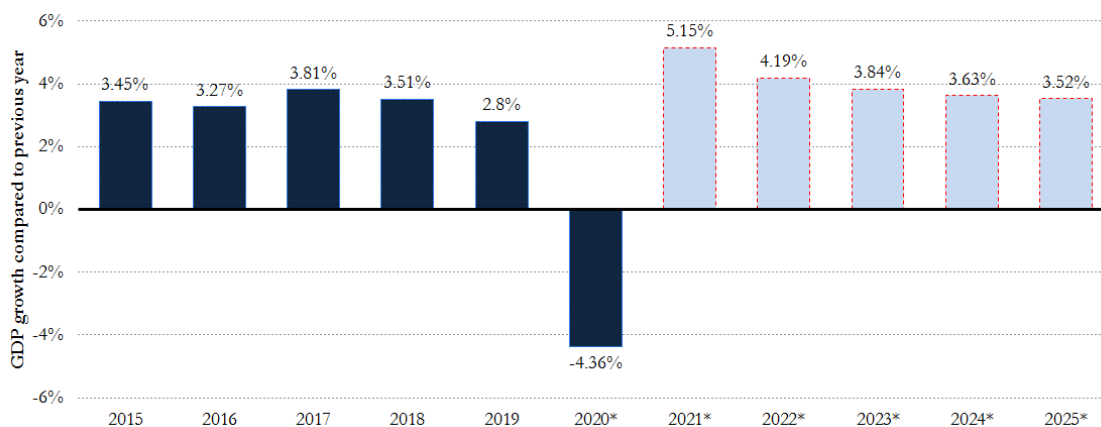
Manufacturing at a Glance

INDEX	Feb Index	Jan Index	% Point Change	Direction	Rate of Change	Trend* (months)
Manufacturing PMI®	60.8	58.7	+2.1	Growing	Faster	9
New Orders	64.8	61.1	+3.7	Growing	Faster	9
Production	63.2	60.7	+2.5	Growing	Faster	9
Employment	54.4	52.6	+1.8	Growing	Faster	3
Supplier Deliveries	72.0	68.2	+3.8	Slowing	Faster	60
Inventories	49.7	50.8	-1.1	Contracting	From Growing	1
Customers' Inventories	32.5	33.1	-0.6	Too Low	Faster	55
Prices	86.0	82.1	+3.9	Increasing	Faster	9
Backlog of Orders	64.0	59.7	+4.3	Growing	Faster	8
New Export Orders	57.2	54.9	+2.3	Growing	Faster	8
Imports	56.1	56.8	-0.7	Growing	Slower	8
Overall Economy				Growing	Faster	9
Manufacturing Sector				Growing	Faster	9

*Number of months moving in current direction.
Manufacturing ISM® Report On Business® data is seasonally adjusted for the New Orders, Production, Employment and Inventories indexes.

Source: ISM

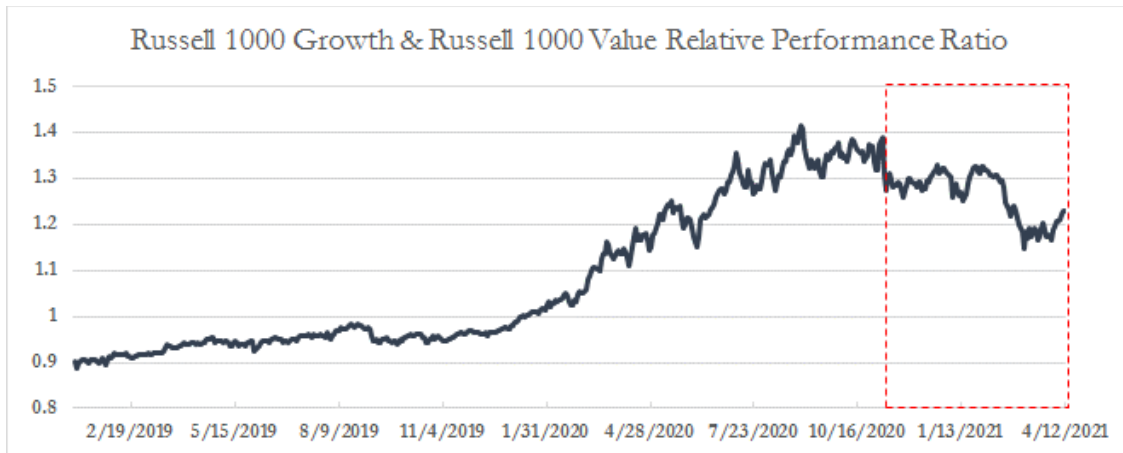
Economic forecasts have also been suggesting pent-up demand will lead to strong GDP growth following the sudden drop in economic activity in 2020. According to Statista, the economic contraction in 2020 amounted to a total of -4.36% while the rebound in 2021 is projected to reflect 5.15%, the largest year-over-year change in the past 5 years.



Source: Statista

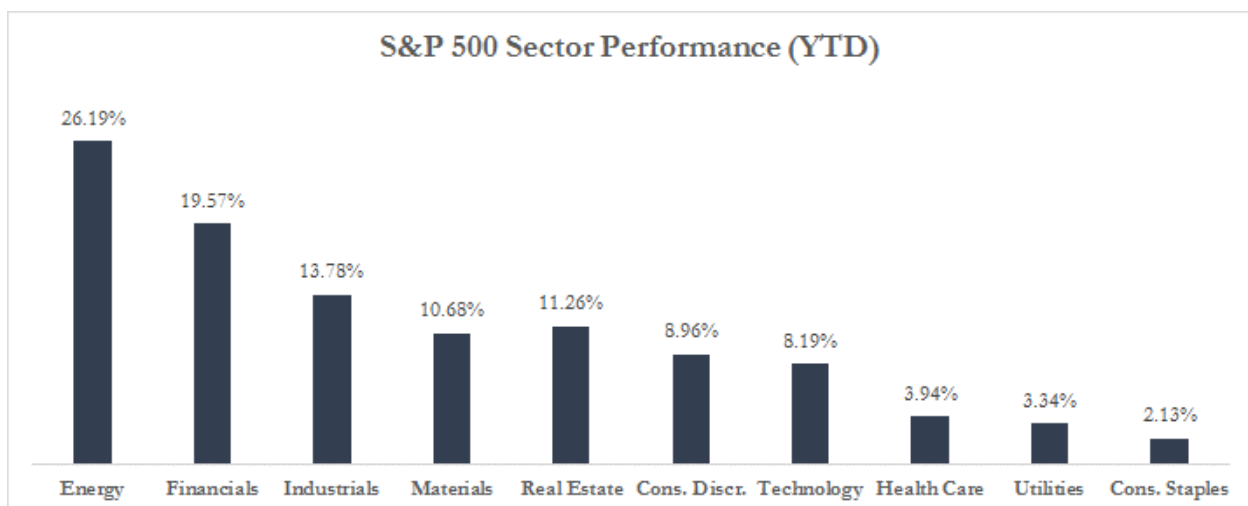
From multiple economic indicators, the picture painted over the first quarter of 2021 is optimistic. Economic data reflects the recovery is well under way and the consensus view is that it will continue throughout 2021.

In 2020, we experienced strong performance from growth stocks, many of which incorporate technology companies that benefited from prolonged shelter-in-place measures. With the aforementioned vaccine rollout, the rotational shift into value companies has increased the relative performance by value indexes throughout the first quarter of 2021.



Source: iShares

Energy, financials, and other cyclical sectors have experienced strong performance throughout the past quarter relative to the information technology sector, which returned only 8.2% - as shown in the graph below. This further demonstrates the rotational shift back into value stocks which may continue throughout the remainder of 2021 as the economic recovery continues.



Source: S&P Global, as of 4/13/2021

SPECULATORS VS. INVESTORS

We've heard a fair bit this quarter about how Reddit subscribers helped push GameStop stock up over tenfold. One could be forgiven for being swept up in the excitement a little bit; take heed, though, to manage your position sizing appropriately for your risk tolerance, because when the speculation ends, it can end badly and rapidly so.

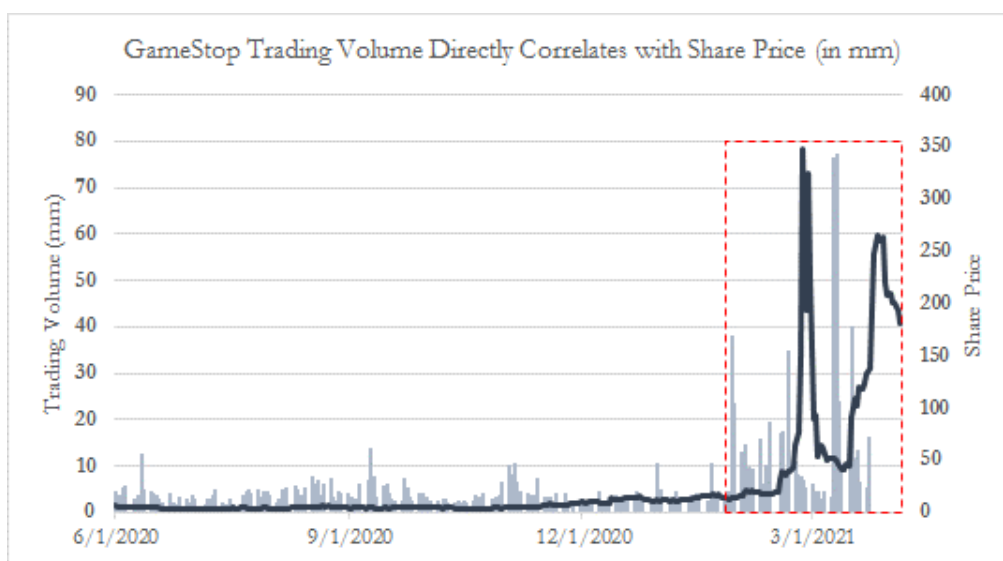
Investing—real investing, as opposed to speculating—is a long-term process, not a get-rich-quick scheme. And of course the allure of “get rich quick” is bright; who wouldn't want to become wealthy overnight? But it's illusory—not real.

Warren Buffett's words ring true: "To invest successfully over a lifetime does not require an extraordinarily high IQ, unusual business insights or inside information. What's needed is a sound intellectual framework for making decisions and the ability to keep emotions from eroding that framework."

According to our Chairman, Michael Lee-Chin, smart investing for wealth creation follows five cardinal rules:

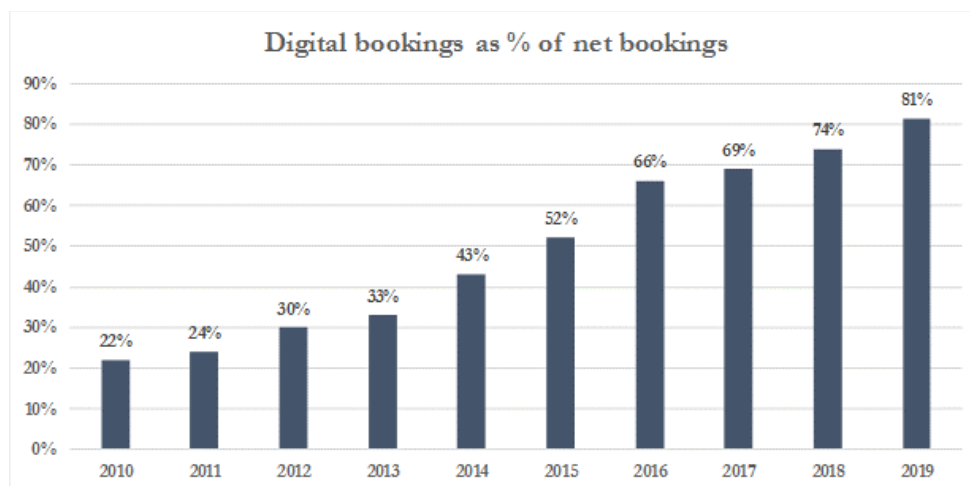
- 1) Own a few, high quality businesses
- 2) Thoroughly understand these businesses
- 3) Ensure that these businesses are in strong, long-term growth industries
- 4) Use other people's money prudently
- 5) Hold these businesses for the long run

The GameStop frenzy has the potential to be devastating to an investor who buys in at the wrong time, as the volatile trading activity has shown.



Source: Eikon

Compounding the problem is that much of this trading is for reasons that are not fundamental to the company's growth prospects; in fact, an increasing number of gaming transactions take place online, not in a brick-and-mortar retailer like GameStop.

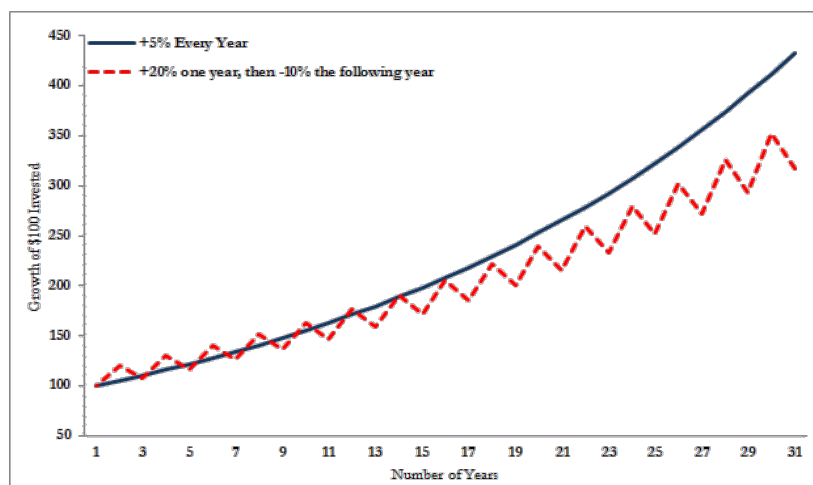


Source: Newzoo

This is nothing new to us; we've seen this story before. Investors, having heretofore been rightly satisfied with stable, consistent, compounding growth in their portfolios, wonder why they aren't making more; why their portfolios aren't keeping up with public equity markets, if they should be taking more risk.

The latest fad (Technology, Marijuana, Bitcoin etc.) is soaring, everyone has a hot tip, prudence and risk management become an afterthought. You don't need to stay until the credits roll to know how it ends: the financial crisis of 2008 and the dotcom bubble of the early 2000's caused widespread destruction in portfolios and severe trauma to investors. And those were just two of the latest installments.

Growing your money consistently and conservatively can produce superior results to dramatic swings, with a higher likelihood of keeping you calm enough to earn them.



Source: Picton Mahoney Asset Management

After all, a major part of winning is just not losing:

Digging A Hole	
Small losses are easier to recover from, compared with big drops	
Initial loss	Gain needed to recover
8%	8.7%
25	33
30	43
40	67
50	100

Source: Investors Business Daily

The remarkable performance of the past twelve months may well not recur in the coming years, and investors should manage their expectations and their portfolios accordingly. In fact, there have been very few periods in history where broad-based global indices have collectively delivered 30+% returns over a 12-month period. As such, investors should consider the prior year's equity returns to be an anomaly rather than the norm.

Market Snapshot (03/29/2021)

Index	1 Year Return (%) to March 29, 2021
S&P/TSX Composite	43.57%
DJIA	48.57%
S&P 500	51.18%
NASDAQ	67.99%
Russell 2000	86.36%
STOXX Europe 600	33.99%
China Onshore CSI 300	38.21%
Barclays US Agg	0.55%
Oil (WTI Crude)	195.02%
CAD/USD	12.75%

(Source: Mackenzie Financial)

REAL RATES ON THE RISE

In the fixed income markets, interest rates have rallied to their highest level in over a year.

Massive liquidity backstops (from both fiscal and monetary policymakers), combined with the roll-out of vaccinations across North America, has led to heightened optimism across global fixed income markets.

We highlight that real interest rates, which are bond yields adjusted for inflation expectations, have also been on the rise. 10-year real rates reached a trough of -1.0% in 2020 but have since ticked up by 35 basis points to -0.65%. On a trailing 5-year basis, a reading of 0.5% would be in-line with more normalized levels, which indicates to us that there is still plenty of room left in this rally.



Source: St. Louis Fed

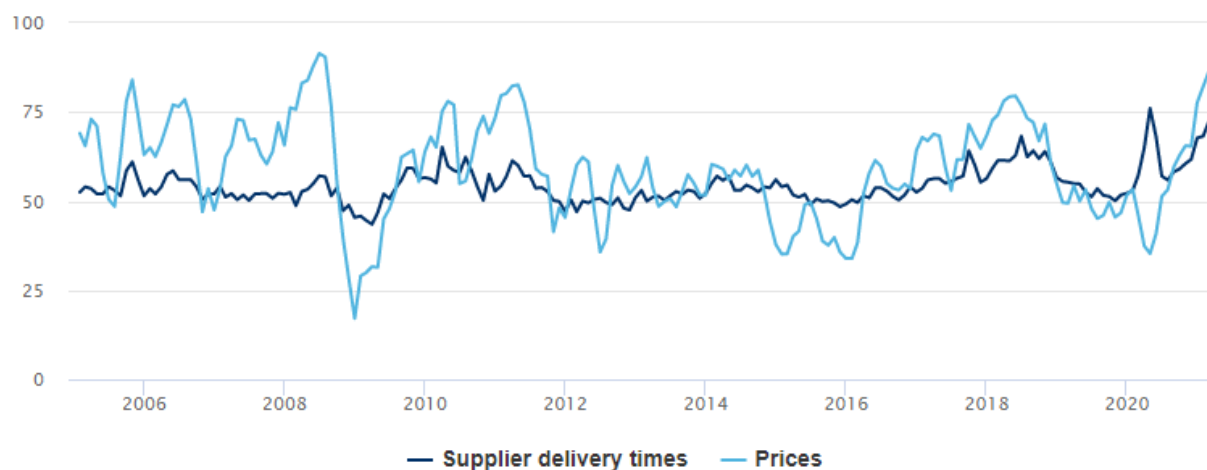
Over the past month, the underperformance of technology stocks has directly coincided with the rise in the U.S. 10-year treasury yields. The reason is intuitive; the value of a business today is equal to the present value of its future cash flows discounted at an investor's required rate of return.

As the required rate of return increases, the present value of long dated cash flows becomes smaller in today's terms. Said differently, investors prefer to own businesses that generate more cash today (value stocks) as opposed to in the future (growth stocks) during periods of rising rates.

That said, to simply conclude that rising rates are bad for growth stocks misses a broader part of the equation – of equal importance is understanding what is driving those rates higher.

We agree that a hike in rates driven by monetary tightening from central bankers would be detrimental to growth stocks broadly. However, this is not the case in today's market, as U.S. Fed Chairman Jerome Powell has widely pledged to hold rates at near-zero through 2023.

Rather, the probable cause of the recent spike in rates is investors' pricing of higher inflation expectations. In the near-term, rising commodity prices, higher shipping costs, and increasing input shortages are likely to put upward inflationary pressure on goods & services.



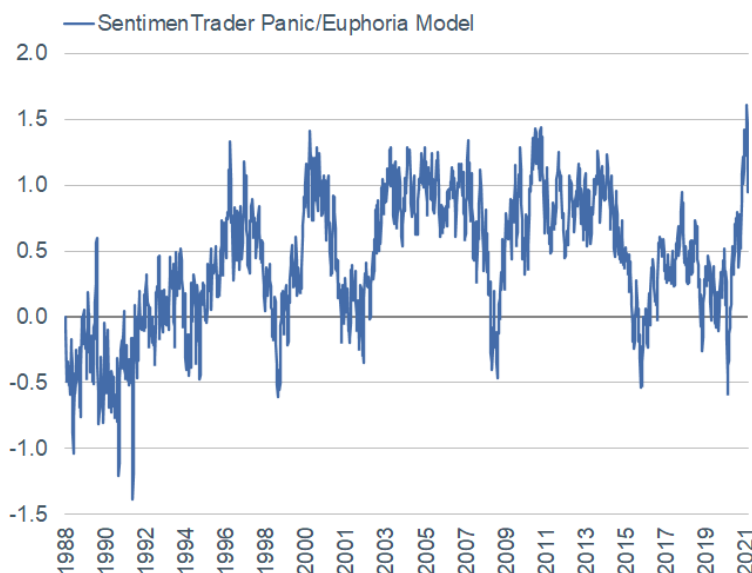
Source: Institute for Supply Management, RBC Economics

Inflation driven by current supply chain factors should be transitory, in our view, as pent up demand for goods begin to normalize in 2022. With that in mind, we would expect to see a jump in headline inflation in the near-term while central banks continue to hold rates steady for the remainder of 2021.

The recent moves in the fixed income markets tell us that bond investors are now requiring a higher return for bearing the risk of government bonds and inflation in their portfolios – this bolsters our view that equities continue to be the most attractive asset class on a relative basis.

ASSET ALLOCATION AND PORTFOLIO GUIDANCE

Market sentiment is near an all-time high. Recall Warren Buffett's words, "Be fearful when others are greedy."



Source: Charles Schwab

Consider, also, that bonds, historically the great volatility mitigators, are far more precarious today than they have ever been. As interest rates have been declining consistently for decades (effectively to zero), bond prices have risen. This worked particularly well for the last 30 years at insulating portfolios when equities dropped.

Today, bonds are still part of a portfolio, but one must allow for the reality that, as interest rates have started to rise, bond prices have started to drop. The conundrum facing investors today is the need for portfolio protection when both equities and bonds are falling – hence the need for uncorrelated investments.

What is an investor to do? Hire a qualified, impartial, professional team to guide you. Have a properly and appropriately designed plan and portfolio—specifically, one that can protect and grow when public markets go down and interest rates rise—by including exposure to non-correlated and private assets with a proven ability to increase portfolio returns.

Stick to it and resist the normal behavioural mistakes that are so detrimental to investors. Remember, true diversification means that some things will be going down as others go up. Understand the risk you're taking as well as the returns you're seeking.

The process we adhere to for the management of our clients' assets is, quite literally, the ongoing product of tens of thousands of hours of work, research, experience and study, based upon the best practices from around the globe, such as those employed by top institutional investors like David Swensen at the Yale Endowment Fund, with a constant commitment to ongoing learning.

According to FTSE Russell, having considered recent performance and current market positioning, their forecast for **public** global equities over the next 5 years is merely an annual average of 7.1%. Conversely, their forecast for global **private** equities over the next 5 years is an annual average of 13.2%; nearly **double** the return of publicly listed securities. Now, perhaps more than ever, the importance of privates and alternatives to a portfolio cannot be overstated.

		Equity					Private - Unlisted			
		Canada Equity	US Equity	EAFE Equity	Emerging Markets Equity	Global Equity	Global Private Equity	Canada Real Estate	Global Real Estate	Global Infrastructure
5 Yr Arithmetic	Return	10.4%	3.2%	14.2%	9.5%	7.1%	13.2%	8.8%	9.6%	11.2%
5 Yr	Volatility	18.3%	14.3%	16.6%	20.5%	14.9%	12.7%	17.7%	13.9%	14.1%
5 Yr	Geometric Return	9.2%	2.4%	13.2%	8.0%	6.2%	12.6%	7.6%	8.8%	10.4%
10 Yr Arithmetic	Return	7.0%	1.2%	7.5%	6.0%	3.6%	6.7%	8.5%	7.5%	8.2%
10 Yr	Volatility	17.3%	14.3%	15.4%	20.2%	14.6%	15.7%	19.6%	15.3%	15.3%
10 Yr	Geometric Return	5.7%	0.3%	6.5%	4.3%	2.7%	5.7%	6.9%	6.5%	7.2%
20 Yr Arithmetic	Return	7.4%	4.1%	7.2%	7.6%	5.4%	7.7%	8.8%	7.7%	8.1%
20 Yr	Volatility	18.0%	16.1%	16.0%	21.9%	16.0%	19.3%	21.4%	17.1%	16.6%
20 Yr	Geometric Return	5.9%	2.9%	6.1%	5.4%	4.3%	6.0%	6.8%	6.4%	6.9%
20 Yr Time Series	Volatility	16.8%	13.9%	15.6%	18.7%	13.9%	11.4%	10.2%	11.1%	10.9%

Source: FTSE Russell

Our positioning remains cautiously overweight equities. We begin a shift, however, from growth equities to value equities, believing a reversion to the historical mean is underway. We remain underweight bonds and overweight privates and alternatives.

Sincerely,

Jesse Kaufman – Chief Investment Analyst

Michael Dil – Chief Investment Officer

Riley Phillipson – Investment Analyst

Alan Zhu – Investment Associate Trainee

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Mandeville Holdings Inc., 1375 Kerns Road, Suite 200, Burlington, Ontario L7P 4V7 Tel.: 1-888-990-9155 • Fax: 1-905-331-4245 • www.mandevilleinc.com