



February 2021

RIDING THE BLUE WAVE

Following the Georgia U.S. Senate seat wins, the Democrats now control both houses of the U.S. Congress as well as the White House. While several months ago, this may have been an unlikely possibility as an election outcome, it has now become a reality. In the past, the Democrats controlling the executive and legislative branches of the U.S. government would have resulted in an anxious market but COVID-19 has changed this. The largely social-lean of the Democratic policies are now the reason for many investors to remain bullish in 2021. What can investors really expect? For starters, additional and larger amounts of stimulus for U.S. citizens and support for businesses including not only direct stimulus cheques but also extensions to the expanded unemployment benefits. In early January, U.S. President Joe Biden unveiled a US\$1.9 trillion stimulus package to kick-start the economy. As of the writing of this article, the proposal has not yet been approved by Congress but the Democrats are aggressively trying to move it forward. President Biden also unveiled another major spending initiative to be announced in February that will involve a large investment in U.S. infrastructure. While the stimulus is a near certainty, it is the less business-friendly initiatives such as more environmental regulations and higher corporate taxes that investors continue to wonder about. Will this be a priority for Biden or will he simply focus on COVID-19 and rebuilding the U.S.? While the Democrats control Congress, it is only by a very small margin and thus it is reasonable to think that passing less business-friendly measures will run into opposition unless there is bi-partisan support and that is unlikely.

Which sectors are best positioned to benefit directly from the “Blue Wave”? Renewable energy companies stand to profit from clean energy and environmental policies, which have been the basis of much of Biden’s platform. Through infrastructure spending, subsidies, and tax incentives, the renewable energy space will be well-positioned. Other areas in the industrial sector will also likely see strong demand for their services, specifically the engineering and construction companies that are involved in making existing structures and buildings more energy efficient. This could consist of HVAC conversion and retro-fitting or companies that offer more eco-friendly building materials. One of Biden’s first acts as President was to revoke the permit of the Keystone XL pipeline project and while this was disappointing to the companies involved and the industry as a whole, it was largely anticipated by the market. It does suggest that developing assets in the U.S., specifically liquids pipelines, will remain difficult with the new administration.

Another area that could benefit is the cannabis industry. A Democratic Congress will likely take an accelerated path to U.S. legalization at the federal level in late 2021 or 2022. Some Canadian cannabis producers stand to benefit given that over the past few years they have been able to develop their operations. That said, many U.S. suppliers are also well-positioned and will have fewer restrictions than the Canadian names. For the investors looking to play this through the Canadian producers, it is best to focus on the names that are listed on the Canadian and U.S. exchanges. These are the larger companies and they will be more easily accessible to U.S. institutional fund managers who will begin building positions as we get closer to legalization.

The technology sector will face some scrutiny regarding the amount of taxes it pays given that this is among the lowest of any U.S. sector. The breaking up of big technology companies has also been a goal of some far-left-leaning Democrats for some time. While it is possible, given the fact that the Democrats only control Congress by a slim margin and that Silicon Valley has a large amount of influence in the Democratic party, it would be difficult to pass overly strict regulations.

Another area to keep in mind is the matter of corporate income taxes. A rise in U.S. corporate tax could result in several changes for U.S. and Canadian companies. The shift in the U.S. corporate tax rates might result in a tax rate reversal where the rate advantage that U.S. companies currently have over Canadian companies is reversed. Ultimately, this could affect how corporations approach cross-border tax planning and affect transactions between business units and transfer pricing decisions. A likely outcome would be that income inclusion could shift back to Canada while tax deductions are harvested in the U.S. While there are several other potential tax complications from higher corporate taxes, the “Blue Wave” will not come crashing down on the market and destroy every large corporation in its path. In the end, the Democrats seem to be largely focused on supporting the economy through stimulus and fiscal spending during the pandemic and getting life back to normal in a swift but safe manner and that, overall, is constructive for the U.S.

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Unless otherwise noted, all prices quoted in this report are as of the close of markets on January 25, 2021.

MARKET RETURN DATA

		Price Performance (% Change)					Price Performance (% Change - Annualized)						
North American Indices		Price	1 Month	3 Months	6 Months	YTD	1 Year	2 Years	3 Years	5 Years	10 Years	15 Years	20 Years
S&P/TSX Composite	17,337	-0.6	11.3	7.2	-0.6	0.1	5.6	2.8	6.2	2.5	2.5	3.2	
Total Return		-0.3	12.1	8.9	-0.3	3.5	9.1	6.1	9.5	5.6	5.6	5.9	
S&P/TSX Preferred Share Index	629	2.0	9.0	12.1	2.0	2.6	0.5	-4.6	1.5	-3.0	-3.0	N/A	
Total Return		2.6	10.5	15.3	2.6	8.8	6.4	0.7	7.1	2.1	2.2	N/A	
S&P 500 Index	3,714	-1.1	13.6	13.5	-1.1	15.2	17.2	9.6	13.9	11.2	7.4	5.1	
Total Return		-1.0	14.0	14.5	-1.0	17.2	19.4	11.7	16.2	13.5	9.6	7.2	
Dow Jones Industrial Average	29,983	-2.0	13.1	13.4	-2.0	6.1	9.5	4.7	12.7	9.7	7.0	5.2	
Total Return		-2.0	13.7	14.6	-2.0	8.5	12.1	7.1	15.5	12.4	9.7	7.8	
Nasdaq Composite Index	13,071	1.4	19.8	21.6	1.4	42.8	34.0	20.8	23.2	17.1	12.3	8.1	
International Indices		Price	1 Month	3 Months	6 Months	YTD	1 Year	2 Years	3 Years	5 Years	10 Years	15 Years	20 Years
Bloomberg Euro 500	263	-0.9	15.8	11.4	-0.9	-3.9	4.4	-0.4	2.6	2.9	0.9	0.1	
FTSE Eurotop 100	2,853	-1.0	15.6	8.6	-1.0	-7.8	2.3	-1.8	1.4	1.8	0.0	-1.1	
FTSE 100 (England)	6,407	-0.8	14.9	8.6	-0.8	-12.1	-4.1	-5.3	1.0	0.9	0.7	0.1	
Dax (Germany)	13,433	-2.1	16.2	9.1	-2.1	3.5	9.6	0.6	6.5	6.6	5.9	3.5	
CAC 40 (France)	5,399	-2.7	17.5	12.9	-2.7	-7.0	4.0	-0.5	4.1	3.0	0.6	-0.5	
MSCI World	2,662	-1.1	16.1	15.5	-1.1	13.6	14.5	6.3	11.2	7.4	4.8	3.9	
MSCI Emerging Markets	1,330	3.0	20.5	23.2	3.0	25.2	12.5	2.0	12.4	1.7	3.6	6.5	
Total Return	3,146	3.1	21.0	24.2	3.1	28.3	15.6	4.8	15.4	4.6	6.4	9.4	
MSCI EAFE	2,124	-1.1	19.3	16.7	-1.1	6.5	7.7	-0.5	5.9	2.3	1.2	1.8	
Total Return	9,262	-1.1	19.6	17.7	-1.1	9.4	11.0	2.7	9.4	5.6	4.5	4.9	
Nikkei 225 (Japan)	27,663	0.8	20.4	27.4	0.8	19.2	15.4	6.2	9.6	10.5	3.4	3.5	
Hang Seng (Hong Kong)	28,284	3.9	17.3	15.0	3.9	7.5	0.6	-4.9	7.5	1.9	4.0	2.9	
ASX 200 (Australia)	6,607	0.3	11.5	11.5	0.3	-5.8	6.1	3.1	5.7	3.3	2.0	3.5	
Taiwan Weighted	15,138	2.8	20.7	19.5	2.8	31.7	23.5	10.9	13.2	5.2	5.8	4.8	
Sensex 30 (India)	46,286	-3.1	16.8	23.1	-3.1	13.7	13.0	8.8	13.2	9.7	10.8	12.6	
Index Returns In Canadian Dollars		Price	1 Month	3 Months	6 Months	YTD	1 Year	2 Years	3 Years	5 Years	10 Years	15 Years	20 Years
S&P/TSX Composite	17,337	-0.6	11.3	7.2	-0.6	0.1	5.6	2.8	6.2	2.5	2.5	3.2	
Total Return		-0.3	12.1	8.9	-0.3	3.5	9.1	6.1	9.5	5.6	5.6	5.9	
S&P 500 Index	4,755	-0.8	9.0	8.4	-0.8	11.4	15.7	11.0	11.8	13.9	8.2	4.3	
Total Return		-0.7	9.5	9.3	-0.7	13.4	17.9	13.2	14.0	16.3	10.4	6.4	
Dow Jones Industrial Average	38,387	-1.8	8.6	8.3	-1.8	2.7	8.1	6.0	10.7	12.4	7.8	4.4	
Total Return		-1.7	9.1	9.4	-1.7	5.0	10.6	8.5	13.4	15.2	10.6	6.9	
Russell 2000	2,655	5.3	29.4	33.7	5.3	24.3	16.1	11.0	12.8	13.0	8.0	6.4	
Nasdaq Composite Index	16,734	1.7	15.0	16.1	1.7	38.2	32.2	22.4	20.9	20.0	13.1	7.2	
Bloomberg Euro 500	408	-1.4	15.7	9.3	-1.4	1.8	6.0	0.1	3.0	4.2	1.6	0.6	
EURO STOXX 50	5,408	-2.5	17.7	7.7	-2.5	1.3	6.6	-0.7	3.1	2.9	0.3	-1.0	
Total Return		-2.4	17.9	8.2	-2.4	3.3	9.1	1.8	5.8	5.9	3.3	1.7	
MSCI World	3,408	-0.8	11.4	10.2	-0.8	9.9	13.0	7.7	9.2	10.0	5.6	3.1	
MSCI Emerging Markets	1,702	3.2	15.6	17.6	3.2	21.1	11.1	3.3	10.3	4.3	4.4	5.6	
Total Return		3.4	16.1	18.6	3.4	24.2	14.1	6.2	13.3	7.2	7.2	8.5	
MSCI EAFE	2,719	-0.8	14.5	11.4	-0.8	3.1	6.3	0.8	4.0	4.8	1.9	1.0	
Total Return		-0.8	14.8	12.3	-0.8	5.8	9.6	4.1	7.4	8.3	5.3	4.1	
MSCI Far East	5,105	-0.3	11.7	16.7	-0.3	7.7	7.5	2.5	6.0	6.5	2.2	1.4	
Commodities		Price as of					Yields as of						
	29-Jan-21	-1 Month	-3 Months	-6 Months	-12 Months	YTD (%)		29-Jan-21	-1 Month	-3 Months	-6 Months	-12 Months	
Gold Spot (US\$/oz)	1,848	1,898	1,879	1,976	1,589	-2.7%	Canada 3-month T-Bills	0.07	0.06	0.09	0.17	1.64	
Silver (US\$/oz)	26.99	26.40	23.66	24.39	18.04	2.2%	Canada 5yr Notes	0.42	0.39	0.40	0.32	1.28	
Brent Crude Oil	55.88	51.80	37.46	43.30	58.16	7.9%	Canada 10yr Notes	0.89	0.68	0.66	0.47	1.27	
West Texas Intermediate Oil	52.20	48.52	35.79	40.27	51.56	7.6%	Canada 30yr Bonds	1.47	1.21	1.25	0.93	1.43	
NYMEX Natural Gas	2.56	2.54	3.35	1.80	1.84	1.0%							
Spot Nat. Gas (AECO Hub - USD)	2.28	1.95	2.51	1.54	1.35	16.9%	U.S. 3-month T-Bills	0.05	0.06	0.09	0.08	1.54	
Lumber	887.00	873.10	495.60	585.80	435.50	1.6%	U.S. 5yr Notes	0.42	0.36	0.38	0.20	1.31	
Copper 3-month	3.56	3.52	3.05	2.91	2.53	1.2%	U.S. 10yr Notes	1.07	0.91	0.87	0.53	1.51	
Nickel 3-month	8.02	7.54	6.87	6.25	5.83	6.5%	U.S. 30yr Bonds	1.83	1.64	1.66	1.19	2.00	
Aluminum 3-month	0.90	0.90	0.84	0.78	0.78	-0.1%							
Zinc 3-month	1.17	1.25	1.14	1.05	1.00	-6.2%							
Currencies		Performance (% Change)					S&P/TSX GICS						
	Price	1 Month	3 Months	6 Months	12 Months	YTD	Sectors		Price Performance (% Change)				Index Weight (%)
CAD/USD	0.7820	-0.5	4.2	4.9	3.5	-0.5	Consumer Discret.	-2.6	17.6	21.5	14.3	-2.6	3.8
EURO/CAD	1.5513	-0.3	-0.0	-1.8	5.7	-0.3	Consumer Staples	-5.3	-3.7	-8.9	-6.8	-5.3	3.7
EURO/USD	1.2131	-0.7	4.2	3.0	9.4	-0.7	Energy	2.7	21.8	4.1	-27.2	2.7	11.6
USD/YEN	104.7900	1.5	0.1	-1.0	-3.3	1.5	Integrated Oil & Gas	-0.4	47.1	7.7	-42.7	-0.4	1.9
Trade Weighted U.S. Dollar	90.5840	0.7	-3.7	-3.0	-7.0	0.7	Oil&Gas Expl. & Prod	-2.6	34.8	25.9	-21.4	-2.6	2.2
							Pipeline	6.2	12.9	-2.6	-24.4	6.2	6.9
							Financials	-0.8	17.3	17.6	-5.0	-0.8	30.2
							Banks	-0.4	17.0	19.4	-2.5	-0.4	20.5
							Insurance	2.4	18.9	22.2	-9.7	2.4	4.5
							Real Estate	1.3	10.8	9.8	-15.7	1.3	3.2
							Health Care	35.3	63.7	48.6	6.0	35.3	1.6
							Industrials	-2.9	7.2	11.0	7.1	-2.9	12.2
							Information Tech.	-0.7	17.1	4.3	63.6	-0.7	10.3
							Materials	-3.5	-5.4	-11.0	18.1	-3.5	13.3
							Gold	-4.9	-16.3	-26.0	10.9	-4.9	8.3
							Base Metals	-3.9	28.2	60.9	47.2	-3.9	0.6
							Fertilizers	2.8	16.3	44.4	11.5	2.8	1.5
							Communication Serv.	0.5	6.1	2.4	-10.4	0.5	5.0
							Utilities	2.6	8.7	11.4	5.6	2.6	5.3
Strategic Asset Allocation (in C\$)		Performance (% Change - Before Fees)					Bond Returns						
(Global Equity/Cdn. Equity/Bonds/Cash)		1 Month	3 Months	6 Months	12 Months	YTD		1 Month	3 Months	6 Months	12 Months	YTD	
Capital Preservation (5/15/60/20)		-0.7%	2.6%	1.1%	3.9%	-0.7%	FTSE Canada Bond Universe Index	-1.1	0.3	-1.3	4.4	-1.1	
Income (10/20/60/10)		-0.8%	3.8%	2.1%	4.7%	-0.8%	FTSE Canada Long Term Bond Index	-3.0	-0.4	-4.8	3.1	-3.0	
Income & Growth (20/25/50/5)		-0.8%	5.5%	3.8%	5.6%	-0.8%	FTSE Canada Mid Term Bond Index	-0.5	0.6	0.2	6.5	-0.5	
Growth (40/25/35/0)		-0.7%	7.9%	6.2%	7.3%	-0.7%	FTSE Canada Short Term Bond Index	0.1	0.6	0.9	4.3	0.1	
Aggressive Growth (60/25/15/0)		-0.7%	10.2%	8.7%	8.9%	-0.7%							

All data is sourced from Bloomberg unless otherwise noted. Data as of January 29, 2021.
Data source: Bloomberg

CIBC World Markets Interest Rate Outlook

Source: CIBC World Markets Inc.

Interest Rates (%) - End of Qtr		Jan 25, 2021	Mar/21	Jun/21
3-month T-Bill	Canada	0.07	0.10	0.15
	U.S.	0.08	0.10	0.20
10-year Gov't Bond Yield	Canada	0.81	0.70	0.85
	U.S.	1.03	1.00	1.20
US\$/C\$		0.79	0.77	0.76

CIBC World Markets Economic Outlook

Economic Outlook		2021F	2022F
Real GDP Growth (% Chg)	Canada	4.0	5.1
	U.S.	4.1	3.6
Consumer Price Index (% Chg)	Canada	2.0	1.8
	U.S.	2.3	2.5

Source: CIBC World Markets Inc.

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