Canaccord Genuity Wealth Management

Market Watch Weekly

theBasran Wealth Management Group

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EARNINGS SURPRISE

For the second week in a row, the S&P 500 finished just a hair's length away from the unchanged mark. After dropping 0.13% one week earlier, the index closed up one point, or 0.02%, at 4181.17. The Nasdaq composite fell 0.4%, to 13,962.68, while the Dow Jones Industrial Average dropped 0.5%, to close at 33,874.85. U.S. equities logged their third consecutive month of gains in April, with the S&P recording its best month since November 2020. There was little change to the macro narrative, with the path of least resistance remaining to the upside amid continued Covid/vaccine optimism, fiscal stimulus prospects, solid corporate earnings, and robust consumer spending.

The major focus of April was the start of Q1 earnings season, which has thus far come in better than expected. The blended S&P 500 earnings growth rate for Q1 now stands at 45.8%, up from 24.5% at the start of earnings season and the 15.8% expected at the start of the quarter. In addition, 86.0% of reporters have surpassed consensus EPS expectations, above the 77% one-year average and a record high. In aggregate, companies are beating earnings expectations by nearly 23.0%, better than the 14.5% one-year average positive surprise rate and the second highest rate on record. As has been the case over the last few quarters, upside surprises have been driven by outsized estimate cuts early in the pandemic, a resilient macro backdrop underpinned by massive fiscal and monetary stimulus and elevated profit margins. Q1 has also benefitted from big reserve releases out of the financials.

It was a very uneventful month from a Fed standpoint, with the minutes from the March FOMC meeting and a raft of Fedspeak doing little to alter the "patience" narrative. As expected, the Fed left its policy settings unchanged at its April 26-27 FOMC meeting, making only a few upgrades to the economic language in the meeting statement. Powell largely stuck to his prior dovish tone in the press conference. While he characterized some markets as "frothy", he passed over positive recent economic releases and reiterated that it is not yet time to begin the discussion on tapering the Fed's $120B asset purchases. The markets will be looking ahead to the June 15-16 meeting, when some analysts believe the Fed may indeed begin its tapering debate.

President Biden unveiled the next phase of his stimulus proposal, a $1.8T set of policies covering a range of Democratic priorities including family/medical leave, universal pre-K, childcare, and free community college tuition. This would be on top of the $2.25T in infrastructure spending outlined earlier in the year. The breadth of the policy proposals was well telegraphed though the issue of taxes hovered around the discussion, with the markets briefly taken aback by reports Biden is considering a capital-gains tax rate as high as 43.8% for higher earners. The coming weeks are likely to see increased jockeying

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MARKET SUMMARIES

(As of this morning before Market Open)

S&P/TSX Composite at 19,108.33 (up 9.61% ytd)

S&P/TSX Venture at 955.26 (up 9.13% ytd)

S&P 500 at 4,181.17 (up 11.32% ytd)

Dow Jones Industrial Avg. at 33,874.85 (up 10.68% ytd)

Nasdaq Composite at 13,962.68 (up 8.34% ytd)

Metals

Gold: $1767.70

Silver: $25.87

Copper $4.47

Energy

Brent Crude Oil: $67.25

WTI Crude Oil: $63.58

Natural Gas ($US/MMBTU): $2.73

within the Democratic caucus as legislators begin to craft legislation they may be able to pass on a party-line basis.

Canadian Pacific Railway (CP) said on Saturday it filed a formal objection with a U.S. regulator stating Canadian National Railway's (CNR) near US $30 billion rival bid for Kansas City Southern does not qualify to be exempted from tougher merger rules. Last week, the U.S. Surface Transportation Board (STB) granted waiver to CP's $25 billion agreed bid for Kansas City Southern, which means the deal would not be subjected to the tougher railroad merger rules the regulator put in place in 2001. CP won the exemption based on its smaller size and analysts and shareholders have said that STB's ruling reduces the regulatory risk to CP's deal. In its argument filed with the regulator on Friday, CP said CN's offer to acquire KCS should be cause for concern because of the size. "A combined CN/KCS would greatly expand the size of the fifth largest U.S. 1 railroad, vastly increasing the gap between CN/KCS and…CP." Canadian Pacific said. CN and KCS did not immediately respond to a request for comment on CP's filing to the regulator.

WHAT'S AHEAD

The U.S. is continuing to be drenched with liquidity provided via borrowing by U.S. government and funded indirectly by the Fed's buying $120 billion of securities every month. That has pumped money into the economy and stock market, with the major equity indexes hovering near records. There's no sign of the deluge letting up, with the Biden administration putting forth its infrastructure and social welfare proposals on top of the previously passed $1.9 trillion relief measure. And even with the nation's economy likely to recover in the current quarter all of the ground lost in the Covid-19 pandemic of the past 14 months, the Fed is staying ultraeasy. The effects are starkly apparent in economic data. Gross domestic product expanded at a 6.4% real annual rate in the first quarter, the Commerce Department reported this past week, a tally that understates its growth. Excluding shrinking inventories that partially reflected constraints such as shortages of key components, real final sales boomed at 9.2% annual clip. After taking into account how much U.S. spending went to foreign producers, net domestic final sales gains just missed double digits, at a 9.9% annual rate.

With the major indexes hovering near records and earnings surprising to the upside, there continue to be concerns about very stretched sentiment and valuation indicators, peak growth signaling, a potential taper tantrum, inflation overshoot/policy mistake, tax overhaul and margin headwinds from supply chain disruptions, and input price pressures. We believe the momentum in the markets is running out of steam which will lead to a short term pause or long overdue correction of some significance. In our opinion the correction phase will unfold over the weeks and next few months ahead and thereafter we anticipate a strong end to the year. A correction phase will be an opportunity to deploy cash on hand and we continue to prepare accordingly.

"What the market tells you in the short term is what a certain subset of people believe. That doesn't mean they're right."
Bill Ackman

FINANCIAL PLANNING TIP OF THE WEEK

Charitable Giving

There, are a number of ways that a person can use life insurance to help meet their philanthropic goals, including:

- Assigning a new life insurance policy to a charity; a federal credit rate of 15% is applied to the first $200.00 of donations, claimed during the year, and a federal credit rate of 29% is applied to donations over $200.00. The provincial rate varies by jurisdiction.

- Assigning an existing life insurance policy to a charity; a policyholder can acquire a new life insurance coverage, on his or her own life or on someone else's and then give or assign that new policy to a registered charity, provided the charity is willing and able to take over ownership of that policy.

- Naming a charity as the beneficiary of a new or existing life insurance policy. A policyholder can also name a charity as the beneficiary of a policy. The policyholder will not get a tax receipt at the time he or she names the charity as a beneficiary, nor will they get a tax receipt for the premiums they pay.

Each of these methods has the potential to result in a charitable donations tax credit based on a separate calculation to how it applies when using life insurance for charitable purposes. This calculation should be consulted with your accountant upon submission for charitable giving purposes.

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