

This Week in Review

Good day! Hopefully everyone had a nice weekend! North American Equities finished mostly lower this week. Growth and momentum lagged value. Sector performance was mixed with Healthcare, Tech and Utilities among the notable decliners, all down more than 1.5%.

Our thesis still suggests waiting to add new exposure on short-term weakness, so we will see how the week shakes out. Wall street still believes that given the rising bond yields, it still reflects a sign of growing confidence in the economic recovery and equities should be able to absorb higher rates due to strong earnings. Enjoy the week and please don't hesitate to reach out with any questions!

Warm Regards, **Sager Financial Group**

Outperforming Sectors:

- Energy +3.06%, Financials +2.81%, Materials +0.89%, Industrials +0.74%, Consumer Disc. (0.54%)

Underperforming Sectors:

- Healthcare (2.45%), Utilities (1.99%), Tech (1.92%), Consumer Spls. (1.14%), Communications Svcs. (0.93%), REITs (0.86%)

Other Asset Classes:

- Treasuries came under pressure with the bulk of the damage taking place at the beginning and end of the week. The yield on the 10-year note jumped ~15 bp to 1.34%. The dollar index fell 0.1%. Gold slumped 2.5%. WTI crude lost 0.4% despite some strength over the first few days of the week on the Texas shut ins.

Weekly Highlights:

- The focus this week was largely on the backup in rates.
- The move seemed to be a function of several of the usual suspects, including improving coronavirus trends, upbeat vaccine headlines and powerful fiscal and monetary policy tailwinds.
- The bond yield backup generated a lot of discussion about the risk to equities, particularly with lingering concerns about stretched valuation and sentiment indicators and bubble-like conditions in some pockets of the market.
- However, there was also plenty of commentary suggesting that stocks and rates can continue move higher in tandem. While there were a lot of moving pieces in the price action, popular growth and momentum plays tended to underperform while reopening names were among the big gainers.



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February 12th-19th - Markets

S&P/TSX Composite **Down -0.41%** to 18,384

S&P 500 **Down -0.7%** to 3,907

Dow-DJIA **Up +0.1%** to 31,494

Nasdaq Composite **Down -1.6%** to 13,874

MSCI Emerging Markets **Up +0.08%** to 692

FTSE 100 **Up +0.5%** to 6,624

Russell 2000 **Down -1.1%** to 2,264

Hang Seng **Up +1.6%** to 30,645.

Shanghai **Up +1.1%** to 3,696

Oil (WTI) **Down -0.7%** to \$59.04/bbl

Gold (Spot USD/oz) **Down -2.2%** to \$1,783.4/oz

Copper (USD/lb) **Up +7.64%** to \$4.0775



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[February 12th-19th – What Moved Markets?](#)

Source: EDGAR, CNBC, Bloomberg, Rosenberg Research

- Stocks failed to hold early gains Friday, drifting into the close and ending the shortened week lower, as rising interest rates and profit taking in some of the largest tech names combined to dampen optimism.
- **Cold Snap – Energy** - A deep freeze began enveloping large swathes of the U.S. on Monday, triggering rolling blackouts for at least 5M people from the upper Midwest to Houston. More than a million barrels a day of oil and 10B cubic feet of gas production also went offline, sending U.S. crude prices above \$60 a barrel for the first time in more than a year and natural gas prices flying. Texas Governor Greg Abbott even banned sales of the state's gas beyond its borders, prompting Mexico to press the U.S. on guaranteeing natural gas supplies after power was interrupted earlier in the week. U.S. pipelines also declared force majeure, while massive refineries owned by Exxon Mobil ([XOM](#)) and Marathon Petroleum ([MPC](#)) halted production, threatening to reduce supplies of gasoline and diesel across the country.

Bigger picture: The cold snap tested Texas's highly decentralized electricity model, where power plants don't have incentive to build reserve capacity but are rather paid for the energy that they sell. A widespread electricity failure ensued due to freezing natural gas pipelines, as well solar and wind generation that went offline due to the weather. Wholesale prices for electricity on the Texas grid even reached the price cap of \$9,000 per megawatt hour (the average price is \$25). Unlike utility monopolies in other states, electricity retailers in Texas compete fiercely for customer business and often tie prices to market conditions, but this has left power generators worried about sending out skyrocketing bills.

Go deeper: The recent developments is having Saudi Arabia consider reversing its production cuts when OPEC+ meets in March. The world's largest oil exporter surprised markets last month by unilaterally cutting 1M barrels a day of crude production in an effort to raise prices. "We are in a much better place than we were a year ago, but I must warn, once again, against complacency," Prince Abdulaziz bin Salman, the Saudi energy minister, told a conference on Wednesday. "The uncertainty is very high, and we have to be extremely cautious."

- **Bitcoin goes to the Moon** - The blistering rally in Bitcoin ([BTC-USD](#)) accelerated this week, with the crypto breaking above \$50,000 for the first time in history. More are showing support for the alternative asset, with Mastercard ([MA](#)) and Bank of New York Mellon ([BK](#)) [making it easier](#) for customers to use cryptocurrencies. Tesla ([TSLA](#)) also invested \$1.5B in Bitcoin and announced it would begin accepting the crypto for payment "in the near future."

MicroStrategy ([NASDAQ:MSTR](#)) announced Tuesday it will offer [\\$600M in convertible bonds](#) to buy more Bitcoin, and there is speculation that it offered a blueprint for Tesla's Bitcoin purchase after an exchange between Saylor and Elon Musk. MicroStrategy and Jack Dorsey's Square ([SQ](#)) already made splashy headlines last year after using corporate cash to buy Bitcoin. Meanwhile, Uber ([UBER](#)) CEO Dara Khosrowshahi said last week that the ride-hailing giant had discussed - but "quickly dismissed" - the idea of buying Bitcoin, although it is weighing whether to accept cryptocurrencies as payment.

With innovation, comes regulation: A well-defined crypto regulatory regime is [urgently needed](#), according to SEC Commissioner Hester Peirce. "It's not only that there have been calls for clarity for some time and that a new administration brings the chance to take a fresh look, but it also is a moment where it seems others in the marketplace are also taking a fresh look." Peirce was labeled "Crypto Mom" after she publicly dissented on the SEC's decision in 2018 to reject a Bitcoin ETF application filed by Cameron and Tyler Winklevoss. She is currently serving her second term as one of the SEC's five commissioners.



3 / 4 Source: EDGAR, CNBC, Bloomberg, Rosenberg Research

- Australian lawmakers began debating legislation that would force Big Tech companies to pay publishers for news. The media bill, first introduced in December, would leave digital platforms on the hook for news content displayed in search results or feeds, meaning Google ([GOOG](#), [GOOGL](#)) and Facebook ([FB](#)) would have to shell out cash to local media outlets and publishers for linking to their content. While the companies have both issued threats in the past (like pulling out of Australia), the two responded very differently on Wednesday.

Outlook: While Australia singled out these two companies in its proposed law, other tech companies are watching the drama unfold. Stances will take on greater importance as governments around the world increasingly put their sights on Big Tech. Politicians in Europe and Canada have already signaled support for the moves by Australia, while global news publishers have voiced support for the system as well

- **More on the Short Squeeze Frenzy** - Lawmakers on Thursday got their chance to grill all the big names caught up in the retail trading frenzy that occurred back in January. The hearing focused on "short selling, online trading platforms, gamification and their systemic impact on our capital markets and retail investors," but was only the first of three planned by the House Financial Services Committee.

Backdrop: An army of day traders following WallStreetBets - the Reddit forum dedicated to "making money and being amused while doing it" - upended some market dynamics last month by taking aim at some heavily shorted stocks. They ran them up as a group, triggering short squeezes and causing some hedge funds like Melvin Capital to record billions of dollars in losses. The party came to an end after brokerages restricted trading on stocks like GameStop ([GME](#)) and AMC Entertainment ([AMC](#)), though Robinhood ([RBNHD](#)) took the most flak due to its communication about the events and delay in taking curbs off of "meme" trading.

- **Yellen Doubles Down** - The stock market record highs fizzled somewhat this week, with the S&P 500 falling for a third straight day on Thursday. Fears of inflation may be at work amid concerns that if all the stimulus being pumped into the financial system works (i.e., people start spending, shopping etc.), that could begin pushing up prices. That may be risky for stock investors as money flows back into the rising yield bond market. In fact, a sizable selloff has been seen in the U.S. government bond market over the past six weeks, with yields on the 10-year Treasury note climbing from 1% in early January to 1.3% this week (yields move inversely to price).

Quote: "We think it's very important to have a big stimulus package [that] addresses the pain this has caused - 15M Americans behind on their rent, 24M adults and 12M children who don't have enough to eat, small businesses failing," Treasury Secretary Janet Yellen told CNBC. "I think the price of doing too little is much higher than the price of doing something big. We think that the benefits will far outweigh the costs in the longer run."

Asked whether the surge of federal spending could prompt a sustained rise in inflation, Yellen responded that it was a risk, but added that inflation has been very low for many years and the Fed could always mitigate that risk by raising rates. According to Speaker Nancy Pelosi, the House aims to pass its \$1.9T coronavirus relief plan before the end of February to beat a deadline on extending key unemployment programs.

Go deeper: Yellen also said the White House will likely propose a second economic recovery package later this year that would include spending on longer-term investments like infrastructure, renewable energy, education, job training and research and development. The proposal would also include tax increases on corporations and wealthy Americans that would "phase in slowly over time." During his campaign, President Biden proposed raising the corporate rate to 28% from the current 21% (prior to President Trump's tax cuts in 2017, the rate was 35%).

The Week Ahead

- On tap for next week, investors will continue to size up improving economic data and the steady decline in COVID-19 cases and vaccinations, while the Q4 earnings season continues with big reports due out from Home Depot (NYSE:HD), Lowe's (NYSE:LOW), Nvidia (NASDAQ:NVDA) and Wayfair (NYSE:W). Investor events being hosted by Spotify (NYSE:SPOT), Twitter (NYSE:TWTR), Snap (NYSE:SNAP), ViacomCBS (NASDAQ:VIAC), Hasbro (NASDAQ:HAS) and Mattel (NASDAQ:MAT) will also be of high interest. Meanwhile, Federal Reserve Chairman Jerome Powell will deliver his semi-annual testimony to the Senate Banking Committee and the House Financial Services Committee.
- McDonald's (NYSE:MCD) looks for a Q1 sales boost with the introduction of its new crispy chicken sandwich in three varieties at competitive prices. Early reviews and buzz will be crucial for the new menu addition. Early estimates from Credit Suisse forecast that MCD will triple chicken sandwich sales on a daily basis in the early going.
- Mattel will provide a strategic update on February 24 as part of its virtual analyst day event. Look for execs to highlight the efforts and progress Mattel has made in its efforts to become an IP-driven toy company. Mattel could outline more details on the live-action films it is developing with major studios like Sony, Disney, Warner Brothers and Paramount, as well as animated programming on Netflix.
- Spotify Technology is hosting a virtual event on February 22 called Stream On that will cover the latest on the state of global audio streaming and the company's commitment to empowering creators around the world.
- ViacomCBS will open the virtual doors to its event to highlight the new Paramount Plus streaming service. The media giant is releasing Paramount Plus on March 4 to be the revamped update of CBS All Access. Paramount Plus will include live news and sports content, as well as on-demand programming from CBS, MTV, BET, Comedy Central and other ViacomCBS channels and brands. The service will also include access to the vast content slate from Paramount Pictures studio. While the streaming field is getting crowded, investors can bet on the broad streaming theme through the Roundhill Streaming Services & Technology ETF (NYSEARCA:SUBZ).

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Source: EDGAR, CNBC, Bloomberg, Rosenberg Research

"I feel that luck is preparation meeting opportunity." – Oprah Winfrey



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