

# This Week in Review

**H**appy March! U.S. equities were lower for the second straight week. On a sector basis, rising Treasury yields contributed to a notable pro-cyclical rotation. Keep an eye out next week for announcements on the FDA approval of the Johnson and Johnson Single shot vaccine for emergency use and what this could mean for reopening expectations. Have a great week! **-Regards, Sager Financial Group**

## Outperforming Sectors:

- **Energy** +4.33%, **Financials** (0.36%), **Industrials** (0.50%), **Communication Svcs.** (1.39%), **Healthcare** (1.59%), **Materials** (2.14%), **REITs** (2.21%)

## Underperforming Sectors:

- **Utilities** (5.05%), **Consumer Disc.** (4.90%), **Tech** (3.95%), **Consumer Spls.** (2.72%)

## Other Asset Classes:

**Treasuries** 10Y and 30Y yields on Thursday hitting their highest levels in more than a year and the 2/10 spread widening at one point to its largest since late 2015 (before a big Friday rally saw rates pull back somewhat). The **dollar** was stronger on the major crosses. **Gold** was down 2.7%. **WTI** settled up 3.8% and ended the week above \$60/barrel for the first time since January 2020.

## Weekly Highlights:

- **A lot of attention this week was focused on the bond market**, with Treasuries continuing their broad weakness and rising yields putting pressure on equities by undermining the TINA mantra ("there is no alternative").
- One of the results was a **significant pro-cyclical rotation**, with growth/momentum names continuing to come under a lot of scrutiny given crowded positioning and still-stretched valuations.
- **Growth sectors saw some recovery on Friday**, which seemed consistent with another long-running market mantra--BTD or "buy the dip"--given secular growth prospects and a strong fundamental backdrop.
- **Covid new-case and hospitalization rates continued their steep drop off early January highs.** Vaccine distribution looked set to accelerate into March, helped by the expected grant of emergency use authorization to a third vaccine as early as this coming weekend.
- **A new, major federal stimulus package is still on track to be enacted by mid-March**, and possibly a larger infrastructure-focused bill following that.
- Fed Chair Powell's remarks to Congress continued to stress that despite recent economic gains, **it will be some time before the bank needs to adjust rates or (of more immediate interest) its asset-purchase plan.**
- 96% of the Q4 earnings season in the books as of Friday, S&P constituents look to be posting nearly 4% y/y of earnings growth, well ahead of the decline forecast at the end of that calendar quarter.



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## February 19<sup>th</sup>-26<sup>th</sup> - Markets

S&P/TSX Composite **Down -1.77%** to 18,060

S&P 500 **Down -2.5%** to 3,811

Dow-DJIA **Down -1.8%** to 30,932

Nasdaq Composite **Down -4.9%** to 13,192

MSCI Emerging Markets **Down -6.34%** to 648

FTSE 100 **Down -2.1%** to 6,483

Russell 2000 **Down -2.6%** to 2,208

Hang Seng **Down -5.4%** to 28,980

Shanghai **Down -5.1%** to 3,509

Oil (WTI) Up **+3.8%** to \$61.62/bbl

Gold (Spot USD/oz) **Down -2.7%** to \$1,732.5/oz

Copper (USD/lb) Up **+2.1%** to \$4.16



## Markets – February 19<sup>th</sup> – 26<sup>th</sup> – What Happened?

- **Easing Fears** - Reassuring comments from Jerome Powell helped stocks recover on Tuesday following steep losses since the start of the week triggered by rising bond yields. The Fed Chair told the Senate Banking Committee that the central bank would keep its foot on the gas pedal as the pandemic recovery path remains "highly uncertain," though he forecast a return to more normal and improved economic activity later in the year. Powell also said the Fed is in no rush to raise interest rates or begin trimming its \$120B in monthly bond purchases in his semiannual monetary policy testimony to Congress. As worries grew over yields, Powell called the recent run-up "a statement of confidence" in a strong economic outlook and played down inflation worries from another big fiscal stimulus package. While prices might pick up in the coming months, he said those increases are expected to be temporary given supply chain constraints. Not only did his comments help backstop the market, some other influential names lent a hand to notable names that came under pressure.
- **As electric vehicle stocks tumbled**, Cathie Wood bought more shares of Tesla ([TSLA](#)) (for a second day running), adding 11,893 shares to the ARK Autonomous Technology & Robotics ETF ([ARKQ](#)), 177,214 shares for the ARK Innovation Fund ([ARKK](#)) and 51,441 shares for the ARK Next Generation Internet ETF ([ARKW](#)). During an interview on Bloomberg Radio, Wood said she loves the liquidity that the shakeout in the market brings in general and sees a \$7T opportunity in the autonomous car industry.
- **The crypto washout** also deepened, with Bitcoin ([BTC-USD](#)) sinking to \$45,000, but it rapidly made its way back to the \$50,000 level. MicroStrategy ([MSTR](#)) CEO Michael Saylor was not bothered by the shaky price action, noting that the crypto became a \$1T digital monetary network in just a dozen years, way faster than other \$1T club members like Apple ([AAPL](#)), Amazon ([AMZN](#)), Microsoft ([MSFT](#)), and Google ([GOOG](#), [GOOGL](#)). Meanwhile, Jack Dorsey's Square tripled its last investment in Bitcoin via a \$170M purchase of 3,318 tokens, while Cathie Wood said she was "very positive" on the crypto and welcomed its "healthy correction."
- **News Down Under** - Facebook ([FB](#)) reached an agreement with the Australian government that will restore news pages in the country after the latter proposed amendments to a controversial media bill. The original law, if passed, would leave digital platforms on the hook for news content displayed in search results or feeds, meaning they would have to shell out cash to local media outlets and publishers for linking to their content. Google ([GOOG](#), [GOOGL](#)) already agreed to pay for news, but Facebook appears to have held out for a better arrangement.

Under the amendments to the proposed bill, the Australian government will consider commercial agreements that digital platforms have already made with local news media businesses before deciding if the code applies to the tech giants. The government will also give digital platforms one month's notice before reaching the final decision and would also include a two-month mediation period that grants the two sides more time to negotiate commercial deals before forcing them into final-offer arbitration.

**Go deeper:** Microsoft ([MSFT](#)), which has previously pitched Bing after Google threatened its search engine Down Under, is joining EU publishers pushing for paid content laws. It's proposing regulations that "mandate payment" for news content by "gatekeepers that have dominant market power," which is a shot at Google and Facebook. The coalition would also support a form of arbitration and is looking at Australia's pending news payment legislation for guidance.

Source: EDGAR, Bloomberg, CNBC, Renaissance Capital



- **Critical Supply Chain Review** - President Biden signed a fresh executive order mandating a 100-day review of critical product supply chains in the U.S., focused on semiconductors, key minerals and materials, active pharmaceutical ingredients and advanced batteries like the ones used in electric vehicles. "There is strong bipartisan support for fast reviews of these four areas because they're essential for protecting and strengthening American competitiveness," he told a press conference. The order will also initiate a long-term review, to be completed within one year, that takes a look into fortifying six industry-specific sectors including defense, public health and biological preparedness, communications technology, transportation, energy and food production.

**Backdrop:** The order is part of the administration's effort to secure domestic supply chains in the wake of the COVID-19 pandemic that highlighted several vulnerabilities. The U.S. struggled to get the personal protective equipment needed for health care workers early on in the pandemic, relying on China and other nations for the critical supplies. There has also been an ongoing shortage of semiconductor chips (especially for automobiles), while reports suggest China is exploring whether it can hurt U.S. defense contractors by limiting the export of rare earths.

**Response from Beijing:** Chinese Foreign Ministry spokesman Zhao Lijian said the measures would "not help solve domestic problems" and only harm global trade. "China believes that artificial efforts to shift these chains and to decouple is not realistic. We hope the U.S. will earnestly respect market laws and free trade rules and uphold the safety and reliability and stability of global supply chains."

While the order doesn't directly call out China or any specific country, White House officials have said an overreliance on Beijing for critical goods was a key risk. The Biden administration may also work with a "carrot and stick" approach, meaning financial incentives for companies that manufacture items domestically or limiting some imports for those who don't. In a letter to Biden, Sens. Marco Rubio (R., Fla.) and Chris Coons (D., Del.) recommended he invoke the Defense Production Act to "incentivize or, if necessary, require American companies to retain their domestic capacities during this time."

- **GameStop Comeback** - It was the catalyst the WSB/Reddit crowd had been waiting for... GameStop (NYSE:[GME](#)) announced Wednesday that its chief financial officer Jim Bell would resign on March 26. Several sources indicating that the board pushed him out to execute its turnaround more quickly, but an outsized reaction ensued amid a sudden burst of activity. Shares surged more than 104% following two afternoon halts, and even rose another 83% in AH trading to \$168.13. When all was said and done, more than 82M GameStop shares traded hands on Wednesday, the highest level since January 27
- **Another Vaccine on the way** - Johnson & Johnson (NYSE:[JNJ](#)) landed unanimous approval from an FDA advisory panel for emergency use authorization on its COVID-19 vaccine. The panel found the benefits of the vaccine outweighed the risks to set up the vaccine's final approval. Johnson & Johnson's COVID-19 vaccine is now on a path to be the third to be deployed after vaccines from Pfizer/BioNTech ([PFE](#), [BNTX](#)) and Moderna (NASDAQ:[MRNA](#)).

**Next steps:** If J&J's vaccine follows the path of the first two, it could be approved by the full FDA this weekend and be ready to distribute. But doses will be limited at first, with just a few million going out immediately. The company has a deal to supply 100M doses by the end of.

Source: EDGAR, Bloomberg, CNBC, Renaissance Capital

## The Week Ahead

- Investors have a variety of events and developments to focus on next week. The impact of the pending FDA approval on Johnson & Johnson's (NYSE:JNJ) COVID-19 vaccine for emergency use could reset some re-opening expectations. The oil market could be jumpy as OPEC+ holds a committee meeting, followed by the main decision-making gathering on March 4. OPEC is expected to make a decision on production quotas that would likely take effect in April. Also of note, bond traders will be looking to get a handle on the Treasury yields, while the Coinbase (COINB) direct listing will continue to get sized up as more information comes in. Retailers dominate the earnings calendar with Target (NYSE:TGT) and Costco (NASDAQ:COST) likely to post strong numbers and AMD (NASDAQ:AMD) hopes to create a stir in the tech sector with its new chip unveiling. Finally, the U.S. jobs report for February drops at the end of the week. Bank of America forecasts the employment report will show nonfarm payrolls growth of +225K from an increase of 49K in January.
- Earnings** - Core-Mark (NASDAQ:CORE), Nio (NYSE:NIO), 3D (NYSE:DDD), Scientific Games (NASDAQ:SGMS) and Zoom Video (NASDAQ:ZM) on March 1; Target (TGT), Kohl's (NYSE:KSS), AutoZone (NYSE:AZO), Box (NYSE:BOX), Hewlett-Packard Enterprises (NYSE:HPE) and Nordstrom (NYSE:JWN) on March 2; Dollar Tree (NASDAQ:DLTR), Snowflake (NYSE:SNOW), Vroom (NASDAQ:VRM) and Splunk (NASDAQ:SPLK) on March 3; Kroger (NYSE:KR), Costco (COST) and Gap (NYSE:GPS) on March 4; GSX Techedu (NYSE:GSX) on March 5.
- Automotive** - TrueCar forecasts total new vehicle sales will fall 7.6% on an adjusted basis to 1,170,856 units. This month's seasonally adjusted annualized rate for total light vehicle sales is an estimated 15.5M units. Excluding fleet sales, TrueCar expects U.S. retail deliveries of new cars and light trucks to fall 0.4% to 967,545 units. Used vehicle sales for February are expected to fall 4% from a year ago. **Talk to us about forecast data per car manufacturer.**
- Green Energy Ideas** - The cover story this week delves into how investors should view green energy stocks with electric utilities at the center of a seismic shift away from coal and toward wind and solar power over the next 15 years. Utility company stocks and funds are called a cheap way to plug into the "critically important" transition as well as offer investors attractive yields and inexpensive valuations. Alliant Energy (NASDAQ:LNT), American Electric Power (NASDAQ:AEP), CMS Energy (NYSE:CMS), Dominion Energy (NYSE:D), Entergy (NYSE:ETR), Exelon (NASDAQ:EXC), NextEra Energy (NYSE:NEE), Pinnacle West Capital (NYSE:PNW) and Xcel Energy (NASDAQ:XEL) all make the list of attractive green stocks.

**"Success is not final; failure is not fatal: it is the courage to continue that counts." – Winston Churchill**

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