CI ASSANTE WEALTH MANAGEMENT | Portfolio Construction

A New Season – What Opportunities are Driving Renewed Investor Optimism?

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Spring has sprung! While this spring may not have the usual fever, the potential for a normal summer or fall is improving as over 300 million vaccine doses have been administered globally. In terms of your investments, our portfolios have generally done well since investor confidence and markets rebounded quicker than expected. Our overweight equity positioning and underweight government bond exposure since the end of last year provided an additional boost. It appears we are following the same storyline as 2010 when interest rates were last dropped to zero and central banks expanded money supply. However, this current episode is unfolding much quicker as investors learned from the last one.

But, there are a few things that could be different this time around…

Wallets at the ready

We expect inflation to accelerate in the short term as consumers have held off their spending in the last twelve months. This reduced spending, in addition to government subsidies, has generally increased household savings and income. When the world reopens without lockdowns and climbing cases, consumers will pay and suppliers will have pricing power. Reduced inventory could turn into scarcity in the coming months, as we all want the same things at the same time. For me, at least, to travel and have sushi *at* a restaurant. We have already seen steep price increases in raw materials: cotton, copper, aluminum, oil, etc. Oil prices as measured by West Texas Intermediate, for example, have risen 48% since the first vaccine was announced on November 9, 2020. We have said numerous times, we need to protect our purchasing power since cash that generates no income is not offsetting inflation and government bonds are doing very little with floor-level yields.

The real estate dichotomy

Typically, demand for real estate rises after a recession. In our current scenario, this may be true for residential real estate as the large drop in interest rates has enhanced purchasing power. Both sales volume and prices have increased in most Canadian cities. However, we expect demand for commercial real estate to remain challenged for longer. The pandemic has potentially changed our lifestyle, permanently; we are more comfortable shopping from home, working from home, having meetings online, etc. This lifestyle change has implications on the demand for malls and office spaces. To account for this, the managers for our real estate portfolio are underweight malls and offices, and overweight self-storage, data centres and health care facilities.

Greener but shorter pastures?

While oil prices are rising, the prospect for the energy sector remains less clear. World leaders are calling to ban fuel-powered passenger vehicles by 2030. It is possible demand and supply will fall at the same time and maintain higher prices at lower volumes. We typically prefer investments that have more certainty over the long term and durability in profits. This time, our investment horizon in the energy sector may be much shorter.

Navigating the circuitboard

To say technology is changing our lifestyle is an understatement. Those of us who went through the boom and bust of the tech bubble in 2000 may be more hesitant to believe than those who didn't. It's not a bad thing, but today we are seeing both "profitable" and "unprofitable" tech in stock markets. Not all "profitable" tech are great investments as they could be expensive, and not all "unprofitable" tech are bad as their prospects could change. We delegate that responsibility to our underlying sector experts that not only follow these trends, but also identify the leaders. We recently hired a proven investment manager, Munro Partners, to run a portion of our portfolios, complementing our other U.S. equity thought leaders: Epoch Investment Partners, Wellington Management and State Street Global Advisors.

It's important that our portfolios not only invest for value, they also need to remain relevant to changes in people's lifestyle and habits. This is why we leverage the expertise of our underlying managers and integrate with our broader multi-asset investment philosophy, to ensure your clients' portfolios are positioned for the best results in the future.

Combined top 15 equity holdings as of February 28, 2021 of the Evolution 40i60e Standard portfolio with Alpha-style exposure:

1. Microsoft Corp. 2. Alphabet Inc 3. Amazon.com Inc. 4. Brookfield Asset Management Inc. 5. Royal Bank of Canada	6. Humana Inc. 7. CGI Inc. 8. Booking Holdings Inc. 9. Empire Company Ltd. 10. Visa Inc.	11. Fidelity National Information Services Inc. 12. Lowe's Companies Inc. 13. Fortis Inc. 14. Fairfax Financial Holdings Ltd. 15. Tencent Holdings Ltd.

Source: Bloomberg Finance L.P. and CI GAM | Multi-Asset Management as at March 9, 2021.

For more information, we encourage you to speak to your advisor or visit us at assante.com