LEE, TURNER & ASSOCIATES INC.
INVESTMENT QUARTERLY

REVIEW January 2021

What a wild, wacky, and wonderful (?) year 2020 was! Indeed, from the financial markets' perspective, the past year held more than its fair share of extreme volatility, strange twists in consumer behaviorism, and rewarding investment returns. In early March, a tiniest of lifeforms on earth, the COVID-19 virus, grew huge in notoriety to become the biggest news story in the world. The speed at which the virus was spreading panicked global economies into lockdowns and seeded the steepest economic downturn of all time. But swift and massive public policy responses halted the economies' dive and spurred on a recovery so fast that the short-lived recession is now on record as the shortest ever. The hyper speed at which the global economies completed a full cycle, from growth to recession back to growth, was not a surprise but other developments that unfolded during the economic recovery were. In fact, some of the observed consumer responses to the pandemic were downright counterintuitive. For instance, while lockdowns had left a lot of people unemployed and seeking rent relief just to stay in their homes, we were surprised to find that many others had the desire and the resources to upgrade to bigger and better homes. Another confounding observation was found at the banks, where there were just as many savers padding their accounts with soaring deposits as there were mortgagors seeking payment deferrals. Strange indeed! Over the initial months of the pandemic, market sentiments were hopeful but cautious, in deference to the virus' infection caseloads. By mid-November, global economies and financial markets got a much needed shot in the arm when three highly effective vaccines against the virus became available. While the virus exacted a terrible toll on the global population, the financial markets looked past those tragedies and ended the year with reasonably strong performances, all things considered. The Dow Jones Industrials Average ended the year at its highest level ever, gaining 7.2% over the year. The S&P/TSX Composite Index climbed a more subdued 5.6%. The bond markets showed remarkable strength as the Central Banks continued their bond buying programs unabated. Canadian bonds had an 8.7% total annual rate of return.

FORECAST

We are thrilled at the prospect of vaccines putting an end to the pandemic, but we will contain our enthusiasm for the time being because a second wave of COVID-19 cases is still very much with us today. Until early signs of herd immunity via mass vaccinations are evident, this virus will remain a hinderance to the economies' recovery. "It ain't over till it's over", as a well-worn sports cliché would put it. So, over the next few months, we expect only marginal improvements to GDP growth rates. However, looking further out to the latter parts of 2021, we are much more hopeful. As summer arrives, we expect brisk and elevated levels of economic activity, reflecting a return of consumer and business confidence. Moreover, we anticipate spurts of strong growth when large segments of the population let loose their pent-up demand for goods and services. By fall, vaccines and treatments will have at least psychologically eased the virus from our minds and our world will confidently stride back to a time pre-pandemic, back to *Days of Future Passed.*

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INCOME STRATEGY

Bonds

The Bank of Canada and the Federal Reserve have just a few months before their resolve is put to the test. Recall that both Central Banks had pledged to keep their current level of ultra-low interest rates unchanged for the next two years, to protect us from COVID-19's harm. Well, we are expecting that vaccinations will have some success in containing the pandemic by the end of summer and therefore we believe the Central Banks' rock bottom interest rates would not be needed shortly thereafter. Our question then is: will they or will they not put a stop to their ultra-low interest rates policy once that it can be established that the economies are no longer at risk from the ills of COVID-19? We think they will not. The Central Banks will stick to their guns and keep rates unmoved because they value their credibility as policy makers ahead of their duty and prudence as monetary policy makers. We think they are determined to preserve their image to the world that their word is their bond. But in our minds, such a bond is of little comfort. We would much rather have bonds that deliver a real rate of return. If we were to continue down the road of ultra-low interest rates, bonds are destined to deliver negative real rates of return should our economies recover and attendant inflationary pressures rise. What is worse, we fear that the longer the Central Banks postpone rate increases, the higher the pressure is on them to play catch up and institute more aggressive interest rate increases in the longer term. We will leave government bonds out of our portfolios for the time being.

Income Trusts

Valuations of Real Estate Income Trusts have improved significantly since effective COVID-19 vaccines became available. More than anyone, REIT investors are now looking forward to the return of pre-pandemic days when rents are duly collected, and occupancy rates resume to normal. Of course, that return will be gradual and, as we have forecast, may not kick in until the middle of this year. However, the market's anticipation of better days ahead for the REIT's is neither too early nor excessive in valuation.

EQUITY STRATEGY

Investors have since the middle of the pandemic been favoring technology related stocks while disproportionately discounting the less glamorous stocks that are often referred to as value stocks. Chalk it up to the plethora of social avoidance behaviors such as work-from-home, on-line shopping, contactless deliveries, and social distancing/isolation in creating and maintaining this valuation gap. As people grew increasingly reliant on technology to enable their confinement to their own "bubbles", tech-related companies' stocks were rewarded with higher and higher valuations. At the same time, traditional companies that operated through regular inter-personal means have had their shares discounted heavily. We expect a reversal of this current trend and for the valuation gap between the two groups of stocks to narrow in favor of value stocks. Our strategy is to accumulate value stocks now and stay patient while waiting for their valuation to return to normal levels. Value stocks are those that trade at low earnings multiples, high dividend yields and operate in low volatility industries; we are speaking of banks shares and utility shares. These companies' operations may lack glamour, but their revenues and earnings are of the highest quality and stability in every respect and measure.

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