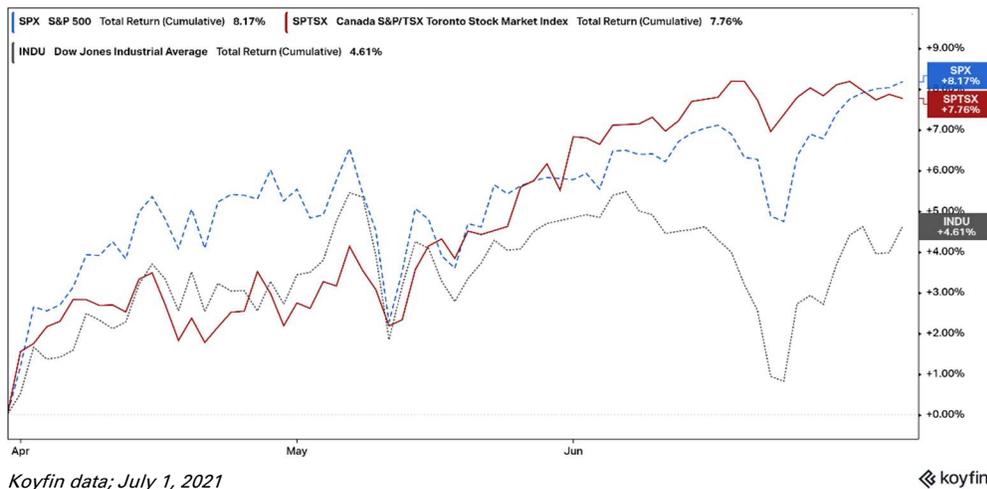




Review

Lee Turner & Associates entered its 31st year in June and while we paused to celebrate the anniversary, markets continued where they left off last quarter. We noted at the time how investors were obsessing over several binaries—re-openings versus shutdowns, variants versus vaccines, inflation versus unemployment, cyclical versus growth, and finally, young traders versus old investors. These tensions came no closer to being decided and in many cases, intensified. While the securities we invest in continued to climb alongside the market during the quarter, we are keenly aware that volatility tends to accompany such rises.



The S&P TSX Composite Index returned 7.76% during the quarter, just shy of the S&P 500's 8.17%. The Dow Jones Industrial Average returned 4.61% over the same period.

Forecast

With the world still making its way back to normal (or perhaps to a new normal) central bank policy makers remain grounded to low interest rates in most major economies, including Canada. There were some signs of cooling commodity prices (in lumber and copper, for example), but the overall trend in inflation continues to tick higher with many areas of the market flashing warning signs of not-so-transitory inflation.

Near the end of the quarter, President Biden announced a prospective \$1 trillion package focused on transportation, broadband, and water infrastructure. As far as spending is concerned, the taps remain open. At the same time, the Federal Reserve signaled that while it was not entirely comfortable with the signs of inflation, they will nevertheless try to thread the needle between voicing concern and acting unconcerned.

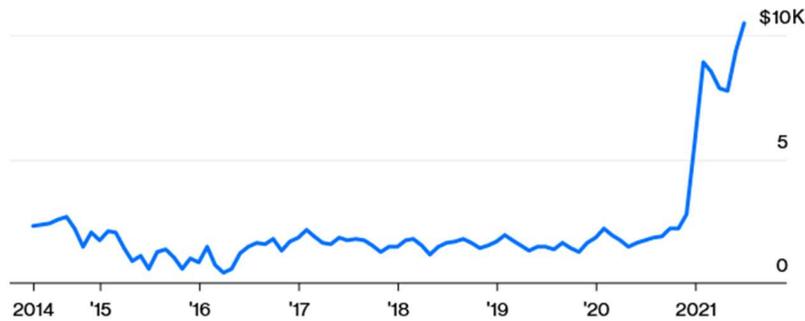
But there are more reasons to think inflation may not be just a short-term problem—take shipping as one example. Below is an image highlighting the dramatic increase in shipping costs with a 40-foot shipping container now costing more than \$10,000. This same container cost \$1,700 in June 2020. A Bloomberg analysis of the soaring shipping prices, concluded that this is not “a temporary coordination problem [and returning] to a semblance of normality could take years.”

This comes along with logjams or capacity constraints in several other areas, such as semiconductors—which now feature in nearly every major good. The scale of getting finely tuned, just-in-time supply chains operating back up to top speeds is difficult.



High Seas

The cost of moving a 40-foot container from Shanghai to Rotterdam has topped \$10,000



Bloomberg, "Get Ready for Years of Chaos in Container Shipping"; June 20, 2021

as we do, that the worst of COVID is behind us and that we are in the "mopping up" phase of the pandemic. Excluding children under 12, Canada sits at greater than 75% of the population with at least one dose and more than 22% with the matching set. If vaccination rates were to drop off substantially or if delta or another variant were to prove too much for the current vaccines, economic activity would likely decline, and inflation concerns may cool. But, between the sentiment from central banks, the political appetite for greater fiscal spending, and the disjointed nature of reopening a global economy still struggling with COVID, we believe inflation is a real risk and not to be discounted.

Strategy

We have no crystal ball of when central bankers will respond to the warning signs of heated markets by raising rates. Thankfully, while we like to think we are a relatively bright crew, we try our best to avoid calling the pocket on near-term policy decisions and we do not position clients to play on such things. However, the last year should remind every investor that even when investing for the long-term, the ride may be bumpy. Volatility will remain their constant companion, despite intervention by technocrats and politicians. If an investor needs one hundred cents of every loonie invested available to them in short order, the financial market may not be the place for you.

We have routinely reminded clients of our desire to serve up a well-balanced meal of investments, with a heavy portioning of substance and only a dash of spice. In the words of another investor, we tend to "shun the novel and embrace the prosaic." We believe the securities we invest in on your behalf are quality businesses with capable management teams. This gives us confidence to watch the market proceedings with vigilance but not fear. Our approach remains diligently boring: we want to own these good companies, avoid poor ones, and wait.

Lee, Turner & Associates Inc. celebrated its 30th anniversary this past June. When we reflected on these years passed, it is you - our clients that came to mind first and foremost. You put us where we are today. You gave us your trust and confidence, unwavering support, and warm friendship. We are truly grateful! Thank you very, very much. We look forward to being of service to you and your families for many more years to come.

*Please see the **Insights** section of our website, leeturner.ca, for a digital copy of this update and other research.