THE COERENTE VIEW

2ND QUARTER 2021

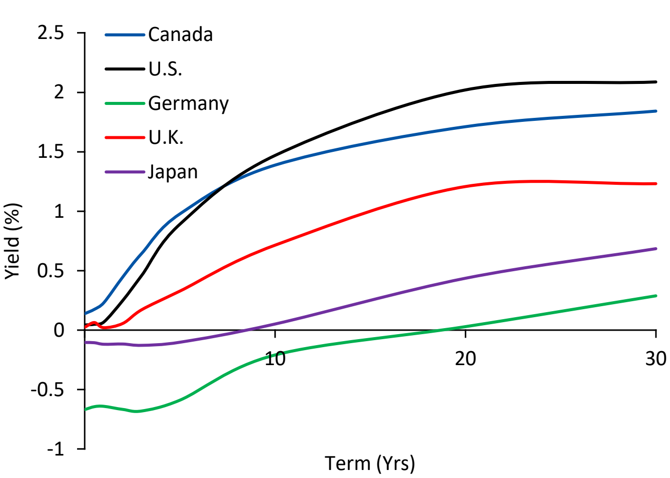
Market Statistics

	Jun/21	Mar/21	Dec/20	Jun/20
Yields (%)				
90 Day T-Bill	0.14	0.09	0.06	0.21
10 Yr. Canada Bond	1.48	1.61	0.74	0.53
30 Yr. Canada Bond	1.84	1.96	1.21	0.99
Rates				
C.P.I. (annual %)	3.60	2.20	0.73	0.66
US$/C$	0.81	0.80	0.79	0.74
Euro/C$	0.68	0.68	0.64	0.65
Prices (US$)				
Crude Oil (bbl.)	73	59	49	39
Natural Gas (mm)	3.65	2.61	2.54	1.75
Gold (oz.)	1,771	1,714	1,893	1,793

Market Returns

	Periods Ending Jun. 30/21			
			Annualized	
	3 Mo.	1 Yr.	5 Yrs.	10 Yrs.
S&P/TSX	8.5	33.9	10.8	7.4
S&P 500 (C$)	7.0	28.1	16.5	17.8
S&P 500 (US$)	8.5	40.8	17.6	14.8
MSCI EAFE Net (C$)	5.9	23.0	9.7	8.8
MSCI EAFE Net (US$)	7.5	35.3	10.8	6.1
MSCI World Net (C$)	6.2	26.5	13.7	13.5
MSCI World Net (US$)	7.7	39.0	14.8	10.7
Bond Universe	1.7	-2.4	2.6	3.9
91 Day T-Bills	0.0	0.2	1.0	0.9

Yield Curves



The Economy

The global economy is well on its way to recovery from the effects of the pandemic as the take-up in vaccinations is increasing. Leadership is coming from those nations with the highest vaccination rates and it comes as no surprise that the developed economies (those that had the access to vaccines) are faring best.

Vaccination Rates (% of population)

	Fully Vaccinated	First Dose
U.K.	49	65
U.S.	47	54
Germany	35	53
Italy	30	55
France	29	49
Canada	27	68
China	16	43
Japan	10	22
India	4	19
Mexico	5	24

Source: Our World In Data - June 29, 2021

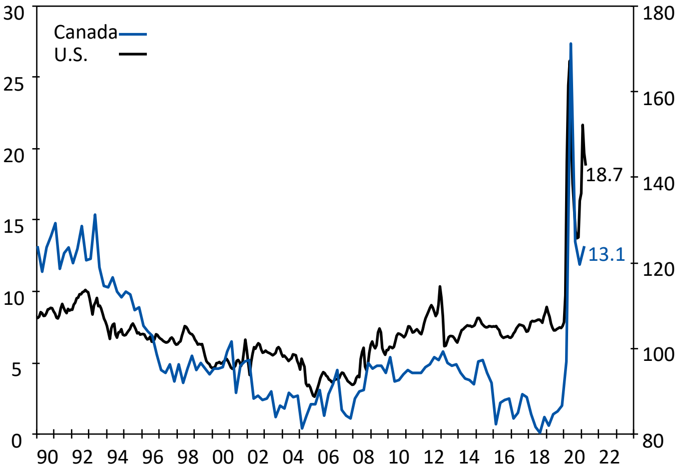
The U.S. is driving most of the current global economic growth but the Chinese economy is also performing well, even with suspect data and a local vaccine of questionable efficacy. Despite a high rate of vaccinations, the U.K. is being held back by the ongoing effects of "Brexit". The fact that there remain large disparities between countries in terms of inoculation levels suggests that the current economic recovery should be sustainable as more countries ramp up, including those less developed nations that have yet to gain any significant supply of vaccines.

The recession we experienced was unlike others in that it was not the result of consumer excesses or bad debts. It was pandemic-induced and governments have done everything possible to shelter consumers and businesses. As a result, unprecedented amounts of debt were undertaken by governments, for which some future consequences will certainly emerge in terms of additional taxes or restrained government spending.

The North American economies are now providing indications as to how the economic recovery may unfold in other nations. Consumers have emerged from the slowdown with strong balance sheets as government subsidies and grants put cash into their pockets at a time when most discretionary spending stopped due to the pandemic. (See the savings rate chart on page 2.) With confidence levels reaching new highs, consumers are now beginning to spend. Additionally, interest rates that were lowered during the pandemic have made borrowing for consumption and housing easier, thereby, adding fuel to already strong demand. As a result, shortages are being experienced for most goods and services as businesses cannot

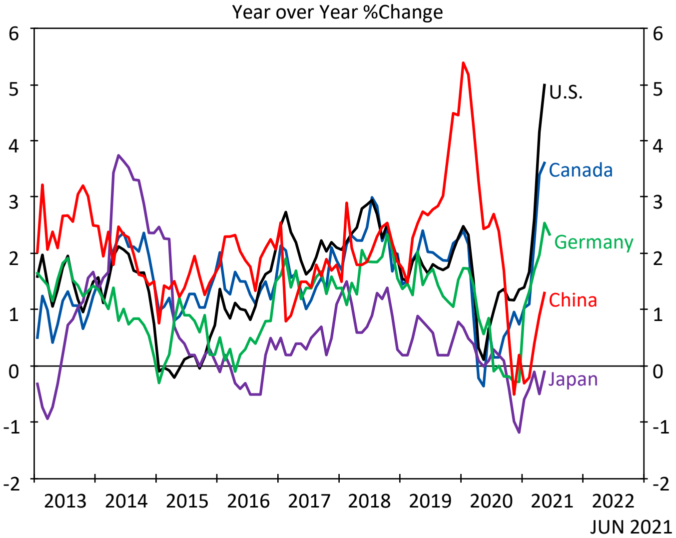
Consumer Savings Rates

As Percent of Disposable Income



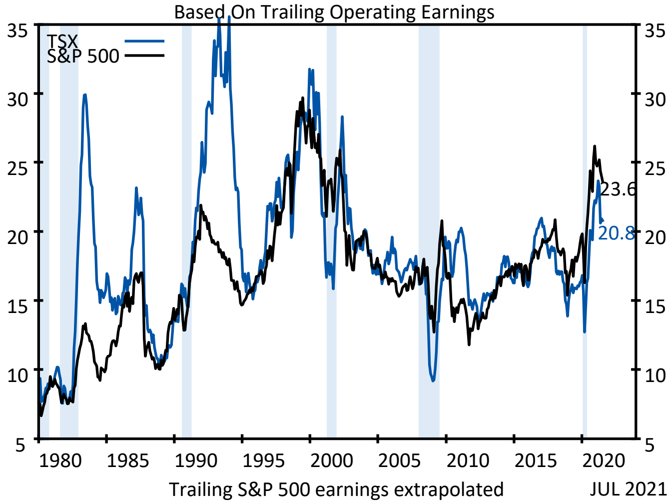
Global CPI Inflation

Year over Year %Change



Price-Earnings Multiples

Based On Trailing Operating Earnings



Trailing S&P 500 earnings extrapolated from last actual to latest month

scale up operations quickly enough. Interestingly, despite relatively high unemployment, finding labour is also an issue. The pandemic and work at home environment has caused some to reevaluate their work/life balance and we should expect a period of adjustment for labour supply.

Rising inflation rates are one consequence of the explosive recovery (see chart opposite). Prices are rising as scarcity is felt throughout the supply chain, right back to raw materials (commodities). Central bankers have uniformly stated that that current high inflation rates will eventually cool as supply shortages are eliminated. They remain uncertain in terms of the timing and whether they will settle above the typical 2% targeted rate by most developed nation monetary authorities.

Beyond mismanagement of the economic recovery, by either premature tightening of fiscal policy or a rise in interest rates, the biggest risk is a resurgence of Covid in the form of variant strains that bring another round of business shuttering either locally or on a broader basis.

The Markets

In the second quarter the S&P/TSX returned 8.5%, the S&P 500 8.5% and the overseas based MSCI EAFE index 7.5%. Foreign market results were 1.5% lower for Canadian investors due to the small increase in our currency relative to the U.S. dollar. The gains are supported by significant earnings increases as 2021 consensus estimates are for an 83% rise for the S&P/TSX, 55% for the S&P 500 and 150% for the EAFE index. It is also noteworthy that the expected earnings levels for the major indices in calender 2021, are respectively 18%, 25% and 30% higher than 2019 (pre- pandemic) levels. Low interest rates have buoyed valuations but currently elevated price-earnings multiples will be reduced as higher earnings are realized. Bond yields declined somewhat last quarter as concerns emerged regarding the confirmation that there are indeed variants of the original Corona virus that are proliferating.

As mentioned in our last Coerente View, when interest rates are low, investment risk is particularly elevated in assets that are not supported by earnings or yield. The high-risk areas today appear in housing, digital coins and stocks with little earnings support and/or excessive share price multiples well beyond the market averages.

The pandemic demonstrated that a number of companies and industries were able to continue to generate sustainable earnings and dividend yields that exceed the returns available in most short- and longer-term fixed income securities. It is the ownership of shares in these companies that we prefer for our portfolios. Current fixed income yields for high-quality credit remain unattractive and certainly well below inflation rates.

Sources: TD Securities Inc., BlackRock, Bloomberg, Our World in Data