

Justwealth 2Q 2021 Market Commentary

On the strength of generally positive news headlines, improving economic data and some very strong earnings announcements, financial markets responded with exceptional returns in the second quarter. Canadian equities were a leader, powered by a steep rise in commodity prices which led to a quarterly gain for the S&P/TSX Composite of 8.54%. Foreign markets also performed abnormally well with the S&P 500 advancing by 6.95% and the MSCI EAFE Index rising by 3.62%. After a sharp Q1 decline, bonds rebounded in the second quarter rising by 1.66%.

Global new daily cases of Covid-19 have dropped sharply from the peak set in the spring of 2021 prompting many to ask the question: Is the “return to normal” finally underway? While we would like to provide an optimistic opinion on the subject, the fact is that we do not know with certainty, nor do politicians, central bankers, or even public health officials. As always, we stress to our investors that it is important to stay focused on long-term outcomes, and not get distracted by short-term events whose impacts will eventually become marginalized (speaking from a purely financial perspective).

What we do know with certainty, is that financial conditions are still very accommodative, fiscal stimulus is still being implemented, and economic data confirms significant positive momentum. Indeed, some observers would be quick to point out that inflation, specifically, is reaching uncomfortably high levels. Both Canadian and U.S. central banks, however, have been proactively commenting that this was to be expected given the weak year-over-year comparisons and that it should be considered transitory. These conditions are not likely to last forever, but as long as they persist, we believe that it will continue to be supportive for equity prices.

One potentially serious consequence of favourable market conditions, like we have seen over the past year, is that it may change investors’ perceptions of investing reality. It is difficult for an investor to recognize mistakes or fully appreciate risk when everything is going up. Psychology is one of the most powerful factors in affecting investor returns, and complacency or over-confidence can have a pronounced adverse impact. There is evidence to suggest that there may be bubbles forming in certain assets, notably crypto currencies and meme stocks such as AMC or Gamestop, reminiscent of the late 90’s tech bubble. We caution investors to avoid speculating in such assets as the outcomes when bubbles burst can be devastating. Furthermore, we would encourage every client to listen to our recent [podcast](#) featuring Lisa Kramer, a University of Toronto Professor (Episode 12), discussing some very relevant aspects of behavioural finance.

Stay safe and enjoy the summer!

Here is a recap of market performance as of June 30, 2021*

Asset Class	Market Index	Quarter	1 Year	3 Years	5 Years	10 Years
Fixed Income	FTSE TMX Canada Universe Bond	1.66%	-2.43%	4.16%	2.64%	3.90%
Canadian Equity	S&P/TSX Capped Composite	8.54	33.85	10.80	10.77	7.44
U.S. Equity	S&P 500 (\$Cdn)	6.95	28.01	16.31	16.53	17.74
Int'l Equity	MSCI EAFE (\$Cdn)	3.62	20.33	6.11	9.23	8.56

* Source: Morningstar Direct. Performance annualized for periods greater than 1 year.

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