RCTG

MONTHLY REPORT

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ROTMAN COMMERCE TRADING GROUP

RCTG MARKET RESEARCH

GLOBAL MARKETS INSIGHTS

ALL DATA WITHIN THIS REPORT IS MEANT FOR EDUCATIONAL PURPOSES AND IS SUBJECT TO CHANGE

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GLOBAL MACRO COMMENTARY

The US economy has continued to recover from its COVID-19 lows. We have seen US equities up 15% since November 2020 and they are continuing to climb higher. Risk sentiment, however, is still increasing as we have seen major rallies in equities. There has been a great deal of commotion surrounding spikes in Gamestop's (NYSE: GME) valuation from the army of amateur investors waging a war against major US hedge funds. In recent years, the weight of energy in Canadian equities has been eroded. However, we expect that with continued vaccination of the population and the movement of workers back to the office, crude prices will help to drive Canadian equities higher into 2021.

Alongside additional fiscal stimulus measures, the Fed signalled at the first Federal Open Market Committee (FOMC) meeting of 2021 that they will hold rates stable at the lower bound of 0.00-0.25%. This comes as Fed Chair Jerome Powell remains accommodative by focusing on inflation and having other members of the FOMC mention that they could begin tapering off open-asset purchases. As investors begin to wonder when the Fed will start to taper off fiscal stimulus, the US Treasury yield curve has started to steepen. Steepening indicates that investors are betting that there will be stronger economic performance in the coming months.

Global lockdowns have led to sharp double-digit losses for West Texas Intermediate (WTI) crude over the last remaining months of 2020. Although vaccine roll-out has been positive news for crude performance, due to people returning to work, increases in consumer demand would help push up prices, which we have not yet seen in 2021. Volatility in crude prices is expected to persist as we progress into the first fiscal quarter of 2021 alongside the expected world economic recovery. Gold performance in January was not as strong as in late 2020, as vaccine news and recent positive economic data releases have helped to improve investor risk-appetite.

The Fed's loose monetary policy and increasing risk sentiment from volatile equity markets, has the US Dollar (USD) expected to remain bullish (strong) as we progress into the first few months of 2021. Structural weaknesses (i.e. GDP slowdowns) from the business cycle, paired with the fact that the Canadian Dollar (CAD) closely follows USD, suggests that the current outlook for CAD performance next month is bearish (weak) compared to USD. Risk sentiment will continue to be the primary driver for CAD performance; any additional support from commodities could help to improve CAD. It is expected that the trading range for USD/CAD exchange rate will remain between 1.2650-1.2850 as we head into February.

FIXED INCOME MARKETS

Month in Review

January was a busy month, to say the least. It began with Georgia run-offs indicating that President Joe Biden could now use reconciliation to pass executive orders to reintroduce the democratic government. With tensions high, Biden's pledge for 100 million vaccines and other policies generated positive market shocks when combined with increased fiscal stimulus. Economic slack persists after a January unemployment spike, however, the road to closing the output gap could come to an end soon. Forecasted growth in US GDP aligns with the steepening of the US Treasury yield curve, suggesting that investors are catching on to more positive short-term outlooks.

There was a drastic turn-of-events come January end as retail investors took to the stock market to put major hedge funds (HF) into a short-squeeze. This was made possible by the mass-purchasing of stocks to drive up stock prices that HFs had large short positions in. The Robinhood app halted all trading of specific stocks targeted by the subreddit r/wallstreetbets, including Gamestop (NYSE: GME) and AMC (NYSE: AMC). The halt occurred while Robinhood was tapping into existing investor and bank credit lines to create a $1 billion lifeline to post collateral on the trades of these risky assets. Whether it is regarding the future of shorting or fiscal stimulus, January has been a catalyst for changes in the months to follow, which will have long term implications on the markets and economy as a whole.

Rates

As of January 27th, the Fed has maintained their target rate range at 0-0.25% while the asset purchase program guidance was altered to indicate that the FOMC will continue to buy treasuries and MBS until substantial progress is made towards dual mandate goals. On January 28th, the Fed's Fund Rate slipped to its lowest level since June 2020. Negative policy rates remain to only be a theoretical possibility in the new year. We continue to look into the event-driven rate volatility that parallels the tensions of long-run optimism and short-run risk factors.

Credit

High yield corporate bonds closed the last week of January with negative returns for the first time in 3 months, and spreads widened by 14 bps after suffering outflows amounting to $1.3 billion since early December. Volatility in U.S. equities around the spectacle of a squeeze on short sellers of several small-cap stocks might have lowered investor appetite for high yield. Yet, new issuance hit a new January record topping $55 billion. Investment-grade corporate issuance was $127.5 billion surpassing projections of $115 billion. This is in line with the 2020 January issuance of $129.3 billion, and spreads have widened only marginally.

Municipals

Municipals' returns have shown significant volatility throughout last year but reached mid-single digits. The demand for munis remains stable and the supply will elevate in 2021 as the economy slowly recovers from the pandemic. We predict that the municipal bond market will continue to offer attractive opportunities as the FED and U.S. Treasury will support the markets. However, investors should pay extra attention and utilize resources including risk management and expertise to navigate an increasingly volatile marketplace..

COMMODITY MARKETS

Agriculture Market

The Bloomberg Agricultural Index rose by more than 30% since June to its highest level in more than two years. Wheat has gained more than 30% in the last 12 months to reach an eight-year high; sugar has soared 20% over the past year to a three-year high, and cotton has moved up by 17% to a two-year high. Supply and demand are the main price drivers in the agricultural markets, more so than any other commodity market. China is a major buyer of agricultural products and has been building its stockpile, helping to lift prices. The COVID-19 pandemic has disrupted trade flows around the world and large food suppliers have been buying stockpiles to ensure supply.

Gold

The dollar continues to decline, and we continue to see gold holding steady. With Democratic leaders pushing for nearly $2 trillion in stimulus, there are "very big signals that the proverbial kitchen sink is about to be thrown at an effort to prop up a fragile economy, an effort that may have a short-term impact but in the long term will cause further pain and ultimately will be negative for the U.S. dollar and positive for gold," Slusarchuk said.

There is optimism that $2 T in stimulus under the Biden administration will drive a post-pandemic rebound. As a result, we saw a decline in the dollar as investors adopted more bullish positions. Essentially these policies are pushing up equities, weighing on the U.S. dollar, but also supporting inflation expectations. Meanwhile, holdings in gold-backed ETFs have remained largely steady in January and have helped mitigate falls in spot gold prices, maintaining its price above its 50-day moving average. That could change if investors decide to trade their safe havens for risky assets. Notably, gold does remain down this year after rising Treasury yields diminished its appeal as a safe haven.

Oil

President Joe Biden cancelled the Keystone oil XL pipeline project and rejoined the Paris climate accord. He also plans on going further and suspending the sale of oil and gas leases on federal land. These policy changes and permits can also delay existing leases and drilling operations. As a result of these decisions, the stock of these oil producers fell exponentially. From a macro perspective, these limitations can have rippling effects. These changes will increase the unemployment rate, decrease disposable income and consequently hurt the economy in the long run. Notably, the scrapping of Keystone XL leaves behind 48,000 tons of steel. On the bright side, Biden's actions were a threat to some U.S. oil producers, they could be beneficial for crude prices by restraining supply.

The IEA lowered forecasts for global oil demand because of these renewed lockdowns. The global vaccine roll-out will definitely help with both supply and demand shifting back into growth, but it will take more time for oil demand to recover fully because of these renewed lockdowns. These uncertainties prompted OPEC to delay plans to restore halted output. Oil prices have rallied this year since Saudi announced additional production cuts to be made over the next two months. Brent futures traded above $55 a barrel in London during the second week of January, close to their highest in almost a year. OPEC+ actually expects a substantial improvement in demand in the second half of the year. And if they are right, OPEC+ may start to reclaim the market share it has steadily lost to the U.S. and others since 2016..

Bitcoin

Bitcoin's price could exceed $50,000 over the longer term as the digital asset vies with gold for investment flows, according to cryptocurrency exchange Luno and brokerage OSL. "To have invented a new type of money via a system that is programmed into a computer and that has worked for around 10 years and is rapidly gaining popularity as both a type of money and a store hold of wealth is an amazing accomplishment," Dalio posted on Bridgewater's website. "There aren't many alternative gold-like assets at this time of rising need for them." Like others, however, Dalio said he found it challenging to put a value on digital assets. While Bitcoin has the potential to make investors "very rich" as well as "disrupt the existing monetary system," there are risks. He said cryptocurrencies are probably vulnerable to being hacked and subject to restrictions by governments that want control over the money supply.

EQUITY MARKETS

Month in Review

Following the turmoil of 2020, the benchmark S&P 500 index finished the year with a 16.3% gain. As mentioned in the previous months, a majority of equity investors continue to emphasize the technology sector while navigating through the economic circumstances brought on by the pandemic. This is reflected in the markets by the 44% annual returns of the tech-heavy NASDAQ composite index as well as in the individual growth of main companies in the tech space.

Moving into 2021, in contrast to the other major markets, the month of January continues to see bullish trends in the equity markets on an international level. More specifically, investors are focusing more on small and mid-cap companies as demonstrated by the 2021 'US Equity Size & Style Returns' diagram. As shown, the average growth rates over the past month are highest for small-cap companies overall at roughly 10% and significantly lower for large businesses. The key reasons for this include a return to fundamental investing methods, historically low interest rates, tech industry immunity from the pandemic, as well as a consensus on overvalued large-cap / blue-chip businesses.

The main takeaway moving into the new year is the shift in the investment style. Overall, investors continue to take more aggressive positions looking for quality growth investments. This is reflected in the 2020 'US Equity Size & Style Returns' diagram by the large percentage growth in returns seen in growth companies of all sizes.

US Equity Size & Style Returns

MONTH-TO-DATE				YEAR-TO-DATE		
2.63%	2.67%	2.70%	Large	2.63%	2.67%	2.70%
3.94%	3.98%	4.06%	Medium	3.94%	3.98%	4.06%
9.22%	9.84%	10.41%	Small	9.22%	9.84%	10.41%
Value	Core	Growth		Value	Core	Growth

US Equity Size & Style Returns

MONTH-TO-DATE				YEAR-TO-DATE		
2.58%	3.14%	3.67%	Large	1.55%	19.70%	37.26%
3.41%	4.37%	6.10%	Medium	3.74%	16.75%	37.28%
6.91%	8.33%	9.67%	Small	3.65%	19.60%	35.03%
Value	Core	Growth		Value	Core	Growth

GameStop

Arguably the most interesting news of the new year is the rollercoaster ride of GameStop (NYSE: GME). Following a Robinhood style fight between the company itself, institutional investors, Reddit traders, and retail investors; over the span of a week, the company's share price went from 40 USD to $470 before finally settling at $325 by market close. This took place as a result of a short squeeze, in which retail investors drove the price of GME up forcing the institutional investors who had taken short positions to cover the difference and prevent further losses. In total, this resulted in an estimated $19 billion loss for institutional investors by the end of the trading week of January 29th. Perhaps more significant than the losses incurred, this event demonstrated how powerful retail investors can be when given access to financial instruments that were previously for institutions.

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