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MONTHLY REPORT

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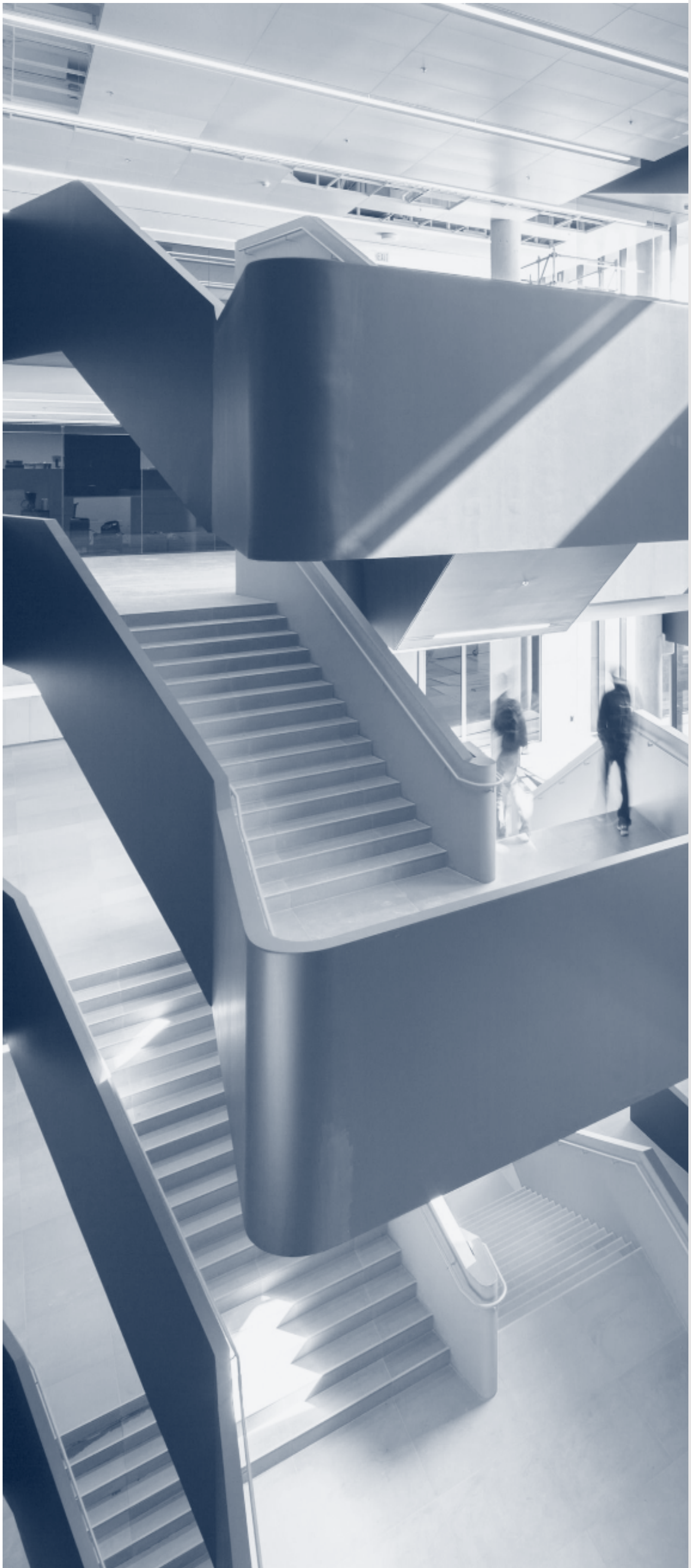

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RCTG MARKET RESEARCH

GLOBAL MARKETS INSIGHTS

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

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- **Fixed Income Markets –** Growing positive sentiment sees fixed income investors repositioning portfolios.
- **Commodity Markets –** The Bloomberg Commodity Index rose about 4% in the last month, and posted YTD gains of 8%, all in all, creating a positive foundation for the year to come. WTI has been gaining steadily reaching returns of 12% in March, yet gold prices fell 7% due to 10-year bond yields continuing to increase.
- **Equity Markets –** Despite the increase in treasury yield rates and other changes in macroeconomic factors, the equity markets continue to demonstrate their resilience throughout the month of February.

Data recorded as of 03/24/21.

GLOBAL MACRO COMMENTARY

To proceed with the Fed's focus on pursuing maximum employment and price stability, the reserve has purchased a total of $120 billion of assets this month made up of government bonds and mortgage-backed securities. The sharp peak in assets will fund Biden's $1.9 trillion stimulus plan as optimism for a stronger economic outlook has grown with vaccines. Concerns of excessive fiscal stimulus have raised inflation expectations in the U.S. However, Chairman Powell is not worried about the inflation level going out of control as improvements in the labour market have slowed and expected price increases will be short-term. Thus, the central bank will not cut its $120 billion in monthly bond purchases anytime soon, until significant progress is noticed towards the Fed's goals. With additional stimulus, strong demand, and increased order backlog in manufacturing and service sectors, PMI maintained well-above the breakeven level of 50. However, ISM Business Prices reached almost record highs with continued COVID-19 delays in supply chain and high input costs (e.g. plastics, primary metals) - a trend that is not an inflation threat given the current high unemployment rate.

Positive news has spread around the world, as the global number of COVID-19 infections and fatalities have declined by 52% with successful vaccine roll-out and lockdown restrictions. Many countries are expected to see huge increases in global vaccine supply, as BioNTech, one of the main vaccine developers, has expanded to a new site in Germany for greater production and partnered with Pfizer in developing the first vaccine to be approved for consumption by the U.S. and Europe. For vaccination coverage, Israel is leading with 83 doses per 100 people and finding a 99% reduction in deaths and illnesses, powering greater optimism towards the faster reopening of the economy. Canada will start to see light, with an expected large supply of vaccines despite previously extended delays, by the end of March and the following months. However, there is growing concern over the new South African variant being resilient to the AstraZeneca vaccine, making it a challenge to limit transmission and lowering the country's efficacy rate. This means more testing in areas where the variant has been detected and placing greater restrictions.

Chairman Powell's comment to the continued long-term interest rate anchored near zero and rising inflation expectations, triggered the steepest climb in yield curves since 2016. While yield curves were rising, we were on the bridge of experiencing negative convexity in light of Mortgage-Backed Securities (MBS).
While market chaos occurred as interest rates were expected to stay low, home-owners refinanced or paid their mortgages off early. This caused a decrease in the time period of mortgages held by funds that must maintain a certain tenure. A spike in MBS purchases to withhold their required beta created ripple effects in the market. As the market viewed the heightening of yield curves as a sign of economic growth, global equities saw a record high in gains, with energy stocks and the financial sector leading with a strong rise of 6.8%, and 1.5%. As well, the main indexes, S&P 500, Dow Jones and NASDAQ, rose by 0.4%, 0.3%, and 0.6% respectively.

FIXED INCOME MARKETS

Month in Review

February began in a stable manner but investors quickly repositioned their portfolios in the expectation that the global economic rebound would be stronger than earlier anticipated. Better-than-expected economic data published, talks of further fiscal stimulus injections by the US government and vaccine roll-out at growing rates all supported the improving sentiment. This caused investors to predict that inflation could inch higher. However, challenges in both the economic and pandemic recoveries prevented rates from breaking out despite rising from their 2020 lows.

Rates

Over the course of the month, longer-term interest rates jumped, broadly seen as an indication of expected inflation. While some see it as economic optimism, investors are scared of the possibility of inflation coming. Investors are closely watching the central bank's next move and waiting for the next COVID-19 relief package to be approved by the Senate in March. It is expected that the stock market will rise once the congressional stimulus is approved.

Credit

With a strong issuance calendar, investment-grade credit spreads widened and ended February with a return of -1.44%. Corporate bonds were the top-performing sector, outperforming US treasuries of similar duration by 65 bps. Industrials stood at the top, followed by utilities and financials. High yield bonds rose 0.34% this month, largely propelled by positive sentiment around the vaccine rollout and expectations of a larger stimulus package.

Municipals

In February, the 10 year muni yield declined about 30 basis points, falling below 1%. However, stable supply and demand dynamics have been maintained despite the jump in interest rates and are believed to continue. As additional fiscal stimulus and vaccine distribution are rolled out, they can support fundamentals and provide opportunities in high yield muni bonds that have been most impacted by COVID such as transportation, travel, and healthcare.

COMMODITY MARKETS

Month in Review

With the second wave seemingly behind us and an increase in vaccine distribution, the economy is bracing itself for recovery. The Bloomberg Commodity Index rose about 4% in the last month, and posted YTD gains of 8%, all in all, creating a positive foundation for the year to come. Investor hopes fueled prices in all commodity sectors, with the highest activity seen in the Energy and Metals realms. More gains could be on the horizon as the Biden administration debates the release of a stimulus, which in recent history has been used, in some cases, as an 'investment grant' in riskier assets as a result of fixed income being so stagnant.

Oil

Since the beginning of the month, the WTI has been gaining steadily reaching returns of 12%, but slightly dropping off at the end. US oil inventories decreased 6.65 million barrels, as opposed to an expected drop of nearly 200k. This comes on the coattails of more vaccine rollouts, decreasing cases and the possibility of borders soon opening up. Around North America, consistent cold weather skyrocketed demand for heating, which was reflected in the sharp price increase, leading to a surge of cash for suppliers (producers). Similarly, oil refineries shut down all over the Gulf Coast as the unprecedented freeze halted about 17% of US refining capacity, equivalent to 7M barrels per day. The power outage and cold created a smaller demand for raw crude due to their inability to process it. Most of the problems in Texas are being blamed on Ercot, a non-profit that controls most of the state's energy after they privatized their electric grid. Internationally, elevated output quota compliance in the OPEC+ policy has supported crude values, but Saudi's plan to end its voluntary 1 million barrel per day production cuts in April would increase supply, which could create some volatility in price.

Metals

Gold prices fell 7% due to 10-year bond yields continuing to increase. As interest rates rise, the yields will keep climbing which is typically not a good sign for the yellow metal. The yields will continue to push higher at an accelerating rate due to economic optimism, thus that is when the federal reserve will institute a yield curve control. The positive outlook will also be spurred on by more employment in the springtime as COVID-19 numbers quiet down.

In terms of silver, the Reddit frenzy has worn off, but there are other reasons to maintain a bullish view. Its track record of being an industrial metal and having uses in green energy applications will undoubtedly make it more prevalent in the future.

Copper rose north to levels north of $4/lb which had not been seen since early last decade, as a result of inventories whittling down. Its use in EVs, need in power grids, and focus on green energy will likely create a sustainable chain of demand. Also, as optimism about global economic recovery spreads, especially in China, copper prices could be propelled to new heights.

Agriculture

In the Agro world, corn prices reached 7-year highs as the Chinese are buying vast quantities causing tight supplies. Compared to its domestic corn prices, US grain is much cheaper but is being purchased at unsustainable rates, potentially contributing to a supply crunch. In general, higher corn prices lead to higher meat prices, and with restaurants slowly opening up, large inflation in food prices could be just around the corner.

EQUITY MARKETS

Month in Review

February marks the one-year anniversary of the start of the recession brought on by the outbreak of the Covid-19 pandemic. Although the equity markets as a whole have been able to recoup from the initial losses and overtake previous levels, the dynamics of the markets have changed greatly with the shift in certain macroeconomic factors and social standards. This is best reflected in the Gamestop (NYSE: GME) incident of January, where the role of retail investors in market influence was demonstrated. Moving into the second month of 2021, equity markets demonstrate signs of continued recovery with most major indices moving in parallel to progress being made in providing vaccinations to the general public.

U.S.

The overall sentiment is that the equity markets are readjusting to return to normal. The S&P 500 increased 2.61% in February, bringing its YTD return to 1.47%. The largest gainers were primarily small and mid-cap value stocks as demonstrated in Figure 1. This is reflected in the S&P MidCap 400 and S&P SmallCap 600 which experienced month-over-month increases of 6.67% and 7.56% respectively. Similar to what has been previously mentioned, the significant growth in these two sectors follows suit with the greater market adjustment being seen. As the recovery process of the pandemic continues, investors are looking for high-value and well-positioned opportunities.

US Equity Size & Style Returns

	Value	Core	Growth
Large	6.04%	2.90%	-0.02%
Medium	7.75%	5.57%	1.71%
Small	9.39%	6.23%	3.30%

Technology

In comparison to the months prior, the market as a whole seems to be losing its momentum in the short-term. More specifically, when looking at the performance of certain market sectors in the last two weeks of February, such as large growth stocks and big tech companies, some stagnation and even decline are present. This occurs despite industry leaders such as Microsoft, Alphabet, Salesforce, and Amazon, all meeting or surpassing their forecasted earnings reports. This discrepancy is most likely due to the market adjusting for the over-valuation and inflation of the sector in the year prior. The industry was one of the few being negatively affected by the pandemic and served as a strong hedge for investors looking to protect their funds from the backlash of the pandemic.

Natural Resources and Oil Stocks

The natural resource industry as a whole is also gaining momentum with the re-opening of cities and international borders driving up the demand for production and consumption. This is furthered in the United States with the freeze in the midwest resulting in uncertainties and disruptions in energy supply. Aside from the short-term volatility, the natural resource industry will continue to see growth parallel to the market.

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