

Monthly Market Insights

Data and opinions as of February 28, 2021



Stocks up, bonds crushed as reopening trade continues

Markets have been jittery about rising inflation ever since last November's vaccine announcements. Sure enough, long-term government bond yields have crept up since then, which has mostly benefitted cyclical stocks as they offer some degree of hedge during periods of moderate inflation. Then in just February alone, government bond yields climbed nearly three times as much as November and January. This time, the rise in long-term yields was largely driven by rising real interest rates, and less so inflation expectations, which can start to pose a headwind for risk assets as costs of borrowing increase. Real rates typically rise as economic growth prospects improve. While it's difficult to pinpoint the exact cause, a few things are apparent: vaccine logistics appear to be improving, central banks remain widely accommodative, and more stimulus cheques are coming.

The NEI perspective

The bond market rout continued as the Treasury yield curve steepened, driven largely by rising real yields. This is a sign of encouraging economic conditions and a warning that markets may be pricing in a sooner-than-expected Fed rate hike.

The impact of higher yields carried over to the equity market as well, which reversed its gains in the first half of February. Under the surface, value stocks continued their outperformance and beat growth stocks by nearly 7%.

We believe the Fed will remain accommodative and that it still has tools at its disposal to intervene if necessary. Also, more stimulus cheques are coming to Americans.

From NEI's Monthly Market Monitor for March 2021. [Click here to get the full report.](#)

NEI

Equity

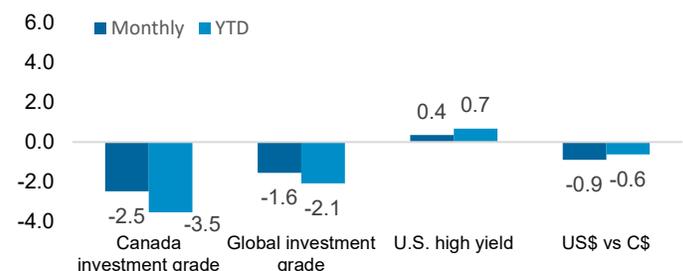
% return in C\$



Canada: MSCI Canada; **U.S.:** MSCI USA; **International markets:** MSCI EAFE; **Emerging markets:** MSCI Emerging Markets. Source: Morningstar Direct.

Fixed income and currency

% return in C\$



Canada investment grade: Bloomberg Barclays Canada Aggregate; **Global investment grade:** Bloomberg Barclays Global Aggregate; **U.S. high yield:** Bloomberg Barclays U.S. High Yield. Source: Morningstar Direct.

Thoughts on Bitcoin

The meteoric surge in Bitcoin prices has garnered a lot of attention. But there are important factors to consider before putting a dollar of your money in. We'll assume the reader already knows what a cryptocurrency is and how blockchain technology works. If not, there are plenty of great online resources as it is too complex a subject to explain in the limited space below. But perhaps that's the first warning sign right there. As Warren Buffett famously said, "Never invest in a business you cannot understand."

How does Bitcoin compare to traditional asset classes?

Bubble size = market capitalization (size), expressed in US\$ trillions



Source: Bloomberg and Morningstar. Data as of February 28, 2021. Risk is calculated as annualized standard deviation of monthly returns. For Bitcoin we used the total market value of all cryptocurrencies.

Bitcoin has seen a stellar annual return of 65% over the last three years. It has low correlation to gold and almost no correlation to stocks or bonds, so there can be diversification benefits. Moreover, Bitcoin can be an inflation hedge, as only 21 million units are ever coded into existence. However, as the chart above shows, Bitcoin is *six times* more volatile than stocks! To withstand such extreme short-term fluctuations, one would require either sufficient expendable capital or a long time horizon. There are also important environmental considerations, as mining Bitcoin requires immense computational power and energy. An estimated 60% of all Bitcoin mining occurs in China, where 58% of the nation's electricity is still generated from coal. While there is proven commercial application for the use of blockchain technology, from an investor's perspective, we will be staying on the sidelines for now.

Aviso Wealth Inc. ("Aviso Wealth") is the parent company of Credential Qtrade Securities Inc ("CQSI"), Credential Asset Management ("CAM"), Qtrade Asset Management ("QAM") and Northwest & Ethical Investments L.P. ("NEI"). NEI Investments is a registered trademark of NEI. Any use by CQSI, CAM, QAM or NEI of an Aviso Wealth trade name or trademark is made with the consent and/or license of Aviso Wealth. Aviso Wealth is a wholly-owned subsidiary of Aviso Wealth Limited Partnership, which in turn is owned 50% by Desjardins Financial Holdings Inc. and 50% by a limited partnership owned by the five Provincial Credit Union Centrals and the CUMIS Group Limited.

This material is for informational and educational purposes and it is not intended to provide specific advice including, without limitation, investment, financial, tax or similar matters. This document is published by CQSI, CAM and QAM and unless indicated otherwise, all views expressed in this document are those of CQSI, CAM and QAM. The views expressed herein are subject to change without notice as markets change over time.

Views expressed regarding a particular industry or market sector should not be considered an indication of trading intent of any funds managed by NEI Investments. Forward-looking statements are not guaranteed of future performance and risks and uncertainties often cause actual results to differ materially from forward-looking information or expectations. Do not place undue reliance on forward-looking information.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance, analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to computing, computing or creating any MCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages.