

THE ECONOMY AT A GLANCE

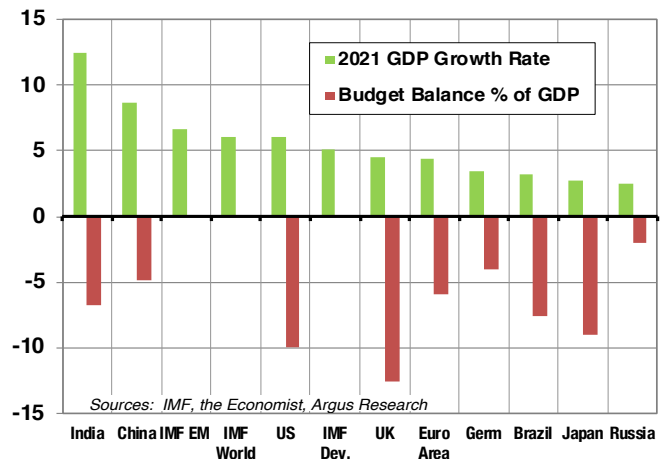
ECONOMIC HIGHLIGHTS

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GOOD NEWS ON GLOBAL GROWTH

The International Monetary Fund (IMF) expects the world economy to grow by 6.1% in 2021, up from its 5.5% forecast in January. The IMF also projects growth of 4.4% in 2022. India and China are expected to set the pace this year, with forecast rates of 12.5% and 8.6%, respectively. Emerging markets are expected to expand their economies at a 6.7% rate. Previously, the IMF expected Europe to grow faster than the U.S. (5.2% versus 3.1%) and we cautioned that this outlook might be too optimistic given negative interest rates, low PMI readings, and the European struggle with vaccines. The IMF has now come around to our view, with the U.S. forecast to grow 6.4% and Europe 4.4%. Much of the global recovery rate and durability in GDP will depend on the distribution of vaccines.

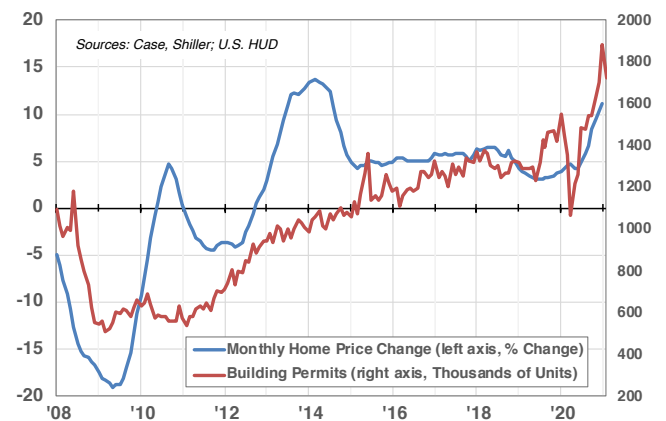
GLOBAL GDP FORECASTS (%)



HOME PRICES UP IN THE DOUBLE DIGITS

The National Association of Realtors recently reported that U.S. existing home sales rose to a seasonally adjusted annual rate of 6.22 million, near their two-year high and up from 3.9 million in May 2020. The Commerce Department said that new home sales, which were down 33% in April 2020 from January 2020, had recovered to a 10-year-high of more than 1 million per year last August. They remained elevated at 775,000 in February. Building permits were up 70% in February 2021 compared to April 2020, according to the Census Bureau. Though most of these indicators have cooled, housing prices have not. The S&P/Case-Shiller National Home Price Index for January 2021 showed that prices rose 11.2% year-over-year, up from 10.4% in December.

HOUSING MARKET TRENDS



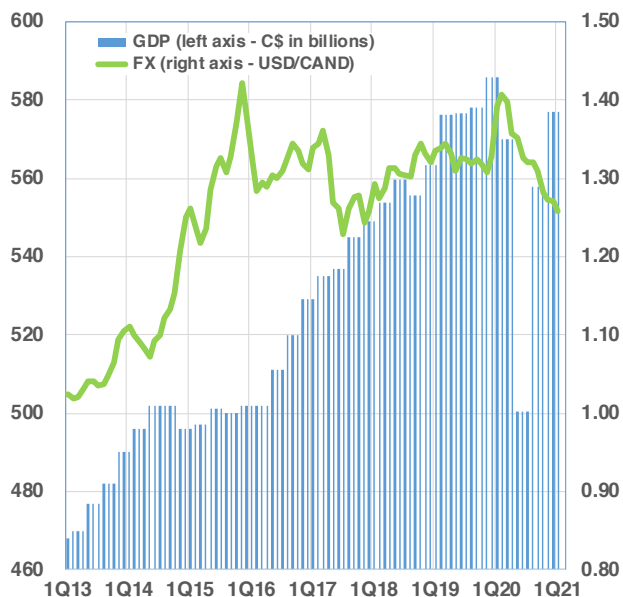
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ECONOMIC HIGHLIGHTS (CONTINUED)

CANADIAN ECONOMIC RECOVERY MIRRORS U.S.

The downturn caused by the coronavirus pulled Canadian GDP down by 5.4% in 2020, worse than the 3.5% contraction in the U.S. The volatile year for GDP included a 39% drop in 2Q20, followed by a 41% rebound in 3Q and 10% growth in 4Q. Canadian GDP now stands just 3% below pre-pandemic levels. Higher commodity prices relative to last year (particularly for energy commodities) as well as a strong housing market have added to the resurgence in GDP. Results from the Bank of Canada’s recently released Business Outlook Survey for Spring 2021 show improving business confidence, with many companies planning to increase investment spending to meet growing demand. Plans to hire were also common for firms with healthy sales outlooks. Some two-thirds of the firms surveyed reported that their sales were at or above pre-pandemic levels. The 1Q21 Business Outlook Survey indicator was also nearly back to its recent peak of 2Q18. We believe select companies in Canada offer compelling investment opportunities.

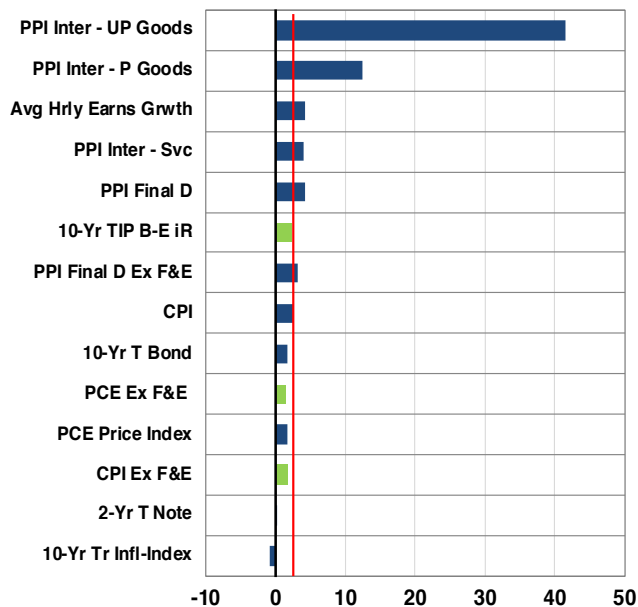
CANADA ECONOMIC TRENDS



INFLATION SOARING AT PRODUCER LEVEL

Pricing pressures are starting to pick up -- primarily at the producer level -- and it should not be too long before more mainstream measures of inflation start to tick higher as well. Even so, we don’t think the U.S. Federal Reserve is too worried. Chairman Powell has said that the central bank is willing to let inflation rise above its 2% target in exchange for a continued decline in unemployment. We track 14 inflation measures on a monthly basis. On average, they indicate that prices are rising at a 6.2% rate, ahead of last month’s 3.8% reading. But drilling down to core inflation (which we obtain by averaging core CPI, market-based PCE ex-food & energy, and the 10-year TIPs breakeven interest rate), our reading is 1.8%, only slightly above last month’s 1.7%. The big increases in recent months have come at the producer level, as the PPI for intermediate unprocessed goods is now 42% and the PPI for intermediate processed goods is 13%. Much of this price activity has been driven by the recent recovery in commodity prices, including oil. The Fed’s inflation forecasts call for core inflation of 2.2% in 2021 and 2.0% in 2022.

INFLATION MEASURES (% CHANGE Y/Y)

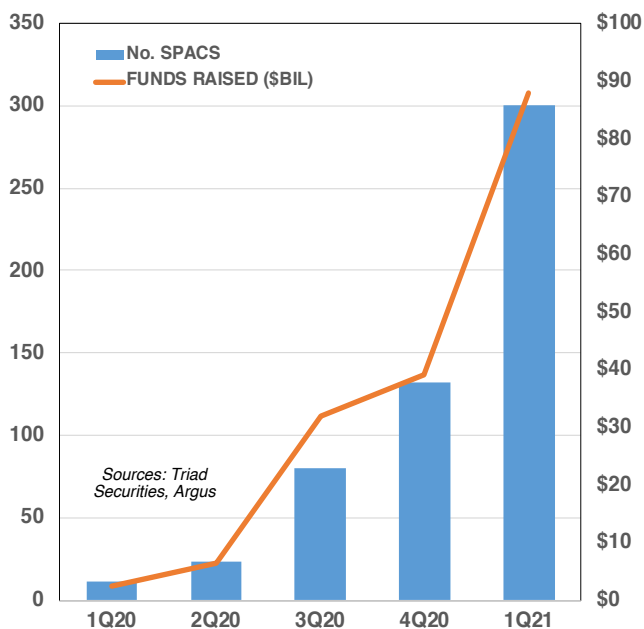


FINANCIAL MARKET HIGHLIGHTS

SPACS TAKE OFF

Demand for special purpose acquisition companies (SPACs) has been tremendous. During the most recent quarter, more than 300 SPACs raised more than \$88 billion. These “shell” or “blank-check” companies emerge from their funding rounds as ready-to-go corporations, seeking to add operations through M&A. Many private companies are attracted to SPACs, which offer a pathway to the public markets without the headache of an IPO. The biggest SPAC in the latest quarter was Soaring Eagle Acquisition Corp. (SRNGU), which raised \$1.5 billion and is focused on media and entertainment. Other sizable SPACS included KKR Acquisition Holdings Corp. (KAHC.U), sponsored by private equity firm KKR and focused on consumer and retail; Austerlitz Acquisition Corp. (ASZ.U), which is focused on financial technology; and Churchill Capital Corp. VII (CVII.U), which is the seventh SPAC sponsored by Michael Klein. These three each raised \$1.2 billion. We expect the SPAC trend to stay hot in 2021; however, a bubble may be emerging as SPACS seeking to invest their funds during their two-year investment windows could drive up prices for private firms in the popular Med-Tech and Fin-Tech industries.

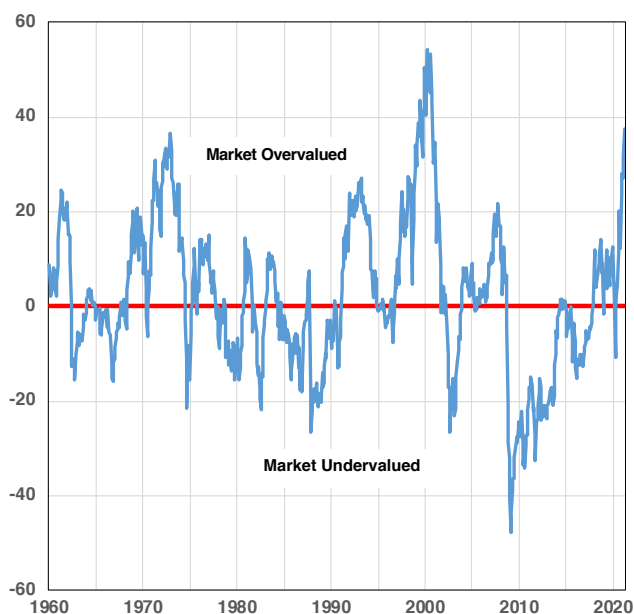
SPAC ACTIVITY



STOCKS STILL ABOVE FAIR VALUE

Stock prices, as expressed by the S&P 500, are near all-time highs. Further, on depressed earnings, stocks are well above fair value, which our model pegs at closer to 3500 due to the weak pandemic-influenced EPS in 2020. Our stock market valuation model takes into account factors such as stock prices, five-year normalized earnings (three historical years, two forward-looking), GDP, inflation, and T-bond and T-bill yields. We note that stocks rarely trade right at fair value. Since 1960, on average, the index has traded at a tight 2% above fair value, but the standard deviation to the mean is 16%. As such, we normally expect the S&P 500 to trade between 14% undervalued and 18% overvalued. At current prices, the stock market is almost 30% above fair value, implying that investors are quite optimistic about equities. Though we are bullish on the economy, earnings, and the market recovery, we’d feel better about the long-term outlook for stocks if valuations were not so stretched. Several factors could improve valuations: a pullback in stock prices; lower bond yields; or better earnings, which we expect in the coming quarters.

S&P 500 VALUATION MODEL (0% = FAIR VALUE)



ECONOMIC CALENDAR

Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
26-Apr	Durable Goods Orders	March	-1.2%	2.0%	2.4%	NA
27-Apr	Consumer Confidence	April	109.7	112	110.5	NA
29-Apr	Real GDP	1Q	4.3%	6.4%	5.7%	NA
	GDP Price Index	1Q	2.0%	1.9%	2.5%	NA
30-Apr	Personal Income	March	-7.1%	20.0%	20.0%	NA
	Personal Spending	March	-1.0%	5.0%	3.8%	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
12-May	Consumer Price Index	April	0.6%	NA	NA	NA
	CPI ex-Food & Energy	April	0.3%	NA	NA	NA
13-May	PPI Final Demand	April	1.0%	NA	NA	NA
	PPI ex-Food & Energy	April	0.7%	NA	NA	NA
14-May	Retail Sales	April	9.8%	NA	NA	NA
	Retail Sales; ex-autos	April	8.4%	NA	NA	NA
	Business Inventories	March	0.5%	NA	NA	NA
	Import Price Index	April	1.2%	NA	NA	NA
	Industrial Production	April	1.4%	NA	NA	NA
	Capacity Utilization	April	74.4%	NA	NA	NA

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