Perspective

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The SARS-CoV-2 Pandemic – One year later and counting, but there is light at the end of the tunnel.

PANDEMIC VOLATILITY IS AN OPPORTUNITY

A year ago, we were worried the world was going to end. Again. Of course, it didn't, but much has transpired since then, and the pandemic will leave an indelible mark on history. Not the least of which is the loss of life. In the US alone, COVID deaths have exceeded those of World Wars I & II, the Vietnam War, the Korean War, the Afghanistan & Iraq Wars, and the 9/11 attacks, combined. COVID deaths in the US are now approaching the catastrophic levels of the 1918-20 Spanish Flu.

The impacts of the pandemic will be long-lasting. Our sympathies remain with all those dealing with the physical, emotional and financial pandemic challenges. Through it all, Thornmark's purpose is to help clients navigate their investment and wealth planning during turbulent times.

It is a pleasure to report that tactical investing at Thornmark protected investors during the Pandemic Plunge, and grew wealth during the subsequent recovery. As shown in the table on this page, the Thornmark Investment Funds 1-year performance was up between 22% and 51%. For more details about Thornmark's 2020 Pandemic Plunge performance, check out the Performance page of our website.

PORTFOLIO PROTECTION = NEW OPPORTUNITIES

During the pandemic, the new Coronavirus was mysterious and dangerous. So much was unknown, and the uncertainty was a source of considerable risk. As a result, world stock markets plunged in the fastest market decline in history. However, the Thornmark Investment Funds held up relatively well. To navigate the risks, Thornmark implemented three tactical strategies:

1. Reduced equity (stocks) risk,
2. Skewed portfolio investments towards "stay-at-home" businesses, and
3. Purchased put protection.

The put protection formed the foundation of our participation in the 2020/21 stock market rebound. With significant portfolio "insurance" in place, we were able to scoop up some oversold securities like Winnebago, Norwegian Cruise Lines, Goodfood Market Corp., Align Technologies, Cargojet, etc. Investments in companies benefitting from the stay-at-home lock-down environment served us well, but we also prepared for "reopening" stocks to rebound once vaccines were approved. Anticipating that vaccines would be available sooner than expected, we started accumulating reopening investments last year. As vaccine rollout accelerates, so does our skew towards those companies.

Thornmark Performance

Tactical Strategy	March 31, 2021				
	2021	1yr	5yr	Since Inception	
Thornmark Dividend & Income Fund	3.1%	22.4%	5.1%	6.8%	Dec-98
Thornmark Enhanced Equity Fund	5.9%	34.7%	11.0%	10.5%	May-93
Thornmark Alpha Fund	7.9%	51.4%	13.1%	8.6%	Dec-05

"O" class, net of all fees and expenses.

ECONOMIC REBOUND INTACT

While stock markets have rallied significantly over the past year, there are strong underpinnings that bode well for the year ahead. A powerful combination of factors remains intact:

1. Massive fiscal stimulus. President Biden is working on a $2 trillion infrastructure bill. In Canada, the latest budget remains committed to economic stimulus and pandemic support.
2. US Federal Reserve Chairman Jerome Powell wants to reflate the economy with easy monetary policy. During recent congressional testimony, Powell indicated he will wait for evidence of inflation before reacting to it.
3. Businesses slashed expenses and re-engineered workflows. For example, eliminating corporate travel in favour of Zoom meetings and telecommuting are sustainable cost savings dropping directly to the bottom line. Business re-engineering means margins will expand dramatically as economies reopen. We're already seeing this in the most vaccinated countries like Israel, the United Kingdom and the United States.
4. Speaking of vaccines, when the pandemic started, many expected a credible vaccine was years away. However, the first emergency use vaccine was approved in November 2020, only 11-months into the pandemic. The vaccine rollout, while uneven and chaotic, is expanding rapidly. Most importantly, vaccines now in use have high efficacy and production volumes.

Therefore, support for stock markets to move higher is strong as vaccine distribution expands and countries reopen. Higher earnings will allow stock markets to move higher as valuations remain stable.

The rising tide may not continue to lift all boats. We expect reopening stocks, like airlines, hotels, live entertainment, cruise ships, restaurants, and the like to benefit from increased demand. Financials will benefit from higher interest rates. Industrial and “green” companies and will benefit from infrastructure rebuilding, and technology companies will continue to redefine the way we do business.

On the flip side, gradually rising inflation will push interest rates higher, putting pressure on high valuation stocks. Therefore, we favour value over growth. Meanwhile, the stay-at-home trade has likely run its course. Sure, there will be some bumps along the way, but the trends remain towards reopening, and the Thornmark Investment Funds are positioned to capitalize on the opportunities.

David Baird