

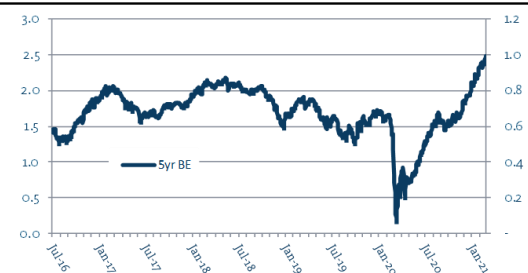
Pathfinder Investment Outlook

For the week ending March 5th, 2021

Putting it All Together

We spent the last three issues of the *Investment Outlook* discussing our views on inflation. Last week, there was somewhat of a reprieve in the bond market which seemed to settle down after focus turned to good news on vaccination supply and the potential roll-on effect on the global economy. That changed again at the end of this week with medium term inflation expectations increasing dramatically and stock markets reacting accordingly. We present US Breakeven Rates in Figure 1, which are inflation expectations over the next 5 years. As you can see, they are now at a multi-decade high. We are left with three main conclusions after the work we have done and the discussion that we had at investment committee:

Figure 1: United States 5Yr Breakeven Rates March 05, 2021



Source: Bloomberg Markets LP, Pathfinder Asset Management Limited

1. Changes to business will restrict supply: Companies have destocked inventory, input prices have increased and it will take time to adjust global supply chains. This means products at various points along the supply chain will be scarce and therefore prices will go up. A friend of mine who works at a multi-national business supply company sent me this in response to my recent commentary *“Right now ALL our suppliers are announcing substantial increases based on raw materials. Doesn't matter what it is...paper or resin based. Lots of force majeure letters. Will really put the squeeze on manufacturers as there is no way they could budget for the increases that are happening. No end in sight at least through summer with additional increases announced each month. I have never seen it like this[sic]”*. Indeed, while the comment is anecdotal, we know it is not an isolated experience.
2. Changes to behavior in the coming months will drive demand: I read in Bloomberg this week that “Consumers in the world’s largest economies have amassed \$2.9 trillion in extra savings during Covid-related lockdowns.... Half of the total - \$1.5 trillion and growing - is in the US alone...”. This, in combination with less social restrictions, is bound to drive increased consumption which will magnify the supply issue noted above.
3. Monetary authorities will attempt to keep control and there is still substantial slack in the employment market. These will be significant forces that will work together to dampen the risks identified in points 1 and 2 above. If we see serious wage inflation, then I would become significantly more concerned about the strategic environment.

“This means that” we can expect that there will be volatility in the fixed income markets driven by inflation expectations as the overriding forces fight to identify “the truth”. We expect that inflation will “run hot” above 2% for a time and this will result in equity volatility and therefore opportunity for stock pickers. We will detail our thoughts with respect to portfolio positioning and company selection in coming editions.

Michael Rudd, CFA | President, CEO & Portfolio Manager



Pathfinder Asset Management Ltd. | Equally Invested

1320-885 W. Georgia Street, Vancouver, BC V6C 3E8

E info@paml.ca | T 604 682 7312 | www.paml.ca

Sources: Bloomberg, Pathfinder Asset Management Limited

Disclosure

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*All returns are time weighted and net of investment management fees. Returns from the Pathfinder Partners' Fund and Pathfinder Real Fund are presented based on the masters series of each fund. The Pathfinder North American Equity Portfolio and The Pathfinder North American Income Portfolio are live accounts. These are actual accounts owned by the Pathfinder Chairman (Equity) and client (High Income) which contain no legacy positions, cash flows or other Pathfinder investment mandates or products. Monthly inception dates for each fund and portfolio are as follows: Pathfinder North American Equity Portfolio (January 2011), Pathfinder North American High-Income Portfolio (October 2012) Pathfinder Partners' Fund (April 2011), Pathfinder Real Fund (April, 2013), and Pathfinder International Fund (November 2014).

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