

THE SECULAR BULL MARKET IN EQUITIES

The history of the stock market can be measured in a series of secular bull markets. By definition, a secular bull market is a long-term period of above average investment returns spanning multiple business cycles. While secular bull markets encompass smaller cyclical bull and bear markets, the primary trend is upward as equities make higher highs and higher lows. For a multitude of reasons, we believe that common stocks are currently in a secular bull market which began mid-decade in the 2010's.

Broadly speaking, secular bull markets are driven by positive macro factors and catalysts, such as low interest rates, steady economic growth, strong corporate earnings, fiscal stimulation, and major technological advancements. Considering secular bull markets typically span multiple decades, we believe that there are still several years remaining in this secular bull market. Consequently, we continue to remain bullish on equities and are fully invested.

In review of past secular bull markets, we notice numerous parallels between the current investment environment and the post-WWII bull market of the 1950's and 1960's. For example, after the conclusion of the Second World War, the United States entered an era of prosperity as low interest rates and fiscal spending fuelled economic activity and lifted common stock prices to new heights. The current secular bull market is remarkably similar as the Federal Reserve and global central banks have been extraordinarily accommodative, having maintained massive bond buying programs and extended record low interest rates. At the same time governments have implemented immense fiscal spending to fight the negative economic effects of COVID-19. Notably, the spread differential between current interest rates and inflation has produced a negative real interest rate environment, which should induce both businesses and consumers to borrow and spend on goods and services. We believe these factors will elongate the secular bull market in equities, as "lower for longer" monetary policy remains in place.

Looking back, the post-WWII economy welcomed a great new age of consumerism, as soldiers returned from the war and businesses transitioned from producing war-time goods

and services to in-demand consumer products. During the wartime period, consumers amassed significant savings and with the later introduction of credit cards the economy was propelled by magnified consumption. Again, this is analogous to today with the buildup of record levels of savings and excess liquidity by both businesses and consumers due to the pandemic, elevating an extraordinary pent-up demand for goods and services.

Finally, over the course of a secular bull market, market leadership remains consistent. For example, the consumer discretionary sector defined the secular bull market of the 1950's and 1960's, as household products, the automobile, the television, fast food restaurants, and mass housing became more widely accessible to consumers. Since the onset of the current secular equity bull market, the corporate leaders have primarily been in the information technology sector. Today, for instance, we are witnessing quantum leaps in technology with major advancements in artificial intelligence, cloud computing, green energy, and biotechnology. Furthermore, globalization is beginning to dramatically transform our lives and is reinvigorating the worldwide economy. ABC Funds' holdings of Apple, Amazon, Microsoft, Facebook, Google, NVIDIA, Adobe and Salesforce are the among the leaders capitalizing on these influential market forces. Additionally, other favoured ABC Funds' holdings, including Algonquin Power, Brookfield Asset Management, S&P Global, Zoetis, and Thermo Fisher Scientific are at the forefront of these preeminent themes and are leaders in their respective fields.

In summation, we believe that there are remarkable similarities between the financial markets of the post-second world war era and today. We remain confident in the ABC Funds' portfolio positioning to take advantage of these prevailing market trends and the extended bull market in equities.





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FEATURED ABC COMMON STOCK HOLDINGS:

S&P Global: is a major provider of global financial intelligence services. The company is an excellent long-term investment due to its strong product offering, limited competition, and rapidly growing free cash flow generation of its operating segments. S&P Global Ratings provides credit rating services to corporations and governments and benefits as debt issuance continues to grow. S&P Global Market provides data, research, news, and analytics to investment professionals which helps investors in their financial decisions. The company also provides investment indices through S&P Dow Jones Indices and commodity and energy market information through Platts. The company is in the process of merging with IHS Markit, a leading information provider, which will create significant corporate synergies. This merger will enhance customer value by improving the data, analytics and client relationships, while expanding in other areas such as doubling the ESG business and adding fixed income indices to the index segment. The post-merger company will have enhanced organic growth, lower revenue volatility, and an improved competitive position.

Zoetis: a 2013 spinoff from Pfizer, is the global leader in animal healthcare. The company produces medications, vaccines, and diagnostic products for both livestock and companion animals. Zoetis' portfolio is remarkably diversified with over 300 product lines across eight different animal species. We are exceptionally bullish on the pet healthcare industry, as key secular growth trends including increased pet ownership and the "humanization of pets" are driving sales of pet products and services. In 2020, Americans spent over \$100 billion on their pets, the highest ever recorded figure. Additionally, pet ownership reached 70%, an all-time high. With regard to its financial and operating performance, over the past five years sales have grown at a compounded annual rate of over 8%, well-exceeding industry benchmarks. Furthermore, in its most recent quarterly earnings Zoetis generated strong free cash flow, increased its dividend, raised forward guidance for the full year, and highlighted new innovations in its key markets outside of the U.S. including Brazil and China. Zoetis is a core position in all ABC Funds' portfolios.



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Administrative Information

- Purchase requests must reach our office by the last business day of the month and redemption requests must reach our office no later than ten business days before the last business day of the month.
- As RBC Investor Services is no longer able to accept or issue physical cheques, please contact our office to make alternative arrangements
- All client requests are to be directed to ABC Funds.
- We continue to request that clients assist in updating their "Know Your Client" forms. This information is a regulatory requirement to assess the suitability of our various ABC Funds to individual client needs.
- RBCITS is the custodian of the ABC Funds and is responsible for providing account statements to all our clients. We ask that you retain these statements for your records as there may be additional costs for retrieving historical data.
- Please contact our office to inform us of any changes in mailing or email addresses. If we do not have your current contact information, you may not receive the information we are sending out.

This newsletter is published by I.A. Michael Investment Counsel Ltd. and the ABC Funds

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