NATIONAL BANK FINANCIAL

The Week at a Glance

March 26th, 2021

THE WEEK IN NUMBERS

(March 22nd – March 26th)

Research Services

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INDEX	Last price	Change Week	% Change Week	% Change YTD	%Change 1 Year	Trailing P/E
Dow Jones Industrial	33,072.88	444.91	1.36%	8.06%	46.65%	24.7
S&P 500	3,974.54	61.44	1.57%	5.82%	51.12%	29.7
Nasdaq Composite	13,138.73	-76.51	-0.58%	1.94%	68.50%	34.2
S&P/TSX Composite	18,752.58	-101.42	-0.54%	7.57%	40.25%	19.7
Dow Jones Euro Stoxx 50	3,866.68	29.66	0.77%	8.84%	35.78%	24.4
FTSE 100 (UK)	6,740.59	31.88	0.48%	4.34%	15.90%	19.1
DAX (Germany)	14,748.94	127.94	0.88%	7.51%	47.48%	22.5
Nikkei 225 (Japan)	29,176.70	-615.35	-2.07%	6.31%	56.32%	24.6
Hang Seng (Hong Kong)	28,336.43	-654.51	-2.26%	4.06%	21.34%	15.2
Shanghai Composite (China)	3,418.33	13.66	0.40%	-1.58%	23.63%	14.0
MSCI World	2,814.86	18.72	0.67%	4.64%	50.08%	26.4
MSCI EAFE	2,217.82	-13.61	-0.61%	3.27%	42.02%	21.5

S&P TSX SECTORS	Last price	Change Week	% Change Week	% Change YTD	%Change 1 Year	Trailing P/E
S&P TSX Consumer Discretionary	261.33	-1.50	-0.57%	12.09%	87.78%	32.0
S&P TSX Consumer Staples	650.25	7.44	1.16%	2.76%	13.56%	17.9
S&P TSX Energy	118.25	-0.59	-0.50%	29.93%	130.33%	N/A
S&P TSX Financials	348.91	0.99	0.28%	13.92%	42.42%	13.5
S&P TSX Health Care	81.36	-6.01	-6.88%	35.26%	61.88%	N/A
S&P TSX Industrials	345.55	-2.38	-0.68%	5.08%	44.94%	30.9
S&P TSX Info Tech.	182.04	-4.04	-2.17%	-0.18%	65.73%	62.5
S&P TSX Materials	299.55	-9.60	-3.11%	-6.57%	29.64%	19.5
S&P TSX Real Estate	329.90	3.92	1.20%	10.54%	35.52%	16.3
S&P TSX Communication Services	179.99	-2.20	-1.21%	9.92%	16.64%	24.6
S&P TSX Utilities	326.65	7.97	2.50%	2.24%	24.49%	20.0

COMMODITIES	Last price	Change Week	% Change Week	% Change YTD	%Change 1 Year	NBF 2021E
Oil-WTI futures (US$/Barrels)	$60.84	-0.58	-0.94%	25.39%	169.20%	$59.25
Natural gas futures (US$/mcf)	$2.56	0.03	1.14%	0.98%	56.63%	$3.00
Gold Spot (US$/OZ)	$1,725.20	-16.20	-0.93%	-8.87%	4.55%	$1,935
Copper futures (US$/Pound)	$4.07	-0.06	-1.37%	15.74%	84.19%	$3.55

CURRENCIES	Last price	Curr. Net Change	% Change Week	% Change YTD	%Change 1 Year	NBF Q4/21e
Cdn$/US$	0.7951	-0.0048	-0.60%	1.27%	11.47%	0.83
Euro/US$	1.1793	-0.0110	-0.92%	-3.44%	6.94%	1.22
Pound/US$	1.3792	-0.0076	-0.55%	0.87%	13.04%	1.42
US$/Yen	109.67	0.80	0.73%	6.23%	0.08%	105

Source: Refinitiv and NBF Research

Please see last page for NBF Disclosures

FIXED INCOME NUMBERS

THE WEEK IN NUMBERS

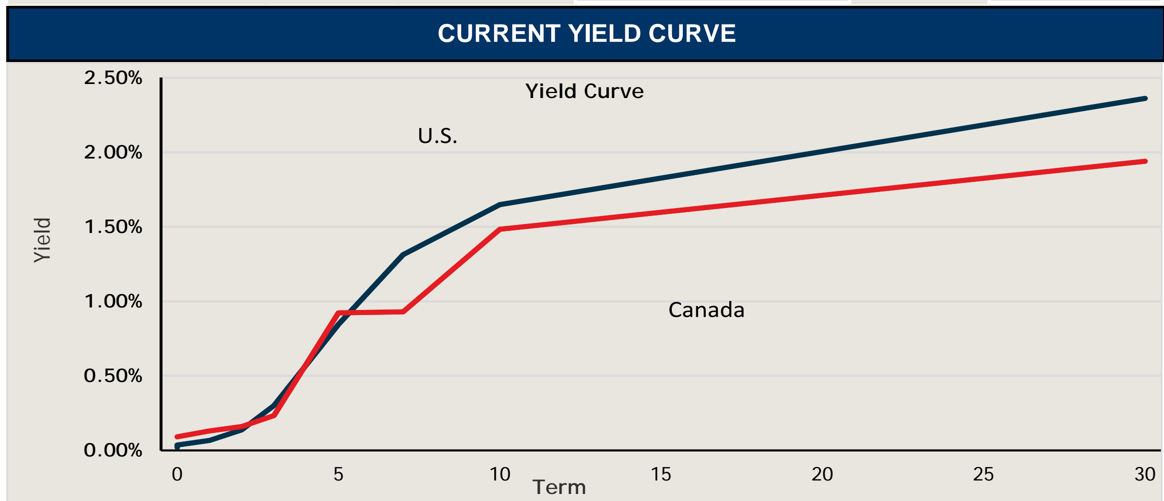
(March 22nd – March 26th)

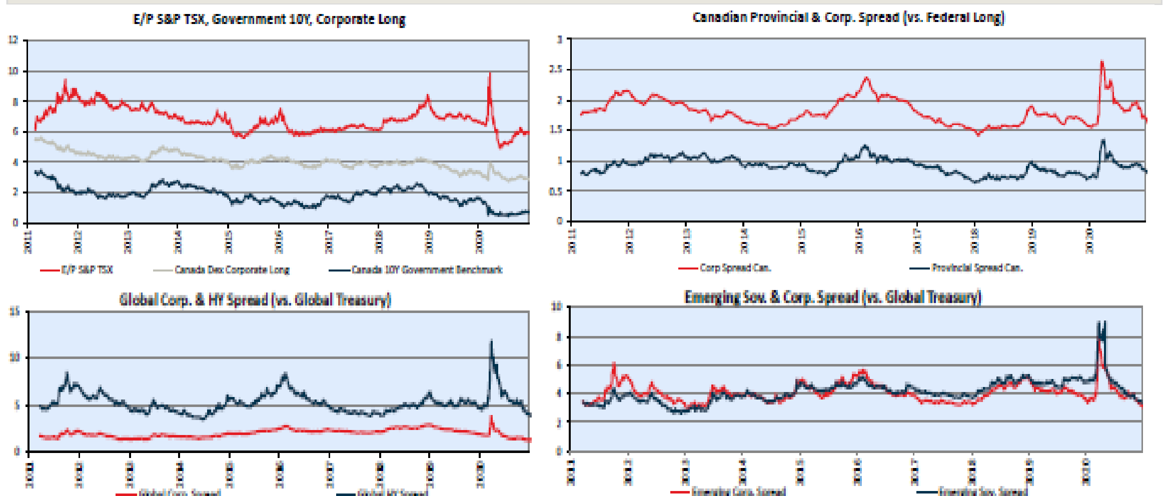
Canadian Key Rate	Last	Change 1 month bps		Last	Change 1 month bps
CDA o/n	0.25%	0.0	CDA 5 year	0.92%	-8.8
CDA Prime	2.45%	0.0	CDA 10 year	1.48%	-13.6
CDA 3 month T-Bill	0.09%	-1.3	CDA 20 year	1.73%	-15.6
CDA 6 month T-Bill	0.13%	-1.8	CDA 30 year	1.94%	-17.6
CDA 1 Year	0.16%	-1.7	5YR Sovereign CDS	38.28	0.4
CDA 2 year	0.23%	-3.0	10YR Sovereign CDS	39.91	0.0

US Key Rate	Last	ClHnge 1 month bps		Last	ClHnge 1 month bps
US FED Funds	0-0.25%	0.0	US 5 year	0.84%	-7.8
US Prime	3.25%	0.0	US 10 year	1.65%	-14.5
US 3 month T-Bill	0.02%	-0.4	US 30 year	2.36%	-21.8
US 6 month T-Bill	0.04%	-0.5	5YR Sovereign CDS	10.56	-0.5
US 1 Year	0.07%	-0.8	10YR Sovereign CDS	19.38	-0.1
US 2 year	0.14%	-1.4			

CANADIAN BOND - TOTAL RETURN	Change Week		Change Y-T-D
FTSE Universe Bond Index	1.07%		-4.73%
FTSE Short Term Bond Index	0.21%		-0.52%
FTSE Mid Term Bond Index	0.93%		-4.03%
FTSE Long Term Bond Index	2.34%		-10.22%

CURRENT YIELD CURVE



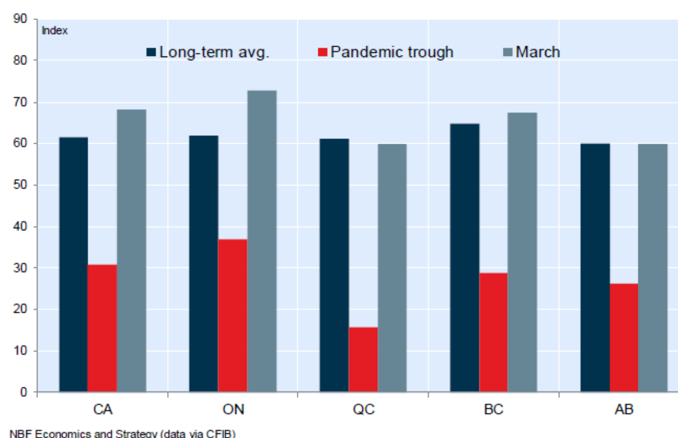


Source: Refinitiv & NBF

NBF Economy & Strategy Group

WEEKLY ECONOMIC WATCH

CANADA - In March, the **CFIB Business Barometer Index** climbed 5.7 points to 68.2, its highest mark since April 2011. Among respondents, 27.6% characterized business conditions as good at the moment (up from 25.6% in February) and 19.7% expected to increase full-time employment in the next 3-4 months (up from 14.7%). What's more, 48.6% of firms planned to ramp up capital expenditures in the near future, up from 43.9% the prior month. The percentage of polled businesses that expected to perform much better or somewhat better over the next 12 months rose as well, jumping from 45.4% to a decade-high 51.7%. At the provincial level, business sentiment remained below the national average in Quebec (+4.8 points to 59.8) and Alberta (-0.2 point to 59.9), but above it in Ontario (+8.6 points to 72.8) and British Columbia (+4.5 point to 67.5).



In the wake of the **Bank of Canada's** Monetary Policy Decision meeting two weeks ago, **Deputy Governor Toni Gravelle** delivered a speech this week titled "Market stress relief: the role of the Bank of Canada's balance sheet".

Gravelle's speech outlined the BoC's policy response when COVID-19 began wreaking havoc on financial markets last March. He underscored why it was important for central banks to provide liquidity when financial systems come under stress, but without creating moral hazard. "Once crisis tools have served their purpose, central banks should scale them back to show that they are emergency measures and don't reflect business as usual." Against this backdrop, Gravelle seized the opportunity to announce that the Bank was suspending or discontinuing its remaining market liquidity-focused crisis programs. Specifically, term repo operations would be put on hold indefinitely beginning in mid-May and the contingent repo facility would be deactivated in early April. Moreover, the Bank would not be extending its asset purchase programs for provincial bonds, corporate bonds or commercial paper beyond their upcoming scheduled one-year expiry dates.

Gravelle justified this by pointing to the ample liquidity in the system today and noted that corporate and provincial borrowers had "unfettered access to fully functional debt markets". Furthermore, he pointed out that credit spreads were either at or below pre-crisis levels: "It's clear that these extraordinary facilities are no longer required." Gravelle stated, however, that the Bank would not hesitate to activate one or more market programs should conditions of severe stress re-emerge. He added that the Bank did not intend to actively sell any of its corporate or provincial bond holdings.

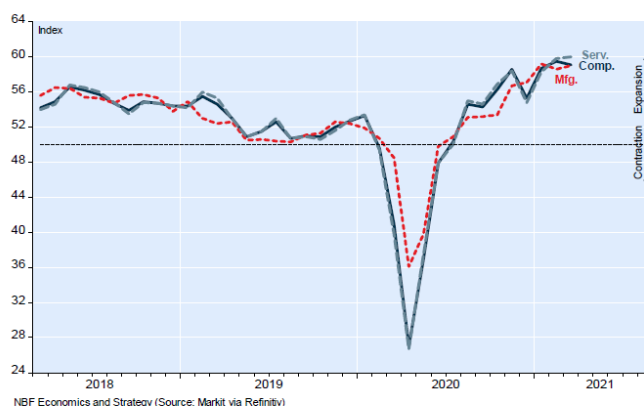
Regarding the QE program, Gravelle reiterated that the size of the Bank's balance sheet was in line with that of other central banks. However, he conceded that the Bank's ownership share of government bonds outstanding was by far the highest among its central bank peers. As for future tapering, Gravelle repeated the Bank's guidance from the March statement: "As we continue to gain confidence in the strength of the recovery, we will gradually adjust the pace of our QE purchases." He also noted that the Bank's April MPR would reflect the fact that the economic outlook was better than previously expected. While Gravelle did not provide a taper timeline, it is our conviction that the BoC will scale the program down in April from $4 billion per week to $3 billion. Gravelle emphasized that future tapering would not amount to removing stimulus but rather to adding it at a slower pace: "We would be easing our foot off the accelerator, not hitting the brakes." He noted that purchases would be dialed back gradually to the point where stimulus was merely maintained and no longer added. At this point, bond holdings would remain constant and maturing bonds would be reinvested. These large holdings would still be stimulative.

Gravelle made three key points about future tapering. First, the process would be slow and gradual. Second, it would be guided by the macroeconomic backdrop to and the strength and durability of the recovery. Third, changing the pace of QE would not mean that the Bank had changed its views about future interest rate hikes. He reiterated March's guidance to the effect that there would be no rate before 2023, as per its January projections. He did note that the reinvestment phase of QE would occur "some amount of time before we start to increase the policy interest rate". While he highlighted the uncertainty of the timing of these actions, Gravelle conceded that while stimulative monetary policy was essential to achieving the Bank's inflation objective, it could aggravate "financial vulnerabilities" (a nod to the red-hot housing market).

The Q&A period did not yield much in the way of additional information, except perhaps with regard to the real estate market. Asked about feverish activity in the sector, Gravelle acknowledged that signs of exuberance were starting to appear and recognized a fear-of-missing-out (FOMO) attitude among buyers. However, he specified that the situation remained less frothy than in 2016-17. He wrapped up by indicating that a more complete analysis of the situation in the real estate market would be provided in the next Financial System Review.

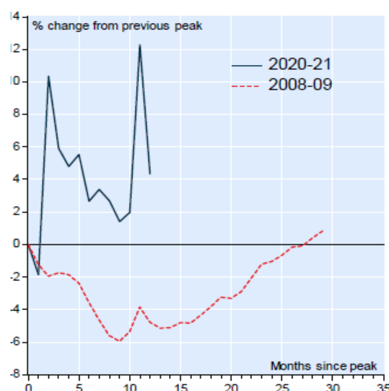
There was lots of information to be digested from Tuesday's speech, though none came as a tremendous surprise. Allowing the natural expiration of the Bank's extraordinary liquidity facilities/programs was to be expected and, to our eyes, justified based on how the markets have bounced back and how the broader economy is steadily recovering. Regarding future tapering, the speech supports our view that the pace of purchases will be reduced in April and that this will be supported by an upgraded economic outlook in the next MPR. Gravelle's reassurance that this should not be mistaken for a removal of stimulus seemed to us as though he were priming the markets for a near-term step down. Beyond April, we learned that the Bank's net QE purchases must be wound down to zero (i.e., the balance sheet neutral reinvestment phase) for an interest rate hike to occur. As for the policy rate, not much guidance was given but the Bank does seem to be making a clear and deliberate distinction between the pace of its QE and the overnight target. QE removal is being linked to the economic recovery from the COVID-19 crisis whereas future rate hikes are being predicated on output gap closure and sustainable 2% inflation. In other words, the economy could be fully recovered and there could be no net QE, but rates would remain at the effective lower bound if the BoC does not consider sustainable on-target price pressure to be imminent. Just to remind you, we currently expect the Bank's first rate hike to occur in Q1 of 2023, at about the same time as the Fed's first move

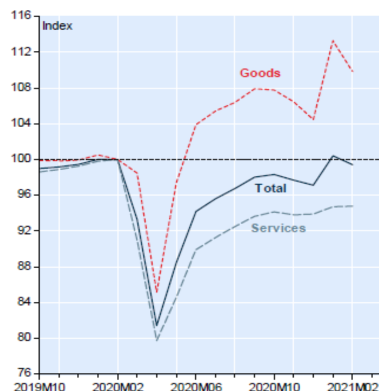
UNITED STATES - The **Markit flash composite PMI** came in at 59.1 in March, down from 59.5 the month before but still the second highest reading of the past six years. Operating conditions continued to improve in the manufacturing sector, as evidenced by a rise from 58.6 to 59.0 in the corresponding PMI gauge. New orders placed at factories piled up at the fastest pace since June 2014, supported by stronger international demand. Despite the sharp increase in new orders, purchasing managers reported a reduction in output growth. This reflected growing capacity pressure stemming from "extensive" supply shortages. With production failing to keep up with demand, work backlogs and supplier delivery times lengthened the most since data collection began in this regard. The rate of input price inflation, meanwhile, was the most acute in a decade. Firms operating in the manufacturing sector were able to partially pass higher costs along to clients, as prices charged surged the most on record. Factory payrolls expanded once again, but the pace of job creation eased slightly as "many firms highlighted struggles finding suitable candidates to fill vacancies." For its part, the services sector sub-index edged up from 59.8 to an 80-month high of 60.0 for an eighth consecutive expansion. New business increased at the quickest pace in almost three years "amid stronger client demand and the loosening of COVID-19 restrictions in some states." Both prices paid and prices charged rose the most since the inception of the series, while payrolls expanded at the fastest clip since December. The degree of optimism towards future output remained very high across the private sector, with the vaccine rollout acting as a virtual shot in the arm for confidence.



Nominal personal income fell 7.1% in February following a 10.1% surge in January, when American households received the aid cheques included in the $900-billion stimulus package signed at the end of Donald Trump's presidency. Income derives from government transfers dove 27.6% to $4,146.9 billion (seasonally adjusted at annual rates) on a 66.9% drop in the "other" transfer segment (to $781.1 billion). Payments made via the "economic impact payments" dwindled from $1,660.9 billion to $95.9 billion. Unemployment insurance benefits retraced 3.3% but remained elevated by historical standards at $537.0 billion. Recall that some emergency programs (notably the Pandemic Unemployment Compensation Payments and the Pandemic Unemployment Assistance) were extended following the passage of the most recent fiscal stimulus. The wage/salary component of income, meanwhile, stayed roughly unchanged at $9,658.4 billion. All this translated into an 8.2% contraction of disposable income, the steepest drop recorded in data going back to the late 1950s. **Nominal personal spending**, for its part, shrank 1.0% in February and remained 0.6% below its pre-pandemic summit. While goods consumption stood 9.9% above its pre-crisis mark, services consumption was still 5.2% below its peak. The latter segment, which typically holds up better in times of recession, was hit harder during lockdowns and was recovering more laboriously because of rules of physical distancing imposed to limit the spread of the virus.

U.S.: Income remains well above pre-pandemic levels





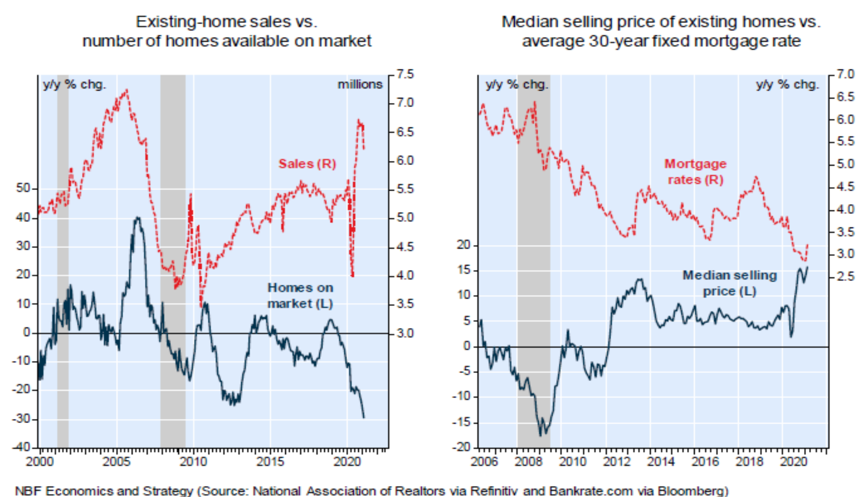
NBF Economics and Strategy (data via Refinitiv)

As income fell at a much faster pace than spending, the **saving rate** fell from 19.8% to a still elevated 13.6%. Adjusted for inflation, disposable income decreased 8.2%, while spending contracted 1.2%. Still in February, the headline **PCE deflator** came in at 1.6% y/y, up from 1.4% the prior month and the highest since February last year. The core PCE measure, meanwhile, fell one tick to 1.4%.

Sales of existing homes fell for only the second time in nine months in February, dropping 6.6% to 6,220K (seasonally adjusted and annualized). This decline, also the steepest in nine months, should not be interpreted as the sign of an imminent slowdown in the housing market. The moderation was due instead to inclement weather. Indeed, the central United States suffered through an unprecedented cold snap in the second month of the year, at which time sales in the Midwest and the South dropped 14.4% and 6.1%, respectively. Still, resale transactions remained 9.1% above their pre-crisis level despite declining month over month.

Contract closings in February retraced for both single-family homes (-6.6% to 5,520K) and condos (6.7% to 700K). The inventory-to-sales ratio ticked up to 2.0 but continued to indicate extremely scarce supply. (According to the National Association of Realtors, a ratio of <5 indicates a tight market.) Aside from resilient sales, the persistent tightness of the market can be explained also by an extreme shortage of listings. Indeed, the inventory of properties available for sale totaled just 1.03 million (not seasonally adjusted) in the second month of the year. Not only was this down 29.5% from 12 months earlier but it also represented the lowest February level ever recorded. Lack of supply has been largely responsible for supporting prices since the beginning of the COVID-19 crisis. In February, the median price for a previously owned home progressed 15.8% y/y to $313,000. Advanced indicators give reason to be optimistic about the future. The extra stimulus announced by the Biden administration and the progressive re-opening of the economy later this year should continue to stimulate demand. True, the recent rise of mortgage rates could act as a brake, but borrowing costs remain so low by historical standards that they are unlikely to present a major obstacle anytime soon.

United States: Lack of supply driving price surge in resale market



NBF Economics and Strategy (Source: National Association of Realtors via Refinitiv and Bankrate.com via Bloomberg)

New-home sales, too, were hit by the “deep freeze” in February, sinking 18.2% m/m to 775K (seasonally adjusted and annualized). This was significantly weaker than the 870K expected by consensus but still roughly in line with this indicator’s pre-pandemic peak (774K). The increase in sales, combined with a rise in the number of homes available on the market, boosted the inventory-to-sales ratio from 3.8 to a nine-month high of 4.8. Also worth noting, the number of properties sold but not yet built remained elevated at 245K, a factor that should continue to support residential construction going forward..

Durable goods orders fell for the first time in ten months in February, slipping 1.1% instead of rising 0.5% as per consensus. Despite the monthly decline, headline orders remained 3.2% above their level a year earlier. Bookings for transportation equipment sagged 1.6% in February on an 8.7% drop for vehicles and parts. Excluding transportation, orders retraced 0.9% (+0.5% expected) on declines for fabricated metals (-0.9%), machinery (-0.6%), and computers/electronics (-0.5%). The report showed, also, that shipments of non-defence capital goods excluding aircraft, a proxy for business investment spending, shrank 1.0% but remained on track to expand an annualized 9.5% in Q1 as a whole. Core orders, which are indicative of future capital spending, cooled 0.8% in February. With weather returning to normal in the Midwest and the effects of the Biden administration’s stimulus beginning to be felt, we expect business investment to remain strong in coming months. That said, there are some challenges arising in the segment, namely, a semi-conductor shortage that could further impact production of motor vehicles. Limited supply of various commodities is another concern.

Initial jobless claims decreased from an upwardly revised 781K to a post-pandemic low of 684K in the week to March 20. Continued claims, meanwhile, kept trending down, sliding from 4,134K to 3,870K, their lowest level since March last year. We must add to these the roughly 13.3 million people who received benefits in the week ended March 5 under emergency pandemic programs (Pandemic Unemployment Assistance and Pandemic Emergency Unemployment Compensation). Recent confirmation via the Biden’s administration stimulus package that these would be extended until September was no doubt greeted with relief by the millions of people still unemployed because of the pandemic.

NBF Economic & Strategy Group

The third estimate of Q4 GDP growth pegged in at +4.3% in annualized terms, two ticks stronger than what the BEA announced last month. The details of the report showed a slight downgrade to business investment in structures, but this was more than offset by stronger showings for equipment/intellectual property, government spending, and inventories. Trade's contribution to growth remained roughly unaltered. Q4 growth left U.S. real GDP 2.4% below its level in Q4 2019. The report also showed corporate profits sliding 1.4% q/q following a +27.4% jump in Q3. On a 12-month basis, profits were down 0.7%.

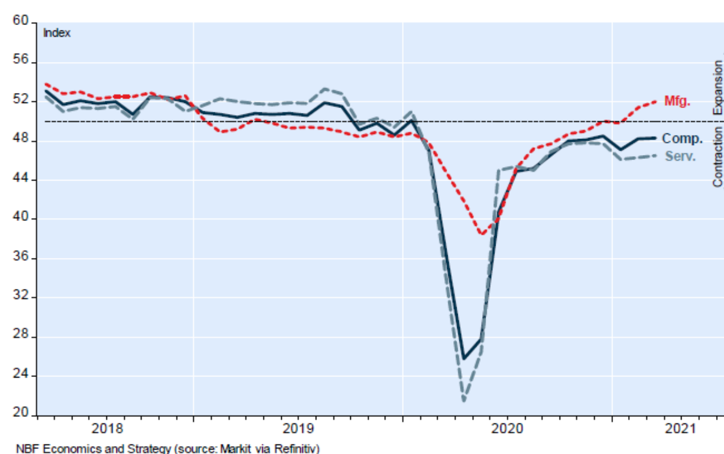
Contributions to Q4 real GDP growth

	3rd est.	2nd est.
GDP	**4.3**	4.1
Consumption	1.6	1.6
Business Investm. Equip./Intell.	1.8	1.7
Business Investm. Struct.	-0.2	0.0
Residential Investm.	1.4	1.4
Government	-0.1	-0.2
Domestic Demand	**4.5**	4.5
Exports	2.0	2.0
Imports	-3.6	-3.6
Trade	**-1.6**	-1.6
Final Sales	2.9	2.9
Inventories	**1.4**	1.1

NBF Economics and Strategy (data via Bloomberg)

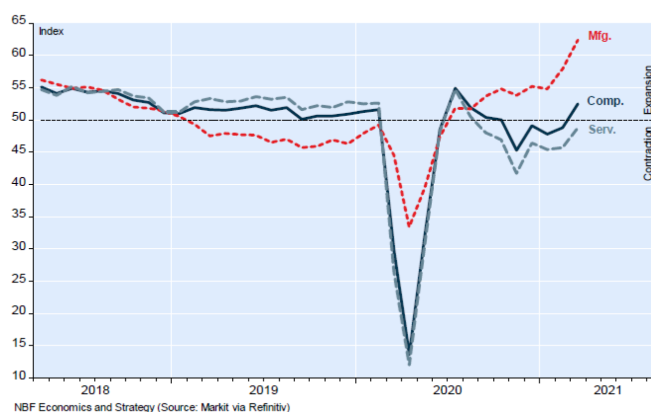
WORLD - The March iteration of the **Jibun Bank/Markit flash PMI** showed that private-sector activity continued to shrink in Japan as the government maintained a state of emergency to contain the spread of the coronavirus. The composite index edge up 0.1 point to 48.3, marking a fourteenth consecutive deterioration in business conditions. As is usually the case when social distancing measures are tightened, the services sector suffered the most. The corresponding sub-index improved slightly from 46.3 to 46.5 but remained well in contraction territory (<50). New business for service providers shrank the least since October and employment improved at the fastest pace in 22 months. The manufacturing tracker, meanwhile, rose from 51.4 to a two-year high of 52.0. Factory output growth softened a little, but new orders expanded the most since October 2018.

Japan: Private sector shrinks as government maintains state of emergency
Jibun Bank/Markit Flash PMI. Last observation: March 2021



Operating conditions in the **Eurozone's** private sector improved for the first time in six months in March. **Markit's Flash Composite PMI** rose from 48.8 to 52.5 in the month, marking the second steepest expansion in the past 28 months. It is important to note, however, that survey responses were compiled before distancing measures were tightened in several European countries following an increase in the number of new COVID-19 cases..

NBF Economic & Strategy Group



The manufacturing sub-index sprang from 57.9 to an all-time high of 62.4 on steep increases for both output (from 57.6 to 63.0, a record) and new orders (from 57.8 to 64.2, also a record). Headcounts, meanwhile, rose at the fastest pace since August 2008. With input price inflation surging the most in almost a decade and supplier delivery times lengthening to the greatest extent in the survey's 23-year history, prices charged rose at the fastest clip in almost a decade.

Services-producing businesses continued to suffer from social distancing measures. The corresponding index rose from 45.7 to 48.8 but nonetheless indicated a contraction for the seventh consecutive month. Incoming new business shrank for an eighth month running, albeit at a slower pace than in February, as the gauge went from 45.9 to 48.5.

Québec 2021 Budget
Postponement of return to balanced budget

Despite encouraging signs of economic recovery, continuing uncertainty induced by the pandemic has led Finance Minister Eric Girard in his 2021 budget to delay the return to budget balance by deploying new initiatives totalling almost $15 billion. That leaves an estimated deficit of $15.0 billion for fiscal 2020-21 (after a deposit of $3.0 billion to the Generations Fund and before taking into account the stabilization reserve), the same as the amount tabled in the financial update of last November. Budget 2021 presents a five-year financial framework projecting a deficit of $12.3 billion (2.6% of GDP) in 2021-22 narrowing to $3.1 billion (0.6% of GDP) in 2025-26. To avoid compromising the revival of the economy, the government will table legislation to suspend the Balanced Budget Act for the next two years, with the objective of bringing the deficit to zero in 2027-28. Gross debt is projected at 49.2% of GDP ($230 billion) in 2021-22 converging to 47% of GDP in 2026. The government's financial program projects borrowing of $28.5 billion in 2021-22, with the borrowing requirement ranging in subsequent years from $32.2 billion in 2022-23 to $29.6 billion in 2025-26, or an average 9% higher than in the coming year. The postponement of return to budget balance announced by the finance minister shows great prudence. Just for fiscal 2020-21, ending next week, the $1.3-billion provision for economic risks is retained. Moreover, the economic growth assumptions used by the finance minister are extremely conservative: our own forecast for nominal GDP growth over the next two years suggests a potential upside surprise of almost $2 billion in 2022-23. Finally, Ottawa's announcement earlier today of a lump-sum transfer to help the provinces fight the pandemic should bring Quebec an unexpected $1 billion. Also not to be excluded is the possibility that the province's structural deficit could be further reduced by a recurrent compensation to Quebec if Ottawa launches a national day-care system. In short, assuming the pandemic abates in coming months, budget balance could be attained before the projected 2027-28 fiscal year. ***(full report)***

Ontario 2021 Budget
Significant & wide-ranging protection for a recovering economy

NBF Economic & Strategy Group

Ontario's 2021 budget is ambitious in scope, delivering additional supports aimed at defeating the virus, shoring up the health system and aiding those otherwise in need (be it individuals, families, businesses or local governments). Notwithstanding more than $6 billion in new actions, the province's overall budgetary trajectory is very little changed vs. last year's budget. The 2020-21 deficit remains at $38.5 billion (4.5% of GDP), as residual reserves, contingencies and some extra revenue were fully spent on the COVID response. Progress on the deficit is to commence in 2021-22, where a shortfall of $33.1 billion (3.7% of GDP) has again been projected. Uncertainty remains elevated, but there's material prudence, including a very conservative near-term economic forecast plus reserves/contingencies. That hints at near-term fiscal upside, all else being equal. The budget once again outlines faster and slower growth scenarios, illustrating how far Ontario's fiscal fortunes could drift should the economic recovery deviate from plan. There's not a lot here in terms of tax measures, with spending/investments the clear focus of what is now a $51 billion, four-year COVID Action Plan. Detailed fiscal projections extend to 2023-24, but a longer-term recovery plan suggests the deficit might not be eliminated until 2029-30 (+/- two years under the faster/slower growth scenarios). For this government, eventual deficit reduction doesn't look to hinge on tax increases or cuts to base programs but would instead depend on a sustained economic recovery. An already elevated debt burden will continue to edge higher, breaching 50% of GDP in 2023-24 (peaking one year later at 50.5%). Still, the interest bite—a metric increasingly and understandably favoured by more and more governments—looks to remain manageable, even after factoring in the recent back-up in interest rates. Long-term borrowing reached a record $59 billion in the outgoing fiscal year, as Ontario tapped markets at home and abroad, providing investors with large/liquid conventional and green product alike. Ontario ends the year pre-funded to the tune of $5.2 billion. That amount gets netted off the coming year's bond requirement, which is now set at $54.7 billion or about $30 billion net of maturities. Look for 65-80% of term debt to be sourced domestically, including multiple green bond issues, while international markets remain a clearly important source of funding for Canada's largest province.
(full report)

Nova Scotia 2021 Budget
Aiming to erase a relatively smaller deficit by 2024-25

Nova Scotia entered the pandemic in a relatively enviable fiscal position, having chalked up four straight surpluses through 2019-20 and overseeing a nice consolidation in key leverage metrics. Make no mistake, the pandemic left a clear mark here, as evidenced by a deficit of $706 million in the outgoing 2020-21 fiscal year. This revised budgetary estimate looks a bit better than in December. Moreover, after scaling the deficit to GDP (1.6%), it's clear that Nova Scotia has spilled comparatively less red ink than a lot of other provinces. This relatively smaller shortfall will make it possible to get back to balance quicker now that an economic recovery has taken hold. The budget sees the deficit shrinking to $585 million in 2021-22 (1.2% of GDP), with balance achieved in four years' time (i.e., 2024-25). Net debt-to-GDP edges higher in each year of the fiscal framework, topping 40% by 2024-25 (a post-GFC high). The interest burden remains relatively light, however, with the looming retirement of legacy, high coupon bonds suggesting Nova Scotia's gross interest bill could move down, not up, in the next couple of years—this despite a rising interest rate environment. The outgoing year's borrowing program entailed issuance of $2.15 billion (par value), all of it domestic and split roughly evenly between private placements (when conditions were choppy last spring) and regular public deals (as markets normalized). A roughly similar amount of debt (~$2.2 billion) looks to be issued in 2021-22, which we consider proportionately modest by provincial standards. Medium-term guidance sees gross funding stepping down appreciably as the deficit is whittled away. It's hard to term any provincial budget credit positive these days, as we're still coming to terms with COVID-related scarring. But fiscally speaking, it turns out the starting point matters a lot, with Nova Scotia maintaining a relatively favourable standing vs. many provincial peers. ***(full report)***

Geopolitical Briefing
Is a carbon border tax inevitable?

Introduction

Growing support for a carbon border adjustment mechanism (more commonly known as a carbon border tax) in the European Union and to a lesser extent the United States has the potential to reshape the global economy and the geopolitical landscape.

The argument for this carbon border tax (CBT) is that countries with stringent climate regulations have long faced the risk of seeing investments migrate to regions with fewer restrictions (a process referred to as carbon leakage). Taxing imports from countries with laxer environmental standards would protect domestic companies from the cost of complying with ever more stringent climate regulations at home. Trudeau's recent comments suggesting that Canada and the United States could jointly take into account the emissions profiles of industrial competitors around the world suggests that Canada feels a continental CBT is needed. Such a tax would, however, present its share of complications. For starters, developing countries would argue that they are being unfairly penalized. Second, figuring out how much carbon is in each product and which country's imports to target would be very challenging from both a technical and political perspective. Despite these challenges, it is argued that industrialized countries must implement a CBT in order to lower the risk of a political backlash associated with concerns that climate regulations are rendering domestic industries uncompetitive vis-à-vis many foreign competitors.

The EU will likely be the first major region to implement a CBT

The European Commission is planning to unveil its CBT proposal in June. If approved, it would go into effect by 2023 and initially target imports from carbon-intensive sectors, such as cement, aluminum, steel and chemicals. These imports would likely be required to participate in the European Emissions Trading System, which allows companies that exceed their limit for greenhouse gas emissions to buy emission permits from other companies. The price charged would be set by the EU carbon market.

The United States is inching towards CBT

While the United States is much less advanced in its deliberations than the EU, Biden's election campaign literature laid out the following: The Biden Administration will impose carbon adjustment fees or quotas on carbon-intensive goods from countries that are failing to meet their climate and environmental obligations. This will ensure that American workers and their employers are not at a competitive disadvantage and simultaneously encourage other nations to raise their climate ambitions.

Canada will follow U.S. lead

Should the United States adopt a CBT, the most likely scenario is that Canada would immediately follow suit. This would not only level the playing field for Canadian companies with competitors in regions with laxer environmental standards, it would reduce the risk of Canada being on the receiving end of U.S. climate-related sanctions. A recent press release from the Canadian government suggested that a carbon levy was imminent: Canada is committed to ensuring that Canada's transition to a low-carbon economy is achieved in a way that is fair and predictable for businesses and supports Canada's international competitiveness. To this end, the Government is exploring the potential of border carbon adjustments and will be discussing this issue with its international partners. Another sign that Canada intends to implement a CBT is the recent release of draft regulations for creating a countrywide domestic market for trading carbon credits. Companies from regions with insufficient climate standards exporting to Canada could one day be required to participate in this market.

How would Canada's trading partners react?

A major challenge that would arise from Canada adopting a CBT would be the potential reaction of some of its trading partners. For instance, Canada recently signed onto the Trans-Pacific Partnership. How would certain developing countries in this trade agreement react to Canada imposing a carbon tax on their exports?

Is China the principal target of a CBT?

Many developed countries argue that China should do much more to control greenhouse gas emissions. They point out that China has overtaken the United States as the world's top carbon emitter since the mid-2000s. It now accounts for 28% of global emissions, compared with 15% for the United States, about 10% for the EU, and 7% for India.12 China even emits more greenhouse gases than certain European countries do on a per capita basis. About 69% of the world's increase in carbon emissions over the last decade comes from China; with India a distant second at 20%.

The EU has already warned China that it could be subjected to a carbon border adjustment mechanism, while the U.S. Trade Representative's Office recently stated in its annual policy report that it would consider some form of CBT to reduce greenhouse gas emissions and ensure that China meets its trade obligations. China has responded by voicing concerns that a CBT would damage the global fight against climate change. Indeed, China's recent pledge to be carbon neutral by 2060 is seen by some analysts as an attempt to avoid being hit by these tariffs. Moreover, if this tax were adopted, China would likely emphasize that its emissions per capita are still much lower than those of several countries, including the United States.

Conclusion

Despite the significant technical and political challenges involved, we feel that many developed countries will conclude that it is necessary to implement a CBT for the following reasons:

- Maintaining political support for stricter climate regulation over the long term depends on investment not migrating abroad to regions with weaker environmental regulations. The more this migration occurs, the greater the odds of a political backlash and of environmental regulations being diluted or even reversed.
- Implementing environmental programs that require significant financial investments at a time when many governments and people are already grappling with high debt levels requires a new source of revenue. Under these circumstances, a new carbon tax that targets foreign companies would be politically easier to implement than an increase in domestic taxes.
- Given Europe's ambitious climate plan, and generally higher cost structure particularly regarding taxes and energy, it will be the first region to adopt a carbon border tax in order to help preserve the competitiveness of its companies.
- The EU and eventually the U.S. will each establish their own separate CBT policies and after a subsequent rise in tensions between them efforts will be made to gradually align the two programs.
- Other major developed economies like Canada will eventually have to harmonize their environmental policies with both the United States and the EU to avoid being hit with tariffs and to ensure that their governments are the ones collecting the carbon tax revenues.
- Requiring certain companies to buy carbon credits will be the preferred solution for most countries that decide to impose a tax on imports from regions deemed to have weak climate regulations.

The geopolitical fault lines of a CBT

A carbon border adjustment tax implemented by the EU and/or the United States would ultimately mostly target developing countries. These countries could respond by either imposing counter-tariffs or developing their own carbon trading systems. Even if most countries chose the latter option, there would likely be disputes over how various countries measure pollution. The question of whether certain developing countries should be exempt from this tax would likely be raised as well. China, in particular, could be reluctant to align itself with Western standards when it comes to its measuring its carbon footprint, arguing that its own model is superior. Similar to what has occurred with 5G, internet and GPS standards, different environmental regulations could emerge in certain regions of the world. Finally, we believe that a carbon border levy will impact the global supply chain in the not too distant future by, among other things, raising production costs. ***(full report)***

IN THE NEWS

U.S. and Canadian News

Monday March 22nd, 2021

- **U.S. existing home sales drop sharply; prices surge**
  The National Association of Realtors said that existing home sales dropped 6.6% to a seasonally adjusted annual rate of 6.22 million units last month. Economists had forecast sales would drop 3.0% to a rate of 6.50 million units in February. Home resales increased 9.1% on a year-on-year basis. The median existing house price jumped 15.8% from a year ago to $313,000 in February.
- **CP Rail agrees to buy Kansas City Southern for US$25B**
  Canadian Pacific Railway Ltd. agreed to buy Kansas City Southern for US$25 billion, seeking to create a 20,000-mile rail network linking the U.S., Mexico and Canada in the first year of those nations' new trade alliance.

Tuesday March 23rd, 2021

- **U.S. current account deficit hits 12-year high in 2020**
  The current account deficit, which measures the flow of goods, services and investments into and out of the country, surged 34.8% to $647.2 billion last year. That was the largest shortfall since 2008. The current account gap represented 3.1% of gross domestic product last year, also the largest share since 2008 and up from 2.2% in 2019.
- **U.S. new home sales plunge amid harsh weather**
  New home sales plunged 18.2% to a seasonally adjusted annual rate of 775,000 units last month. January's sales pace was revised up to 948,000 units from the previously reported 923,000 units. Economists had forecast new home sales tumbling 6.5% to a rate of 875,000 units in February.
- **Fed's Powell tells lawmakers inflation risk remains low**
  Federal Reserve Chair Jerome Powell told U.S. lawmakers on Tuesday that a coming round of post-pandemic price hikes won't get out of hand and fuel a destructive breakout of persistent inflation.
- **Bank of Canada to wind down crisis liquidity programs**
  The Bank of Canada announced it's winding down all its emergency liquidity programs, and provided guidance on how it plans to scale back the pace of their government bond purchases as the recovery picks up speed.

Wednesday March 24th, 2021

- **U.S. factory activity picks up in March; cost pressures building - IHS Markit**
  Data firm IHS Markit said its flash U.S. manufacturing PMI increased to 59 in the first half of this month from a final reading 58.6 in February, when activity took a step back after a cold snap hit large parts of the country. Economists had forecast the index rising to 59.3 in early March.
- **U.S. core capital goods orders fall in February**
  Orders for non-defense capital goods excluding aircraft, a closely watched proxy for business spending plans, dropped 0.8% last month. These so-called core capital goods orders gained 0.6% in January. Economists had forecast core capital goods orders rising 0.5% in February.
- **Intel to spend $20 billion on U.S. chip plants as CEO challenges Asia dominance**
  Intel Corp will greatly expand its advanced chip manufacturing capacity as the new chief executive announced plans to spend as much as $20 billion to build two factories in Arizona and to open up its factories to outside customers.
- **Canada Feb factory sales seen falling 1.0%**
  Canadian manufacturing sales in February likely dropped 1.0% as spending on the transportation equipment industry declined, Statistics Canada said in a flash estimate. Factory sales gained 3.1% in January.

Thursday March 25th, 2021

- **U.S. weekly jobless claims hit one-year low; fourth-quarter GDP revised up**
  Initial claims for state unemployment benefits tumbled 97,000 to a seasonally adjusted 684,000 for the week ended March 20, the lowest level since mid-March. Data for the prior week was revised to show 11,000 more applications received than previously reported. Economists had forecast 730,000 applications in the latest week. Gross domestic product increased at a 4.3% annualized rate, the Commerce Department said in its third estimate of fourth-quarter GDP growth. That was up from the 4.1% pace reported last month.
- **Supreme Court says the federal carbon price is constitutional**
  The split decision upholds a pivotal part of the Liberal climate-change plan, accounting for at least one-third of the emissions Canada aims to cut over the next decade.

Friday March 26th, 2021

- **U.S. consumer spending, income fall in February**
  Consumer spending dropped 1.0% last month after rebounding 3.4% in January. Personal income tumbled 7.1% after surging 10.1% in January. Economists had forecast consumer spending decreasing 0.7% in February and income declining 7.3%.
- **Fed says dividend restrictions to end June 30 for most banks**
  Large U.S. banks that clear the next round of stress tests with sufficient capital will be allowed to resume dividend increases at the end of June, the Federal Reserve said. Any continuing limits on stock buybacks also will be lifted for lenders that perform well in the exams.

Click on title to view the full story.

IN THE NEWS

International News

Monday March 22nd, 2021

- **Germany hikes pandemic-related debt plans to more than 450 billion euros**
  Germany is set to continue massive deficit-spending in the COVID-19 pandemic with a debt-financed supplementary budget of some 60 billion euros for this year and a 2022 draft budget with net new debt of 81.5 billion euros, a document showed.
- **China leaves key interest rate unchanged for 11th straight month**
  China's central bank kept its benchmark lending rate unchanged for the 11th straight month, in a further sign policymakers are proceeding cautiously to maintain sufficient support for the economy while gradually reducing stimulus to cut debt and defuse financial risks.
- **Japan to spend more than 2 trillion yen on additional cash payouts**
  The Japanese government plans to spend more than 2 trillion yen (US$18.4 billion) on additional cash payouts to low-income households with children.
- **Japan shares tumble as fire at chip factory hits Renesas, carmakers**
  Carmakers led declines in Japanese shares on Monday after a fire at semiconductor supplier Renesas Electronics' plant fanned worries about more chip supply shortfalls hitting vehicle production.
- **Turkish lira sinks after central bank shake-up**
  The lira tumbled as much as 15% versus the dollar - near November's record low of 8.58 - after the appointment of Sahap Kavcioglu as central bank governor sparked fears of a reversal of recent rate hikes.

Tuesday March 23rd, 2021

- **UK jobless rate falls as workers drop out of labour force**
  The main jobless rate dropped to 5.0% in the three months to January from 5.1% in the final quarter of 2020, in contrast to forecasts in a Reuters poll for a small rise to 5.2%.
- **Astra to hasten trial update after U.S. calls results outdated**
  AstraZeneca Plc plans to release up-to-date results from the U.S. study of its COVID-19 vaccine within 48 hours following criticism from a science agency that an analysis published Monday included old information.

Wednesday March 24th, 2021

- **German government backs new budget as Scholz signals spending spree**
  Approval by Chancellor Angela Merkel's cabinet of the 60 billion euro ($71 billion) supplementary budget will raise this year's net borrowing figure to more than 240 billion euros.
- **UK companies see orders boom on hopes of lockdown ending**
  The flash IHS Markit/CIPS UK Composite Purchasing Managers' Index (PMI) rose to a seven-month high of 56.6 in March from 49.6 in February. A Reuters poll of economists had forecast a reading of 51.1.
- **Euro zone business activity rebounded in March but renewed lockdowns to hurt**
  IHS Markit's flash composite PMI, bounced above the 50 mark separating growth from contraction, to 52.5 in March compared to February's 48.8, its highest since late 2018. Even the most optimistic respondent in a Reuters poll had forecast it would rise to 51.0, while the median predicted only a modest increase to 49.1.
- **Germany's Ifo institute cuts 2021 GDP growth forecast to 3.7%**
  The Ifo institute said it cut its 2021 growth forecast for Europe's largest economy to 3.7% from 4.2% previously.
- **Japan policymakers step up calls for higher minimum wage to boost demand**
  Finance Minister Taro Aso said it was hard to reenergize the economy with monetary easing alone, calling on companies to help out by raising salaries for employees.
- **Japan's factory activity picks up in March on growing output, orders - flash PMI**
  The au Jibun Bank Flash Japan Manufacturing Purchasing Managers' Index (PMI) rose to a seasonally adjusted 52.0 in March from a final 51.4 in February.

Thursday March 25th, 2021

- **German consumer morale improves further but lockdown clouds outlook**
  The GfK research institute said its consumer sentiment index, based on a survey of around 2,000 Germans, rose to -6.2 points from a revised -12.7 in March. That was the best result since November and clearly beat a Reuters forecast of -11.9.
- **China cbank to maintain credit support continuity, stability for small firms**
  The People's Bank of China, in a statement about a meeting with 24 banks in Beijing, said it will maintain the policy stance that housing is for living and not for speculation.

Friday March 26th, 2021

- **Japan's record budget clears parliament, more COVID-19 spending eyed**
  Japan's record budget worth almost $1 trillion for the next fiscal year was approved by parliament, raising speculation over yet more spending ahead in response to the coronavirus pandemic.
- **Demand for German goods keeps factories humming through lockdown**
  The Ifo institute said its business climate index shot up to 96.6, the highest reading since June 2019, from an upwardly revised 92.7 in February. A Reuters poll of analysts had pointed to a March reading of 93.2.
- **Oil jumps 4% on fears Suez Canal blockage may last weeks**
  Oil prices rose, rebounding on concerns it could take weeks to dislodge a giant container ship blocking the Suez Canal, which would squeeze supplies of crude and refined products.

Click on title to view the full story.

WEEKLY PERFORMERS – S&P/TSX

S&P/TSX: LEADERS	LAST	CHANGE	%CHG
TransAlta Renewables Inc	$20.36	$1.33	6.99%
Boralex Inc	$39.07	$2.48	6.78%
George Weston Ltd	$108.82	$6.82	6.69%
Wesdome Gold Mines Ltd	$8.48	$0.49	6.13%
TransAlta Corp	$11.77	$0.65	5.85%
Toromont Industries Ltd	$94.40	$5.01	5.60%
Brookfield Renewable Partners LP	$52.32	$2.67	5.38%
GFL Environmental Inc	$43.48	$2.20	5.33%
Restaurant Brands International Inc	$85.39	$4.31	5.32%
Ritchie Bros. Auctioneers Inc	$74.76	$3.61	5.07%

S&P/TSX: LAGGARDS	LAST	CHANGE	%CHG
Westport Fuel Systems Inc	$9.01	-$2.05	-18.54%
BlackBerry Ltd	$12.12	-$1.63	-11.85%
OrganiGram Holdings Inc	$4.41	-$0.54	-10.91%
Village Farms International Inc	$16.47	-$1.97	-10.68%
Aphria Inc	$21.82	-$2.51	-10.32%
Sprott Inc	$48.44	-$5.40	-10.03%
OceanaGold Corp	$1.89	-$0.21	-10.00%
Endeavour Silver Corp	$6.44	-$0.70	-9.80%
Aurora Cannabis Inc	$11.48	-$1.22	-9.61%
Cascades Inc	$16.34	-$1.67	-9.27%

Source: Refinitiv

WEEKLY PERFORMERS – S&P500

S&P500: LEADERS	LAST	CHANGE	%CHG
Kansas City Southern	$253.62	$29.46	13.14%
Applied Materials Inc	$128.64	$13.78	12.00%
Nucor Corp	$79.30	$7.98	11.19%
KLA Corp	$319.94	$27.06	9.24%
Arista Networks Inc	$311.27	$26.05	9.13%
Dollar General Corp	$203.08	$15.30	8.15%
Lennar Corp	$102.85	$7.73	8.13%
Lam Research Corp	$584.23	$41.92	7.73%
American Tower Corp	$238.82	$16.96	7.64%
CSX Corp	$97.66	$6.89	7.59%

S&P500: LAGGARDS	LAST	CHANGE	%CHG
ViacomCBS Inc	$48.23	-$49.12	-50.46%
Discovery Inc	$41.90	-$35.37	-45.77%
Fox Corp	$37.80	-$5.13	-11.94%
Carnival Corp	$26.06	-$2.90	-10.01%
Norwegian Cruise Line Holdings Ltd	$26.82	-$2.88	-9.70%
SVB Financial Group	$491.98	-$52.63	-9.66%
Penn National Gaming Inc	$106.58	-$10.79	-9.19%
American Airlines Group Inc	$22.93	-$2.04	-8.17%
Twitter Inc	$61.26	-$4.97	-7.50%
Royal Caribbean Cruises Ltd	$84.56	-$6.16	-6.79%

Source: Refinitiv

NBF RATINGS & TARGET PRICE CHANGES

Company	Symbol	Current Rating	Previous Rating	Current Target	Previous Target
ABC Technologies Holdings Inc.	ABCT	**Sector Perform**		**C$11.50**	
AG Growth International Inc.	AFN	Outperform	Outperform	**C$54.00**	**C$48.00**
Altius Renewable Royalties Corp.	ARR	**Sector Perform**		**C$12.00**	
Altus Group Limited	AIF	Outperform	Outperform	**C$70.00**	**C$60.00**
Boyd Group Services Inc.	BYD	Outperform	Outperform	**C$265.00**	**C$260.00**
BRP Inc.	DOO	Outperform	Outperform	**C$123.00**	**C$102.00**
Canadian Pacific Railway	CP	Sector Perform	Sector Perform	**C$490.00**	**C$445.00**
Corus Entertainment Inc.	CJR.B	Outperform	Outperform	**C$8.00**	**C$6.50**
Farmers Edge Inc.	FDGE	**Outperform**		**C$25.00**	
Flagship Communities REIT	MHC.U	Outperform	Outperform	**US$19.00**	**US$18.00**
Josemaria Resources Inc.	JOSE	**Restricted**		**Restricted**	
K-Bro Linen Inc.	KBL	Sector Perform	Sector Perform	**C$42.00**	**C$40.00**
Loblaw Companies Limited	L	**Outperform**	**Sector Perform**	C$75.00	C$75.00
mdf commerce inc.	MDF	**Sector Perform**	**Restricted**	**C$13.50**	**Restricted**
Savaria Corporation	SIS	**Sector Perform**	**Outperform**	**C$20.00**	**C$18.50**
Tamarack Valley Energy Ltd.	TVE	**Outperform**	**Restricted**	**C$3.50**	**Restricted**

STRATEGIC LIST - WEEKLY UPDATE

(March 22nd – March 26th)

Changes this Week:

Removed: Empire Company Ltd. (EMP.a) and Toronto-Dominion Bank (TD)
Added: Loblaw Companies Ltd. (L) and Bank of Montreal (BMO)

Removed: Empire Company Ltd. (EMP.a)

We removed Empire Company Ltd. from the NBF Strategic List on March 25, 2021, based on its lower quantitative score in our screening model.

Removed: Toronto-Dominion Bank (TD)

We removed Toronto-Dominion Bank from the NBF Strategic List on March 25, 2021, based on its lower quantitative score in our screening model.

Added: Loblaw Companies Ltd. (L)

We added Loblaw Companies Ltd. to the NBF Strategic List on March 25, 2021, based on its higher quantitative score in our screening model.

Thesis: Loblaw is the largest food retailer in Canada. Loblaw has a multi-banner, multi-format strategy and operates conventional, superstore and hard discount stores. Loblaw also operates Shoppers Drug Mart, which is the largest drug retailer in Canada. NBF upgraded Loblaw to Outperform and is recommending it as a top pick in its staples coverage. NBF's view on Loblaw has become more favourable as it reflects on several key themes: (1) A new management team with proven track record; while NBF believes the prior management team could have executed well, these new appointees will serve to alleviate investor concern in the interim. (2) NBF's perception is that price investments are behind L for now, and the investment profile is more balanced (L recently introduced 2021 guidance for low double-digit y/y adj. EPS growth, which NBF believes the new management team will honour). Also, the prospects for solid earnings growth help to insulate against concerns of upcoming negative sssg. (3) An emerging trend towards the discount grocer sector, where Loblaw commands the most market share vs. Canadian peers (the sssg gap in discount vs. conventional has been declining sequentially). (4) A low valuation relative to peers and its historical average.

Added: Bank of Montreal (BMO)

We added Bank of Montreal to the NBF Strategic List on March 25, 2021, based on its higher quantitative score in our screening model.

Thesis: Bank of Montreal is the fourth largest Canadian bank in terms of assets. BMO offers financial services in Canada and in the U.S. (using its Harris brand) through three lines of business. The Personal & Commercial Banking Group provides a full range of financial products and services to consumers and small businesses. The Wealth Management segment encompasses all of BMO's wealth management operations. BMO Capital Markets offers full financial services to institutional and government clients. The outlook for credit reversals, combined with strong industry capital levels and Capital Markets business momentum, bodes well for continued outperformance this year. Although, if we look ahead to fiscal 2022, signs of a lending recovery will be very important to maintain positive investor sentiment, as well as to drive potential revisions to relatively low EPS growth anticipated next year. As a reflection of this view, NBF upgraded BMO to Outperform and increased its target multiple to 11.5x from 10.8x. NBF's higher target multiple is justified due to: (1) relatively stronger U.S. economic growth that benefits BMO more than most other Canadian banks; (2) signs of commercial loan growth that are improving faster than NBF previously anticipated; and (3) in the near term, at least, easy Q2/21 comparables for BMO's Capital Markets segment that could yield another quarter of exceptional consolidated PTPP growth. Finally, BMO's 2022E P/E discount of 3% is attractive considering it typically trades at an in-line multiple.

Comments:

Consumer Discretionary (Market Weight)

Dollarama Inc. (DOL)

NBF: DOL will report Q4/F21 results on March 31, 2021 at 7:00 a.m. ET; NBF projects Q4/F21 EPS of $0.53 versus consensus at $0.58; last year was $0.57. The expectation of an ~7% y/y EPS decline is predicated on slightly negative same store sales growth (sssg), gross margin contraction and SG&A deleverage; share repurchases through the quarter are expected to serve as a slight partial positive offset. NBF forecasts sssg of -0.6% versus last year at 3.8% and last quarter at 7.1%. NBF's sssg projection is based on basket growth of 18.3% y/y and transaction growth of -16.0% due to anticipated sequential sssg pressure, reflecting a return to restrictive measures in key provinces. NBF reiterated its Outperform rating and its price target at $61.00.

Consumer Staples (Market Weight)

Alimentation Couche-Tard Inc. (ATD.b)

NBF: As part of its strategic review of the store network (began in Fall 2020), ATD announced the intention to sell 355 sites. These divestitures include: 1) 306 sites across its North American Network: ATD has retained a real estate advisory firm to coordinate the sale of 269 sites across 25 states in the U.S., 37 sites across 6 provinces in Canada. Of the 306 sites, 122 are fee-owned and 184 are leased; 238 properties sell fuel and 68 are c-store only. Expressions of interest are due in early May. NBF estimates that these stores could represent about $306 mln-$459 mln in proceeds for ATD. NBF considers this estimate to be highly uncertain; NBF has not reflected meaningful land-value in its estimates (given that management's reason for selling was for branding/scale, not real estate value maximization). ATD will sell these stores to Casey's General Stores Inc. for $39 mln. Management indicated that the aforementioned sites no longer fit into its strategic objectives, either from a brand perspective or from a regional scale perspective. In addition, it has likewise identified many opportunities to expand its footprint through new store builds and allocated capital to upgrade the size/scale of its other locations. NBF's view is that the stores are not significant in the context of ATD's vast network (>14,200 stores, including almost 10,000 company-operated sites). NBF highlights that ATD closes/sells stores every year, so this recent round of asset sales isn't out of the ordinary. NBF reiterated its Outperform rating and $47.00 target price.

Financials (Overweight)

Bank of Montreal (BMO)

NBF: Key Takeaways from NBF Interview with Ernie Johannson – Group Head North American Personal & Business Banking: BMO benefit of a combined P&C for North America. The integrated structure allows for the bank to build scale across North America while sharing technology, risk and analytics resources. Learnings in one geography can also be applied to another, making the division more agile. P&C 2021 growth outlook – Canada vs. the USA: For the commercial segment, BMO expects to see stronger growth in the U.S. due to a faster vaccine rollout as well as divergent lockdown policies. The outlook for retail lending is broadly similar for both countries, with Canada seeing higher growth in residential mortgages. NIM: For Canada, Q1/21 NIM expansion of 6 bps Q/Q was led by 1) favourable deposit mix; 2) pricing discipline on loans and 3) unusually high levels of mortgage refinancing. On the U.S. side, of the 17 bps Q/Q improvement in NIM, a third was accounted for by PPP loan forgiveness, with the rest due to deposit mix and pricing discipline. Over the near term, NIM is likely to see some compression due to 1) the impact of lower rates flowing through and 2) decline in deposits vs. lending. However, this outlook does not factor in potential benefits from PPP loan repayments over the next few quarters. Deposits: On the U.S. front, recent retail deposit growth has been led by BMO's digital offerings, which have helped draw in deposits from all 50 states (despite its largely Midwest branch network). On the commercial side, recent investments in their Treasury payment offerings have attracted clients to the franchise, in turn boosting deposits. For North America as a whole, the bank expects both commercial and retail customers to begin drawing down their deposits and gradually increasing debt over 2021. Outlook on cards: Currently, management is seeing a K-shaped recovery in cards, with affluent customers showing signs of increasing spending on travel, tourism and entertainment. BMO expects rising spending to be followed by increased card balances eventually (a lag of a few months).

Royal Bank of Canada (RY)

NBF: Key Takeaways from NBF Interview with Neil McLaughlin - Group Head, Personal & Commercial Banking: Domestic mortgage growth. After losing market share in the domestic mortgage market in 2016 & 2017, RY was not where it wanted to be. Mr. McLaughlin's team analyzed the value chain and made changes to the adjudication process, hired additional mortgage specialists, and adjusted the pricing strategy. The bank realized that although it could price mortgage rates at the high end of the market, pricing 10 bps above-market was not a winning strategy. These changes helped the bank build a

lot of momentum which showed up in 2019 and positioned the bank well to continue capturing market share during the pandemic. Deposits and Wealth: RY was adamant that when it came to deposits, they needed to drive much more new client origination. They have developed a financial planning platform called "MyAdvisor", which has allowed them to better understand the needs of the 2.5 mln of clients that they have on the platform, which resulted in a lot of new savings accounts being opened. The MyAdvisor platform also made it easier for RY to identify which clients would benefit from moving excess liquidity from low-margin products (e.g., GICs, demand deposits) into higher-margin and stickier products (e.g., mutual funds). Although it's not difficult to identify clients who benefit from these types of conversions, it requires a large salesforce and strong data mining capabilities to execute. Banking fee strategy: Over the last three years, we have not seen the same degree of fee increases for retail clients, with some types of fees even declining. In terms of overdraft fees, it's instructive to look at the UK/EU markets where some institutions got hooked on nuisance fees (e.g., NSF fees, over limit fees) and got themselves into trouble. RY doesn't believe this strategy is a proper way to build a client relationship. Shortly, the bank plans to release a banking package that will waive the first NSF fee because RY would rather give up some fee income to build trust. The bank prefers to grow fee income in categories where it can demonstrate that it is adding value for clients (e.g., discount brokerage fees, mutual fund fees and fees on credit cards). Cards: Over the last few years prior to the pandemic, RY was consistently gaining market share in cards, taking over the #1 market share position without the need for M&A (as competitors have done). Despite the slowdown in travel as a result of the pandemic, the bank's goal remains to have the #1 travel product and continues to believe that WestJet is a great partner to complement its Avion card. Part of the reason RY has underperformed peers in cards balances during the pandemic is that its cardholders skew to higher income individuals and the bank's offerings skew more heavily towards travel. Both high-spending cardholders and spending on travel-focused cards have been down more than other categories. Overall, RY remains very bullish on its cards portfolio and the bank plans to announce some new cards offerings later in 2021. Commercial lending: About five to six years ago, RY had been losing commercial lending market share. It went through a large reset of the business and then over three years it gained ~250 bps of market share. As a result, one or two competitors responded by increasing their credit risk appetites to levels RY wasn't willing to match. Over the last three quarters, these players who were growing in the double digits have reigned in their risk appetite to be more in line with the market. RY is still growing share in a number of segments, but the bank feels like it has a little bit of work to do to improve its commercial lending franchise.

Materials (Overweight)

Teck Resources Ltd. (TECK.b)

NBF: On Sunday, Reuters reported Australia's Hunter Valley coal rail lines have been shut due to flooding in New South Wales, halting deliveries into the port of Newcastle, the world's biggest coal export port at a total annual capacity of 145 mln tonnes. Heavy rains along Australia's east coast over several days have caused the worst flooding in 50 years, and the downpour is expected to continue for the next few days, creating uncertainty as to when rail tracks can reopen. Historically, seasonal weather-related disruptions in Australia generally occur in H1 impacting Australian met coal supply and providing price support (metallurgical coal has made up ~15% of Newcastle's exports). The Hunter Valley network serves mines run by BHP Group Ltd., Glencore PLC, New Hope Corp. Ltd., Whitehaven Coal and Yancoal Australia Ltd., among others. Spot coal prices are trading at ~US$115/t from highs of US$147/t in February and ~US$130/t below Chinese coking coal prices. Spot coal prices averaged US$121/t in Q1 compared with NBF modeled US$130/t. Note, Teck continues to see premium prices on a portion of its coal given the current shadow ban of Australian coal imports to China. NBF currently models ~7.5 mln tonnes of metallurgical coal sales to China throughout 2021 per management commentary, and models US$145/t seaborne prices throughout Q2/21 to 2022. NBF reiterated its Outperform rating supported by a step-wise improvement in Teck's coking coal operations in 2021 given completion of the Neptune terminal expansion in Q2. Teck's strong balance sheet, cost reduction initiatives, organic growth within the copper division and commitment to returning capital to shareholders are all supportive of a higher valuation than currently ascribed by the market. Maintain $30.00 target price.

Utilities (Underweight)

Capital Power Corp. (CPX)

NBF: The Supreme Court of Canada has released its decision on the constitutional validity of the federal carbon tax, ruling 6-3 in favor of the federal government's jurisdiction. Recall, the Alberta Court of Appeal sided with Saskatchewan, Ontario, and Alberta in its claim the Greenhouse Gas Pollution Pricing Act oversteps Provincial jurisdiction to develop its natural resources. Although the headline of a federally mandated price on carbon increasing in magnitude by more than fourfold this decade appears alarming for Alberta power players, NBF notes market leaders Capital Power (CPX) and TransAlta (TA) have already largely realigned their strategies for the future "carbon-neutral" economy. In fact, both companies are supportive of a rising price on carbon, with the economics of each repowering project (CPX: ~$1.0 bln for Genesee 1 & 2; TA: ~$825 mln for Sundance 5) predicated on moving down the cost curve and effectively removing its carbon compliance exposure, while transitioning completely off coal in Alberta by 2021 (TA) and 2023 (CPX). Meanwhile, both CPX and TA recently pledged net-zero carbon emissions by 2050, therefore, a rising carbon tax supports the longer-term capital allocation strategies for both entities, which are geared towards further renewable developments (~4.0 GW combined project

backlog) and decarbonizing of its gas-fired portfolio through emerging technologies such as CCUS and hydrogen. NBF rates CPX Outperform with a $44.00 target price.

Innergex Renewable Energy Inc. (INE)

NBF: Since NBF's last sector update in January, the Canada 10-year bond yield has risen by more than 65 bps to roughly 1.5%. All else being equal, NBF might expect a change like this to hit stock prices by 10% to 15% (most are down this much), but the impact has been slightly more for BLX and INE (down about 30%). With this, the average equity risk premium in NBF's coverage has risen slightly to 3.7%, although dividend yield spreads remain stubbornly below 2% despite the sell-off. With that, stocks look cheaper than they were in January, but they are still above historical levels. A significant inflow of capital into thematic funds and ETFs was responsible for pushing the sector higher early this year. In particular, INE and BLX are in the S&P Global Clean Energy Index (which included only 30 names) and purchase of these stocks by ETFs grew to well over 10% in January and drove them higher. With a rebalancing of the Index coming in April (it should include more names like NPI and RNW), we have seen a sell-off in INE and BLX. In the long run, NBF believes there is still a scarcity value for renewable energy stocks, and the stocks appear oversold. Investments into renewable energy infrastructure could approach $10 trillion globally over the next decade. With that, NBF believes the outlook for growth remains positive and double-digit annual returns are not out of the question. The support from the Supreme Court of Canada for a federal price on carbon should support the Canadian stocks in the long run, although a direct translation to cash flow is uncertain. Recently, NBF increased the equity discount rates for its 12-month targets by 50 to 75 bps, with the view from our Economics & Strategy Team that the Canada 10-year could reach 1.85% in 12 months (was 1.10% in January). NBF believes rising bond yields could be a headwind and investors may look to rotate into lower duration names, though NBF is still generally positive on the outlook for the sector. The top three on return to target are now INE, BLX and NPI.

NBF STRATEGIC LIST

Company	Symbol	Addition Date	Addition Price	Last Price	Yield (%)	Beta	% SPTSX	NBF Sector Weight
Communication Services							**4.8**	**Market Weight**
Quebecor Inc.	QBRb.TO	29-Nov-18	$ 28.70	$ 34.92	3.1	0.5		
Rogers Communications Inc.	RCIb.TO	13-Feb-20	$ 65.84	$ 59.82	3.3	0.5		
Consumer Discretionary							**4.0**	**Market Weight**
Canadian Tire Corp.	CTCa.TO	04-Oct-18	$ 151.25	$ 177.83	2.7	1.3		
Dollarama Inc.	DOL.TO	19-Mar-20	$ 38.96	$ 52.19	0.4	0.6		
Consumer Staples							**3.6**	**Market Weight**
Alimentation Couche-Tard Inc.	ATDb.TO	26-Jan-17	$ 30.09	$ 39.69	0.9	0.7		
Loblaw Companies Ltd.	L.TO	25-Mar-21	$ 68.50	$ 68.47	2.0	0.3		
Energy							**12.8**	**Market Weight**
Cenovus Energy Inc.	CVE.TO	16-Jan-20	$ 12.26	$ 9.82	0.7	2.4		
Enbridge Inc.	ENB.TO	21-Jan-15	$ 59.87	$ 46.57	7.2	0.9		
Tourmaline Oil Corp.	TOU.TO	13-Aug-20	$ 16.68	$ 23.74	2.8	1.4		
Financials							**31.6**	**Overweight**
Bank of Montreal	BMO.TO	25-Mar-21	$ 112.23	$ 112.96	3.8	1.1		
Element Fleet Management Corp	EFN.TO	02-Apr-20	$ 8.58	$ 13.87	1.9	1.3		
Fairfax Financial Holdings Ltd.	FFH.TO	20-Dec-18	$ 585.81	$ 539.23	2.4	0.9		
Intact Financial Corp.	IFC.TO	11-Jun-20	$ 130.04	$ 151.72	2.2	0.8		
Royal Bank of Canada	RY.TO	19-Jun-13	$ 60.69	$ 117.06	3.7	0.9		
Sun Life Financial	SLF.TO	10-Dec-20	$ 57.07	$ 64.03	3.5	1.4		
Health Care							**1.5**	**Market Weight**
Industrials							**12.3**	**Market Weight**
Morneau Shepell Inc.	MSI.TO	26-Sep-19	$ 32.72	$ 33.00	2.4	0.7		
Toromont Industries Ltd	TIH.TO	05-Dec-19	$ 67.24	$ 94.40	1.6	0.7		
WSP Global Inc.	WSP.TO	10-Sep-20	$ 88.54	$ 120.67	1.3	1.0		
Information Technology							**9.5**	**Underweight**
Kinaxis Inc.	KXS.TO	19-Mar-20	$ 100.05	$ 148.61	0.0	0.7		
Open Text Corp.	OTEX.TO	26-Oct-16	$ 41.61	$ 60.27	1.7	0.9		
Materials							**12.1**	**Overweight**
Agnico Eagle Resources Ltd.	AEM.TO	17-Dec-14	$ 27.00	$ 73.99	2.4	0.4		
SSR Mining Inc.	SSRM.TO	30-Jan-20	$ 23.81	$ 18.29	1.4	0.6		
Teck Resources Ltd.	TECKb.TO	01-Nov-17	$ 27.15	$ 23.95	0.9	1.1		
REITs							**3.2**	**Underweight**
Canadian Apartment Properties REIT	CAR_u.TO	10-Dec-20	$ 49.82	$ 54.39	2.6	0.7		
RioCan REIT	REI_u.TO	23-Aug-18	$ 19.95	$ 19.73	4.9	1.2		
Utilities							**4.7**	**Underweight**
Capital Power Corp.	CPX.TO	22-Aug-19	$ 30.90	$ 37.01	5.7	1.2		
Innergex Renewable Energy Inc.	INE.TO	22-Aug-19	$ 15.00	$ 21.71	3.3	0.8		

Source: Refinitiv (Priced March 26, 2021 after market close)

[*] R = Restricted Stocks - Stocks placed under restriction while on The NBF Strategic List will remain on the list, but noted as Restricted in accordance with compliance requirements

Week Ahead

THE ECONOMIC CALENDAR

(March 29th – April 2nd)

U.S. Indicators

Date	Time	Release	Period	Previous	Consensus	Unit
30-Mar	09:00	CaseShiller 20 MM SA	Jan	1.3%		Percent
30-Mar	09:00	CaseShiller 20 YY	Jan	10.1%	10.7%	Percent
30-Mar	10:00	Consumer Confidence	Mar	91.3	96.0	Index
31-Mar	08:15	**ADP National Employment**	Mar	117k	550k	Person
31-Mar	09:45	Chicago PMI	Mar	59.5	60.3	Index
31-Mar	10:00	**Pending Sales Change MM**	Feb	-2.8%	-2.6%	Percent
31-Mar	10:30	EIA Wkly Crude Stk	22 Mar, w/e	1.912M		Barrel
1-Apr	07:30	Challenger Layoffs	Mar	34.531k		Person
1-Apr	08:30	**Initial Jobless Clm**	22 Mar, w/e	684k	690k	Person
1-Apr	08:30	Jobless Clm 4Wk Avg	22 Mar, w/e	736.00k		Person
1-Apr	08:30	Cont Jobless Clm	15 Mar, w/e	3.870M		Person
1-Apr	09:45	Markit Mfg PMI Final	Mar	59.0		Index (diffusion)
1-Apr	10:00	**Construction Spending MM**	Feb	1.7%	-0.9%	Percent
1-Apr	10:00	**ISM Manufacturing PMI**	Mar	60.8	61.2	Index
1-Apr	10:30	EIA-Nat Gas Chg Bcf	22 Mar, w/e	-36B		Cubic foot
2-Apr	08:30	**Non-Farm Payrolls**	Mar	379k	655k	Person
2-Apr	08:30	**Unemployment Rate**	Mar	6.2%	6.0%	Percent
2-Apr	08:30	Average Earnings MM	Mar	0.2%	0.1%	Percent
2-Apr	08:30	Average Earnings YY	Mar	5.3%		Percent
2-Apr	08:30	Average Workweek Hrs	Mar	34.6	34.7	Hour

Canadian Indicators

Date	Time	Release	Period	Previous	Consensus	Unit
30-Mar	08:30	Average Weekly Earnings YY	Jan	6.45%		Percent
31-Mar	08:30	**GDP MM**	Jan	0.1%	0.5%	Percent
31-Mar	08:30	**Producer Prices MM**	Feb	2.0%		Percent
31-Mar	08:30	Producer Prices YY	Feb	4.0%		Percent
31-Mar	08:30	Raw Materials Prices MM	Feb	5.7%		Percent
31-Mar	08:30	Raw Materials Prices YY	Feb	6.2%		Percent
1-Apr	08:30	**Building Permits MM.**	Feb	8.2%		Percent
1-Apr	09:30	**Markit Mfg PMI SA**	Mar	54.8		Index (diffusion)

Source : Refinitiv

S&P/TSX QUARTERLY EARNINGS CALENDAR

Monday March 29th, 2021

None

Tuesday March 30th, 2021

COMPANY*	SYMBOL	TIME	EPS ESTIMATE
BlackBerry Ltd	BB	Aft-mkt	0.032

Wednesday March 31st, 2021

COMPANY*	SYMBOL	TIME	EPS ESTIMATE
Dollarama Inc	**DOL**	**07:00**	**0.565**
Novagold Resources Inc	NG	Aft-mkt	N/A

Thursday April 1st, 2021

None

Friday April 2nd, 2021

None

Source: Bloomberg, NBF Research
*Companies of the S&P/TSX index expected to report. Stocks from the Strategic List are in Bold.

S&P500 INDEX QUARTERLY EARNINGS CALENDAR

Monday March 29th, 2021

None

Tuesday March 30th, 2021

COMPANY*	SYMBOL	TIME	EPS ESTIMATE
McCormick & Co Inc/MD	MKC	Bef-mkt	0.586
PVH Corp	PVH	Aft-mkt	(0.301)

Wednesday March 31st, 2021

COMPANY*	SYMBOL	TIME	EPS ESTIMATE
Micron Technology Inc	MU		0.924
Walgreens Boots Alliance Inc	WBA	Bef-mkt	1.121

Thursday April 1st, 2021

COMPANY*	SYMBOL	TIME	EPS ESTIMATE
CarMax Inc	KMX	Bef-mkt	1.275

Friday April 2nd, 2021

None

Source: Bloomberg, NBF Research
* Companies of the S&P500 index expected to report.

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