DM MONTHLY REPORT
November 2021

PORTFOLIO ACTIVITY

Outside of rebalancing transactions, no equity trades were executed during October.

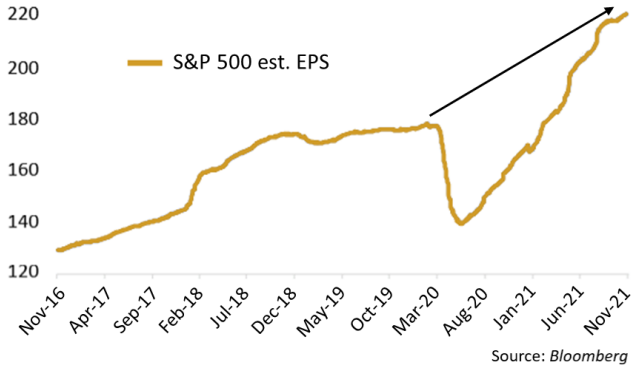
FEATURE STOCK
Gildan Activewear Inc. (GIL)

Montreal-based GIL is a North American leader in the design and manufacture of sportswear, t-shirts, and fleece tops and bottoms under several proprietary brands. Not surprisingly, the company took a significant hit during the pandemic, as the ban on large gatherings and the suspension of sports activities caused its printwear business to plunge. To weather the storm, GIL suspended its dividend, cut executive compensation, and deferred all non-essential capital spending. As economies begin to reopen, however, sales are bouncing back and, even though event and concert frequency hasn't fully recovered, end customer purchases of GIL products are now above pre-pandemic levels. Of note, the company believes that its market has expanded with the explosive growth in e-commerce over the past two years, which has provided an unexpected boost to independent screen printers. As well, GIL is benefitting from the shift toward "casualization" in fashion that's being driven by the sudden and significant proliferation of the work-from-home economy. Having hedged its cotton purchases for the coming 12 months, the clothing-maker is now generating record margins, helping to push its stock up by more than 43% so far this year.

TWO-SIDED MARKET

As markets push higher, one could be forgiven for wondering if they're mostly riding a tsunami of supercharged speculation. Tales of instant millions, combined with untethered appreciation in assets that seem to have little fundamental value, bring to mind the late 1990's … and we all know how that ended. For example, while we one day may be buying our bagels with Bitcoins, it's hard to imagine that any more than a tiny fraction of the other 13,000 cryptocurrencies currently in existence (at last count) will be with us a few years from now. That likelihood hasn't discouraged speculators from pouring money into them, however, just as they've chased all manner of dubious stocks and other white-hot vehicles.

While this activity might suggest that euphoria is running unchecked through all parts of the financial spectrum, there have been healthy corrections within established equity markets. Lockdown darlings like Zoom and Peloton have fallen by more than half from their recent peaks and, as of early October, the average S&P 500 stock had stealthily declined by 17% from its year-to-date high at some point during 2021. At the same time, companies that are making money are making a lot of it. As the chart below illustrates, S&P earnings have not only erased their covid-induced plunge, they're now significantly higher than they were before the pandemic. The prodigious profitability of the market's leaders is perhaps the most distinguishing difference between today and the dot-com era and the characteristic that makes us most comfortable with the fundamentals underpinning our equity mandates. Even in Q3, which was predicted to be a softer quarter, 81% of the 400 plus S&P companies that have reported earnings so far have beaten consensus estimates.



Speculation can be fun and sometimes even profitable – the key, though, is to keep your allocation in check and never risk more than you can afford to lose. Having watched the "Squid Game" coin fall from a recent high of more than US$2800 to just pennies, the gentleman who purportedly bet his life savings on the token must now feel a bit like one of the fictional game show's cursed contestants. If you're thinking about trying your luck on the wilder side of financial markets, the weekly parting counsel of Sgt. Esterhaus is probably as good as any: *"Let's be careful out there!"*