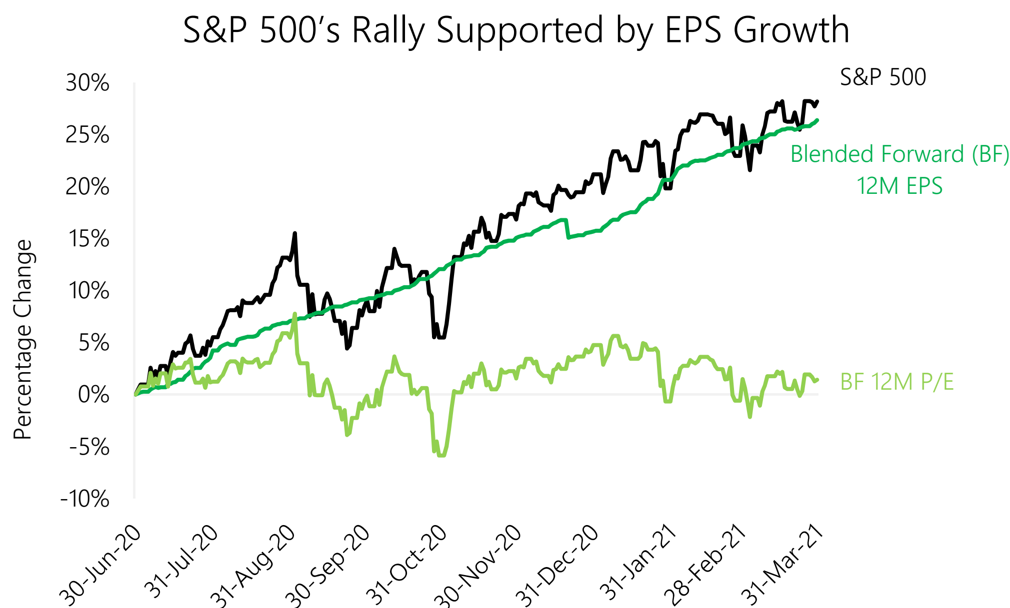
Market Commentary – April 2021

The purpose of these monthly commentaries is to provide investment advisors and their clients with insights into the current thinking of Middlefield's investment professionals regarding the overall market and the major sectors underpinning Middlefield's various fund strategies.

Global equities performed well in March with the MSCI World, S&P 500 and TSX Composite returning 3.4%, 4.4% and 3.9%, respectively. All three indices reached new all-time highs during the month.

Growth in earnings explains most of the recent price moves since market multiples have been relatively flat for the past nine months.



Sources: Middlefield, Credit Suisse, Bloomberg. As at March 31st, 2021.

Q4 2020 earnings results for S&P 500 constituents outpaced expectations by an average of 17%. Looking ahead, earnings are expected to grow by more than 40% in 2021 compared to last year. Disruptions caused by the pandemic are gradually subsiding as vaccines are rolled out. The U.S. continues to be a leader in vaccinations as more than 30% of Americans have now received at least one dose and it is expected that all willing citizens will have access to their first shot by early May.

As a result, normal business operations are recommencing across the United States with 916,000 jobs added in March, driving the unemployment rate down to 6%. The headline jobs growth number exceeded Dow Jones estimates of 675,000 and represents the fastest growth in employment since

August of last year. The strongest gains were concentrated in the leisure and hospitality industries with 280,000 new hires -- an encouraging data point for a sustained recovery in business activity.

Canada's vaccine rollout has been slower with shutdown measures recently implemented in the country's most populated provinces. Even so, we expect a vaccine-driven rebound in the Canadian economy beginning in Q2 2021. Health Canada has now approved four vaccines and the cadence of inoculations is rapidly increasing with at least 40 million doses scheduled by the end of June and all 37 million Canadians eligible to be fully vaccinated by September.

U.S. fiscal policy has been another key support for equity markets. On March 10th, U.S. Congress officially passed the $1.9 trillion American Rescue Plan, which expands federal unemployment benefits and includes direct payments to individuals, aid for state and local governments and funding for vaccine distribution. Three weeks later, President Biden unveiled his $2.3 trillion American Jobs Plan, which involves an infrastructure-focused investment proposal over 8 years and paid for with personal and corporate tax increases. We think it is unlikely that Biden will be able to garner enough support for the proposed bill in its current form with pushback from Republicans (Senate Minority Leader Mitch McConnell has already vowed to fight the fiscal agenda) and more moderate Democrats (several have already raised concerns with Biden's proposed tax hikes and will likely suggest revisions in the coming months). Overall, additional stimulus should be supportive for equities and act as a catalyst for infrastructure-related industries if Biden is able to rally enough support for his plan.

Real Estate

The S&P 500 Real Estate sector generated an impressive 6.8% total return in March. Asset classes with secular growth tailwinds such as industrial and towers led the move higher. In Canada, Real Estate performed in-line with the TSX.

U.S. specialized REITs, which include data centres and towers, returned 8.2% this month. Their strong performance in March follows several months of underperforming verticals with higher exposure to the economy reopening, such as retail and office. Towers in particular were the biggest contributors to our real estate funds' performance, with Crown Castle, American Tower and SBA Communications returning 11.4%, 10.6% and 9.0%, respectively. Capital expenditures from telecommunications industry leaders including Verizon and AT&T are expected to remain elevated for several years in an effort to accelerate the deployment of 5G. Moreover, the $1.9 trillion stimulus package that President Biden signed in March contains $7 billion for distance learning as millions of Americans remain without internet access. We expect tower REITs to benefit from planned investments to bridge this gap.

Industrial REITs returned 7.5% in the U.S. and 4.4% in Canada but have still underperformed on a year-to-date basis. Industrial remains one of our highest conviction, long-term investment themes within the real estate sector. E-commerce sales increased 32% in the U.S. last year and we expect continued growth as traditional brick and mortar retailers invest in their omni-channel capabilities.

Warehouse automation is a particular area that tenants are increasingly prioritizing. XPO Logistics plans to double the number of robots in place at its warehouses over the course of 2021 and UPS expects to channel 88% of its packages through an automated sorting mechanism. We believe this trend is creating a long runway for development opportunities. Prologis and WPT Industrial Properties are two of our core holdings that have established development-focused joint ventures with institutional partners that can serve the growing demand for automated warehousing.

Healthcare

The S&P 500 Healthcare sector returned 3.9%, trailing the S&P's return of 4.4% in March. Healthcare Providers & Services outperformed with a total return of 12.6% while sub industries with historically lower volatility and higher earnings quality, such as pharmaceuticals and life sciences tools & services, lagged.

Drug pricing rhetoric abruptly increased in March. Senate Budget Committee Chair Bernie Sanders unveiled a three-part proposal that involves indexing the price of popular drugs to international market prices, granting Medicare more negotiation power and allowing Americans to buy drugs at cheaper prices from foreign sellers such as Canada. Healthcare investors have seen these items proposed multiple times over the past several years with no major changes to legislation due to a lack of bipartisan support. Even so, elevated drug pricing rhetoric has the ability to weigh on healthcare multiples and could pose a headwind to the sector until more details are unveiled. With that said, we believe pharma stocks more-than-reflect these risks. The S&P 500 pharmaceuticals industry is trading at a forward price to earnings ratio of just 13.5x compared to the sector multiple of 16.1x and the broader market multiple of 22x.

COVID headlines have become increasingly mixed recently with reported cases on the rise in many parts of the world. New variants of the virus are the main cause for concern since those who previously contracted the COVID-19 virus are not necessarily protected by the antibodies that were generated to fight the initial infection. Notwithstanding the recent surge, vaccine rollouts are progressing well, especially in the U.S, Israel and the United Kingdom. In addition, recent phase 3 data from Regeneron/Roche suggests that their monoclonal antibody cocktail, REGEN-COV, achieved a 70% reduction in hospitalization or death from COVID-19 infection and retains potency against key emerging variants.

Classic Infrastructure

Infrastructure stocks are uniquely well positioned to benefit from global stimulus initiatives. While transportation infrastructure was especially harmed during the depths of the pandemic, we believe the industry will recover nicely as the economy reopens. We continue to favor high quality companies such as Vinci, which has a resilient construction business with a robust project pipeline and cyclical upside through premier toll road assets, which should recover faster than airports. The company recently announced that it will acquire ACS' energy business, marking its first foray into renewable

energy. Vinci is expecting "mid-to-high single digit" EPS accretion in the first year after the deal closes.

Enbridge is cognizant of the paradigm shift occurring in energy. They continue to invest in wind and solar projects while gaining scale and knowledge with carbon capture, renewable natural gas and hydrogen technologies. These initiatives will help the company to meet its goal of eliminating all net emissions from its operations by 2050. Notwithstanding these renewable energy targets, Enbridge's primary focus is building out its natural gas networks supporting a commodity which will be key in the transition away from coal. It sees free cash flow from the high margin liquids and natural gas business funding the evolution of the company. In the short term, the U.S. portion of Line 3 is on track to be online by 4Q21. As construction milestones are reached, we believe that Enbridge's valuation will improve. On Line 5, mediation between Enbridge and the State of Michigan is set to kick off on April 16, which Enbridge believes is a positive step forward in light of pending litigation.

Sustainable Infrastructure

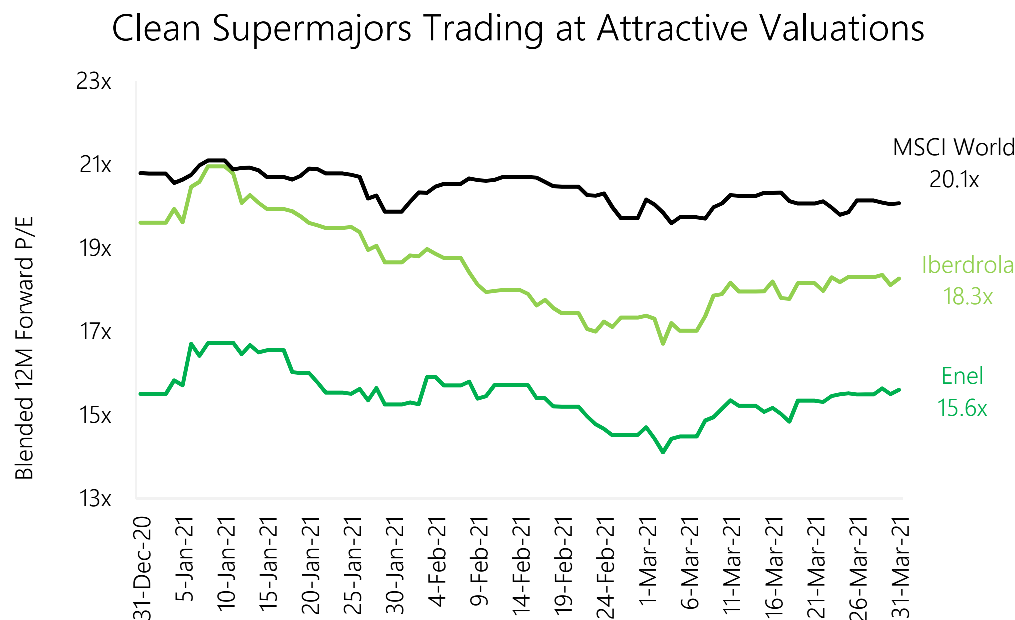
The global transition to clean power is accelerating as nations across the world announce plans to increase spending. The first part of Biden's infrastructure plan will consist of about $2.3 trillion in investment, with about $730 billion reserved for clean power initiatives. Areas of focus will include power infrastructure, electric vehicles, clean energy technologies and climate R&D. We expect that similar spending patterns will emerge globally, supporting the key themes encompassing the holdings in our *International Clean Power Dividend Fund (CLP.UN)*, which completed its $200 million IPO in March.

International Clean Power Dividend Fund – Top 15 Holdings

Security	Country	Industry
Atlantica Sustainable Infra.	United States	Renewable Power
Endesa SA	Spain	Renewable Power
Enel SpA	Italy	Renewable Power
Energias de Portugal SA	Portugal	Renewable Power
Generac Holdings	United States	Electrical Equipment
Iberdrola SA	Spain	Renewable Power
National Grid plc	United Kingdom	Electric Transmission & Distribution
Orsted AS	Denmark	Renewable Power
RWE AG	Germany	Renewable Power
Siemens Energy AG	Germany	Electrical Equipment
Solaria Energia SA	Spain	Solar
SSE plc	United Kingdom	Renewable Power
Sunrun	United States	Solar
Toyota Motor	Japan	Electric Vehicles
Vestas Wind Systems	Denmark	Wind Turbine Manufacturing

Source: Middlefield. As at March 31, 2021.

The recent weakness in renewables was mostly rates-driven. We are viewing it as a buying opportunity, especially for safer, high quality Clean Supermajors such as Enel and Iberdrola. Enel is the largest utility in Europe, with a >€85 billion market cap and a 4.3% dividend yield. The company is based in Italy but is diversified geographically through operations in more than 30 countries. Enel is planning to spend >€160 billion euros to more than double its renewables capacity to 120 GigaWatts (GW) by 2030. **Iberdrola** is a Spanish utility, with a €70 billion market cap and a 3.8% dividend yield. The company is a leader in wind and solar power, with plans to almost triple its renewables capacity to 95 GW by 2030. The company is also investing in new technologies such as green hydrogen and in EV chargers.



Sources: Middlefield, Bloomberg. As at March 31st, 2021.

Technology & Communications

Technology stocks lagged in March, with the NASDAQ rising 0.5%. We witnessed underwhelming results across our franchise as investors continued to pare back exposure to high-growth technology and healthcare. That said, there were some bright spots, with ASML Holding NV (ASML) and Facebook (FB) significantly outperforming in the month. We would also highlight unwarranted weakness in Advanced Micro Devices (AMD).

US-listed ASML rose 8.9% in March, following Intel's (INTC) announcement to spend $20 billion on two new chip factories. The build-out of INTC's foundry capabilities will require cutting edge equipment. ASML stands to benefit, with its effective monopoly in Extreme Ultraviolet Lithology tools. The company is also well positioned to gain from Taiwan Semiconductor's new CapEx plan, which calls for $100 billion of spending over the next three years to meet soaring demand.

FB gained 14.3% in the month. We continue to believe the stock is heavily undervalued, given its attractive growth profile and world class assets. The core business remains strong, with anyone considering online advertising likely to think of Facebook. FB's other assets are also world class.

Instagram is one of the crown jewels in all of social media. Facebook also owns WhatsApp, which is widely used but not yet effectively monetized, and Oculus, which is a leader in virtual reality technologies. We acknowledge that FB will continue to stay under the regulatory spotlight. Still, we think the stock is attractively priced, even in a potential breakup scenario.

AMD fell 7.1% in March. The stock has been out of favor recently as investors have shifted their focus to Intel. We think that INTC is moving in the right direction. That said, it will prove extremely difficult to curtail AMD's momentum. Under the leadership of Lisa Su, AMD has shown tremendous progress. The company has extended its technological advantage and continues to take market share from Intel in CPU. We expect this trend to continue in Personal Computers and increasingly in servers, which provide better economics.

Resources

Gold remains somewhat unloved at the moment, with investors still trying to determine gold price direction. As the post-COVID-19 economic recovery took center stage, the U.S. dollar and U.S. Treasury yields gained momentum, rising rapidly to 13-month highs, which provided strong headwinds for the commodity. The medium-term macro backdrop still looks supportive as U.S. and International fiscal stimulus pushes inflation higher weighing on real rates. Gold mining indices were mixed versus the general markets in March. The S&P/TSX Gold Index was up 5.2%, while bullion was down 1.3%. As the 2020 reporting cycle finished in March it was evident that unlike the previous 2011/12 gold bull market, producers have demonstrated cost and capital discipline. Credit Suisse estimates show that over the last five years, gross margins for gold producers have increased 67% as a result of higher gold prices and stable costs. Despite the strong financial results, valuations look cheap compared to gold bullion. We continue to prefer companies with diversified operations, strong balance sheets, and industry leading margins.

Dean Orrico
President and Chief Investment Officer
Middlefield Capital Corporation

Robert Lauzon
Deputy Chief Investment Officer
Middlefield Capital Corporation

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. You will usually pay brokerage fees to your dealer if you purchase or sell units/shares of investment funds on the Toronto Stock Exchange or other alternative Canadian trading system (an "Exchange"). If the units/shares are purchased or sold on an Exchange, investors may pay more than the current net asset value when buying and may receive less than the current net asset value when selling them. There are ongoing fees and expenses associated with owning units or shares of an investment fund. An investment fund must prepare disclosure documents that contain key information about the fund. You can find more detailed information about the fund in these documents. Mutual funds and investment funds are not guaranteed, their values change frequently and past performance may not be repeated. Certain statements in this disclosure are forward-looking. Forward-looking statements ("FLS") are statements that are predictive in nature, depend upon or refer to future events or conditions, or that include words such as "may", "will", "should", "could", "expect", "anticipate", "intend", "plan", "believe", or "estimate", or other similar expressions. Statements that look forward in time or include anything other than historical information are subject to risks and uncertainties, and actual results, actions or events could differ materially from those set forth in the FLS. FLS are not guarantees of future performance and are by their nature based on numerous assumptions. Although the FLS contained herein are based upon what Middlefield Funds and the portfolio manager believe to be reasonable assumptions, neither Middlefield Funds nor the portfolio manager can assure that actual results will be consistent with these FLS. The reader is cautioned to consider the FLS carefully and not to place undue reliance on FLS. Unless required by applicable law, it is not undertaken, and specifically disclaimed that there is any intention or obligation to update or revise FLS, whether as a result of new information, future events or otherwise.