FIRST CAPITAL FINANCIAL

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*Sponsoring Mutual Fund Dealer*

Investors are looking to a mounting pile of cash at U.S. companies to provide support for the stock market n coming months, as executives announce plans to increase share buybacks, boost dividends or pour money back into their businesses.

*"I don't have any corporate sponsors. I have a job."*

Cash on the balance sheet of S&P 500 companies has swelled to a record USD $1.9 trillion, compared with USD $1.5 trillion before the pandemic hit in March 2020. The cash hoard likely will be a key factor in investors' calculus as second-quarter earnings season hits full swing, and market participants gauge how equities respond to worries over slowing growth and a Covid-19 resurgence that sparked a rush to safe-haven Treasuries in recent days.

Large amounts of cash gives companies flexibility to take potentially share-supportive measures, including facilitating buybacks, which boost earnings per share. Companies may also raise dividends, making their stocks more attractive to income-seeking investors, compared to low-yielding T-Bills.

Simply put, high corporate cash balances provide market support, making the case for equity markets moving higher in 2022 and 2023, despite concerns over current valuations. A study by Goldman Sachs shows that companies returning a comparatively large amount of cash to shareholders through buybacks or dividends outperformed the S&P 500 in 2021 by 5%.

It is this focus on cash that comes as investors try to read conflicting markets signals that have emerged over the past few weeks. Though stocks stand near records, Treasury yields which move inversely to prices, fell to their lowest level since February this week amid concerns the Delta variant of Covid-19 could hamper the economic recovery. Expectations of big corporate spending could encourage investors to by future stock dip (as we saw last week) and historically, the S&P 500 has averaged three pullbacks of at least 5 percent a year since 1950, but has yet to log such a drop in 2021.

Finally, companies flush with cash can embark on a mergers and acquisitions spree that could fuel a deal-making surge in equities. Goldman Sachs is projecting S&P 500 spending will jump 45 per cent to USD $324 billion this year. All of the above adds up to one thing: a bullish outlook on markets for the foreseeable future. As such we remain committed to out asset allocation model which has equities at the higher-end of a given investor risk profile. Our Global Balanced positions through Dimensional and EdgePoint coupled with our sector-specific position in Sustainable Energy through the Mackenzie Global Environmental Equity fund and our Alternative Strategies positions through the Guardian Capital Directed Equity Path and Mackenzie Diversified Alternatives funds, combine to position client capital to capture further market upside.

Be safe, be well!

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