Global Markets Review

It has been one year since COVID-19 was declared a global pandemic. Global stock markets extended the recovery seen since November last year to close at all-time highs during the first quarter of 2021. All in all, global markets finished the quarter with solid performance, especially for pro-cyclical sectors, as several of them enjoyed double digit returns. The MSCI World Index gained 5.0% with the Energy sector the best performing sector, gaining 22.2% during the quarter; Financials was the second-best performing sector, outperforming the MSCI World Index by 8.3%. In North America, the S&P 500 was up 6.2% led by gains from the Energy sector, while the S&P/TSX Composite was up 8.1%, with Heath Care and Energy as the top performing sectors. In Europe, the STOXX 600 was up 8.4% for the quarter. Italy and France had the best performance, where the FTSE MIB and CAC 40 were up 11.3% and 9.6%, respectively. Germany's DAX gained 9.4%. Spain and U.K. also finished the quarter with solid returns as the IBEX 35 and FTSE 100 increased 6.7% and 5.0%, respectively.

During the quarter, global economies continued the path to recovery while certain parts of the world combated a third wave of COVID-19. We saw sequential improvement in manufacturing production as the March PMI reached a record high of 64.7 in the U.S., the unemployment rate continued declining during the first quarter. In the U.S., Democrats gained control of both the Congress and the White House for the first time since 2011. Election of Joe Biden as the 45th president of the United States paved the way for further fiscal stimulus. Biden's sharp focus on immunization efforts in combination with unprecedented fiscal stimulus pushed stock markets to new highs in March. At the same time, as a reflection of the improved growth outlook, global yield curves steepened and the U.S. 10-year treasury yield recovered to above 1.7%. Cyclical parts of the economy led the equity market rally, with Energy, Financials, Industrials and Materials gaining the most, while defensive sectors such as Consumer Staples and Utilities lagged. Performance of Information Technology stocks was lackluster overall due to investor sentiment shifting away from large capitalization growth names during the quarter. Risk appetites continue to favor pro-cyclical stocks as global economies pick up its pace.

Effective central bank and government policies played an essential role in the recovery of global equities. In North America, both the Federal Reserve and the Bank of Canada (BoC) remained highly accommodative and kept interest rate unchanged during the first quarter. In March, President Biden signed a US$1.9 trillion pandemic relief bill, titled the American Rescue Plan, into law. The plan includes additional stimulus cheques, enhanced unemployment aids, rental assistance and childcare support among other assistance. During the most recent FOMC meeting in March, the Fed saw Q1 2021 GDP expanding at a faster pace than Q4 of 2020 as well as improvement in labor market conditions. Consumer spending also fared better than Q4 of last year. In Canada, GDP growth in Q1 of 2021 is expected to be positive rather than the contraction projected back in January. While higher commodity prices and improvement in demand brightened the prospect of a recovery, employment levels remain well below pre-COVID levels. As such, the BoC expect to hold policy interest rates at the current level until at least 2023.

In Europe, the European Central Bank (ECB) kept the benchmark interest rate unchanged at -0.50%. ECB's president Christine Lagarde noted the uncertainty surrounding Europe's economic outlook due to the ambiguous dynamics of the pandemic and the unpredictable speed of inoculation campaigns. The Governing Council is continuing the current pace of purchase under the pandemic emergency purchase programme (PEPP) in the amount of EUR1,850 billion until at least the end of March 2022. Purchases under the asset purchase programme (APP) will continue at a monthly pace of EUR20 billion. The ECB projects an annual real GDP growth of 4% and an annual inflation rate of 1.5% in 2021.

At the end of the first quarter, the number of confirmed infections worldwide exceeded 134 million, about one and a half times greater than the number of infections at the end of 2020. On the other hand, global vaccination efforts are well underway, with the U.S. having administered 171 million doses of the vaccine as of the first week of April. According to the latest World Economic Outlook update issued by the International Monetary Fund (IMF) in April 2021, the global economy is projected to grow 6% in 2021, up from the previous forecast of 5.2%. The contraction of 2020 was also smaller than the previous projection due to outsized growth in the second half of 2020 driven by easing of lock-down measures. However, there still remains a high degree of uncertainty surrounding the global economic outlook; such as whether the new COVID-19 strains are susceptible to current vaccines, capacity adjustments in the economy and effectiveness of global policies.

Looking forward to the rest of 2021, we believe the rotation into pro-cyclical sectors is set to continue. First, wide COVID-19 vaccine coverage should allow societies to gradually normalize over the course of the year. Second, the Biden administration is laser-focused on boosting the economy through the American Rescue Plan and the proposed US$2.25 trillion infrastructure plan since his election, which should be supportive of further economic recovery. Third, the personal savings rate is sitting at the highest rate in the past decade.

Consumers have a strong propensity to spend, which in turn should fuel economic growth. Overall, we are optimistic about equity performance heading the upcoming quarter. U.S. large capitalization stocks are likely to participate in the market rally but not necessarily lead the performance. Pro-cyclical sectors should extend their leadership that we saw since November into the upcoming quarters.

Crude Oil Review

During the first quarter, WTI prices rose steadily from US$48.52 per barrel on December 31st, 2020 to close at US$59.16 per barrel on March 31st, 2021. Brent oil prices continue to trade at a premium and closed the quarter at US$63.54. In 2021, energy companies are expected to return to a more normalized oil price environment as prices recover to pre-pandemic levels. In Canada, heavy oil spreads are trading at a discount of US$10.26 per barrel at the end of the quarter.

During the 3-month period, optimism surrounding the vaccine rollout drove a sustained rotation into the Energy sector. Energy was the top performing sector in multiple global equity indices. Fundamentals in the sector is also improving. For the demand side of the equation, global oil demand is rising steadily from the bottom seen in the second quarter of 2020. Rapid COVID-19 vaccine rollouts and improving industrial activities are paving a path for demand to return in 2021. The International Energy Agency (IEA) forecasts that global oil demand will grow by 5.5 million barrels per day to 96.5 million barrels per day in 2021 after contracting by 8.7 million barrels per day in 2020, recovering around 60% of the volume lost in 2020. Oil demand is projected to return to 2019 levels in two years time. The outlook for the oil market is predicated on the pace of COVID-19 vaccine rollouts and the strength of the subsequent recovery of economic activity. The IEA projects that in the second half of 2021, a stronger economy will support growth and reduce the oil demand gap versus 2019 from 4.8 million barrels per day in Q1 of 2021 to 1.4 million barrels per day in the fourth quarter of 2021.

OPEC+ has exercised tremendous discipline over the past year and the group had achieved their objective of balancing the oil market over the past months. Given the expectation of a steady recovery in 2021, in early April, OPEC+ members have agreed to ramp-up oil production gradually in the coming months. Saudi Arabia will also start reversing its unilateral cut in May by 250,000 barrels per day. Higher oil prices could potentially translate into a higher level of production in 2021, with the drilling and completion trend indicating possible future robust monthly growth. We also expect to see supply growth from Canada, Norway and Brazil this year. A combination of better capital discipline, lower cost structures and OPEC+'s optimism is why we are constructive on the sector heading into the coming months. Over the short to medium term, demand is expected to improve as nations make significant progress on rolling out COVID-19 vaccines. Supply-demand should be more balanced, especially in the second half of 2021, on expectation of widespread inoculation. Free cash flow is poised to rebound on capex cuts.

Portfolio Review

Brompton Oil Split Corp. units were up 28.1% in the first quarter of 2021. This compares to the S&P/TSX Capped Energy Index, which was up 29.1%, and the S&P 500 Energy Index, which was up 30.8% over the same period. All holdings in the portfolio had double digits returns for the quarter with the exception of Parkland. Top performers included Diamondback Energy, EOG Resources and Tourmaline Oil, which returned +52.65%, +46.31% and +40.32%, respectively. Upstream players involved in the exploration and production process outperformed midstream players during the quarter.

The portfolio was rebalanced and reconstituted in March and the number of holdings increased from 16 to 18 North American oil companies – 7 in Canada and 11 in the U.S. We currently favor upstream players including oil explorers, producers, and refiners as they are more sensitive to oil price increases. Fracking spreads and rig counts are picking up in March. Low-cost structures and recovering North American oil demand should help drive meaningful accelerations in free cash flow over the next few years. WTI prices broke out above US$60 a barrel in February 2021 and reached a high of $66 in early March. We believe the portfolio is well positioned to benefit from a sustained rebound in global oil demand. The portfolio holdings are spread across several sub-sectors including integrated oils, exploration & production, and pipelines/storage, and provide investors with exposure to key resource plays that we believe have the strongest return potential.

Looking out to the rest of 2021, we expect the recovery of oil prices to support a pickup in production activities in the oil market. Over the years, the industry's cost structure has come down significantly; high quality oil producers were able to cope with current crisis much better than in previous cycles. At current prices, oil producers are still exercising capital discipline, with some operators projecting low to mid single digit production growth. In the long term, demand is expected to recover. The demand for transportation fuels has been disproportionately impacted by the pandemic as countries closed borders, but we believe the demand for leisure travel will return rapidly on a broader vaccine adoption. Moreover, on-road transportation fuels (gasoline and diesel fuel) should provide a solid baseline for oil prices once people resume domestic travelling, especially as summer approaches. We remain optimistic heading into the second quarter and see potential for further rotation into the sector over the coming months.

Laura Lau, SVP & CIO

Michael D. Clare, VP & PM

Annual Compound Returns[1]	1-YR	3-YR	5-YR	Since Inception[2]
Brompton Oil Split Corp. - Unit	79.3%	(11.8%)	(8.7%)	(10.2%)
S&P/TSX Capped Energy Index	101.0%	(9.7%)	(4.6%)	(7.3%)

(1) Returns are for the periods ended March 31, 2021. The table shows the Fund's compound return on a unit for each period indicated compared with the S&P/TSX Capped Energy Index ("Energy Index"). The Energy Index is derived from the Composite Index and tracks the performance of equity securities that are in the energy sector of the Toronto Stock Exchange (the "TSX"). The Fund invests, on an approximately equal-weight basis, in a portfolio comprised of at least 15 large-capitalization North American oil and gas companies. Since the Energy Index has more diversified portfolios that only include TSX-listed issuers, it is not expected that the Fund's performance will mirror that of the Energy Index. The Energy Index is calculated without the deduction of management fees, fund expenses and trading commissions, whereas the performance of the Fund is calculated after deducting such fees and expenses. Further, the performance of the Fund's Class A shares is impacted by the leverage provided by the Fund's Preferred shares.

(2) Inception Date February 24, 2015.

BROMPTON FUNDS

VALUE
INTEGRITY
PERFORMANCE
THE FOUNDATION FOR EXCELLENCE

Investor Relations
PHONE 416.642.6000
TOLL FREE 1.866.642.6001
FAX 416.642.6001
EMAIL info@bromptongroup.com

Website
www.bromptongroup.com

Address
Bay Wellington Tower,
Brookfield Place
181 Bay Street
Suite 2930, Box 793
Toronto, Ontario M5J 2T3