glc asset management

# Market Matters

Summary for August 2020

## Highlights

- Global stock markets extended their summer-long run.
- Bond markets checked back, with longer-term bonds hit hardest.
- Expectations for market volatility rose with stretched stock valuations, the approach of the U.S. presidential election and concerns for a COVID-19 second wave.
- Amidst a risk-on sentiment, oil prices rose sharply, while gold and the U.S. dollar weakened.

## Hot summer stock markets

Global equity markets have risen consistently all summer long, with U.S. equities continuing to shine as the bright star amongst peers.

The S&P 500's 7% monthly gain (with gains achieved on all but five days in August) speaks to the optimism of investors enthusiastically anticipating a V-shaped recovery. U.S. consumer stocks continued to benefit from 'better than feared' consumer spending, while technology-related stocks stayed on their COVID-fuelled upward trajectory. Apple's whopping 8.2% gain in one week garnered further notoriety for becoming the first U.S. public company to top USD $2 trillion in market cap. However, the early days of September have been far less kind to Apple and the other mega-sized U.S. tech sweethearts, although it's too early to tell if a true reckoning of 'values gone wild' is taking hold. The U.S. Federal Reserve's (Fed's) commitment to keeping low rates for longer helped keep the risk-on train going strong as well.

In Canada, the 2%+ monthly gain for the S&P/TSX Composite (nothing to sneeze at for one month) clearly pales in comparison to rebounding markets south of the border. Canadian financial companies, particularly the banks, ended the month with strong gains (the S&P/TSX Banks Sub-Index rose 9.7%) because company fundamentals were solid, longer bond yields rose slightly and the yield curve steepened. Firmer oil prices helped to fuel Canadian energy-sector stocks: West Texas Intermediate (WTI) and Western Canadian Select (WCS) crude oil held near their highest values since the coronavirus crisis began. Most other commodities also garnered positive returns, with the price of gold being an exception and a drag on Canada's Materials sector. Gold's appeal as a safe haven asset was pushed aside in favour of optimism for the  economic recovery.

## Market Summary

| Canadian Fixed Income[1] | Month | YTD |
|---|---|---|
| FTSE Canada Universe Bond Index | -1.1% | 7.7% |
| FTSE Canada All Corporate Bond Index | -0.5% | 6.8% |

| Canadian Equities[2] | Month | YTD |
|---|---|---|
| S&P/TSX Composite | 2.1% | -3.2% |

| | Month | | YTD | |
|---|---|---|---|---|
| Global Equities[2] | Local | CAD | Local | CAD |
| S&P 500 | 7.0% | 4.0% | 8.3% | 8.9% |
| MSCI EAFE | 3.9% | 2.0% | -10.1% | -5.8% |
| MSCI Emerging Markets | 2.1% | -0.7% | 2.7% | -0.7% |

| Currencies and Commodities (in USD) | Level | Month | YTD |
|---|---|---|---|
| CDN $ | $0.767 | 2.8% | -0.4% |
| Oil (West Texas) | $42.61 | 5.8% | -30.2% |
| Gold | $1,971.90 | -0.1% | 29.5% |
| Reuters/Jeffries CRB Index | $153.21 | 6.6% | -17.5% |

| Canadian Sector Performance[2] | Month | YTD |
|---|---|---|
| Energy | 1.6% | -30.7% |
| Materials | -0.8% | 28.4% |
| Industrials | 4.2% | 5.0% |
| Cons. Disc. | 1.9% | -6.5% |
| Info Tech | 0.2% | 72.0% |
| Health Care | -7.5% | -35.7% |
| Financials | 6.7% | -12.6% |
| Cons. Staples | -4.7% | 1.8% |
| Comm. Services | 1.0% | -9.1% |
| Utilities | -2.1% | -0.2% |
| Real Estate | -0.4% | -20.1% |

Local currency unless otherwise stated.
[1]Total return. [2]Price only return.
Source: Bloomberg

## What else is hot?

Canadian and U.S. housing markets have been blistering hot over the last two months. Existing home sales experienced their strongest monthly gain on record in Canada and the largest back-to-back increase in the U.S. Record low interest rates and pent-up demand from lockdown measures have unleashed a torrent of homebuyers. Working from home is also believed to be a catalyst as the newfound ability for many office workers, who often reside in the middle-to-upper class and who have been largely unaffected by the crisis, have been incentivized to seek out larger homes (potentially at a discount further away from city centres) or to improve their existing living situations. These trends were evident in very good earnings results from home reno and home essentials retailers, such as Home Depot, Lowes, Target and Walmart. The S&P 500 Homebuilders Sub-Index rose 6.4% to eclipse its previous high from all the way back in 2005. With a large employment footprint and a substantial positive multiplier effect, the housing sector is a beacon of strength for the North American economy – a situation not typically associated with elevated unemployment levels. But then again, very little is 'typical' these days.

## A checkback for bond investors

Bond prices retreated in August, although year-to-date returns remain strong for fixed income investors. Yields rose for longer-term bonds as the Fed diminished expectations of forthcoming yield curve control measures (i.e., additional measures by which the Fed would aim to keep borrowing costs low by effectively setting a ceiling to longer-term yields). With longer-term yields rising in response and short-term yields remaining anchored near zero, the yield curve steepened. Not surprisingly, the FTSE Canada Universe Bond Index had a tough month, down 1.36%. However, high-yield investors were rewarded with a 1.76% gain as credit spreads narrowed on the risk-on tone.

## Getting back to… not normal

As usual, September brings crisp, cool fall days and many new beginnings for children and families alike. But that may be where September's common routines start and end. Even with new protocols and safety measures to avoid a second wave of COVID-19 cases, today's new norms offer more hope than certainty. For the rest of the year, we expect market sentiment, market returns and the trajectory of COVID-19 case counts as intrinsically tied. For markets to continue their upward moves, investors need to believe that consumers and companies will be in a position to spend, resume full operations and expand – something that's unlikely to happen should health concerns bring us back to shuttering stores, schools and places of work.

Furthermore, with the U.S. election a mere two months away, the stage is set for politics to begin its usual push and pull dance with the stock market. With the makeup of Congress being viewed as important as who will occupy the White House, we expect election runup (with its uber media coverage, dramatic headlines and swinging projections) to add to investor uncertainty and thus capital market volatility.

## This is not new math

Back to school reminders make September an ideal time to review the 'back to basics' principles of successful investment plans:

- **Does it add up?** Your time horizons, savings habits and investment objectives should all align.
- **Did you carry the 1?** You're the only one who can speak to your investment risk tolerance.
- **Solving for X.** Unknowns will always exist – in life, in math, in capital markets – but well-diversified portfolios with a long-term focus can set you up for success year after year.

To all the teachers, custodians, bus drivers and others who make happy school days possible for our students – you are the heart of our communities and we wish you a healthy, happy and successful back to school!

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VP Marketing and Communications, has more than 20 years of investment industry experience and has been writing the monthly Market Matters for over 15 years.