October 26, 2020; Market Overview

BMO Nesbitt Burns

Week in **Review**

BMO Wealth Management
BMO Nesbitt Burns

We are Moving Branches:

We hope everyone had a safe summer and that all your loved ones are healthy. The team has made a decision to move our branch/office locations from a BMO Branch at First Canadian Place to a BMO Branch at Yonge & St. Clair starting November 1st. We are excited about this move and look forward working with you from our new location. Our contact details (phones/emails) will not change, and the new mailing address is:

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Market Overview of Equities:

Heading into the US election and in the face of rising Covid 19 cases in NA and Europe, markets remain cautious and off 5% - 10% from their highs of early September. We are in the middle of the Q3 reporting period with few surprises so far and some optimism looking ahead to 2021 with a recovering economy. On the positive side, markets expect a major US stimulus package under either election outcome and this initiative combined with the continuing low interest rates and loose monetary policies of the US Fed, should assist in the economic recovery. On the negative side a potentially disputed election outcome and continued rising Covid cases without a near term vaccine would jar equity markets.

US markets (as reflected by the S&P 500 index) have risen 7.2% in 2020, with the dominant Tech and Tech related companies now representing over 40% of the index (up 30% - 40%) while most other sectors have fallen in response to the economic fallout from Covid. While these dominating Tech names such as Alphabet (Google). Apple, Microsoft and Amazon have proven their strength throughout 2020, valuations now appear to be stretched and we believe that we would need to see the Covid crises coming under control and economic recovery from the pandemic, before markets can climb much higher.

The Canadian equity markets are down 4.4% in 2020 with the 14% decline in the financial sector representing a negative 4% impact on the index and the >50% drop in the energy sector are partially being offset by two main factors: Shopify, now accounting for an average 5% of the float adjusted index (up 160% on the year) adding a 4% gain to the index. The materials sector (mostly gold based), representing 13% of the index, is up 25% adding 3.7% to the index. Due to these factors the TSX index has been resilient in the face of the economic challenges, however for a broader recovery in the Canadian equity markets we need to see the financial sector, in particular, recover investor confidence and some bounce back in the energy and pipelines sector. This will take a more positive trend in the Covid crises than what we are currently experiencing.

As such, while we remain invested in the strong market leading companies in both the US and Canada, we remain overweight in cash holdings and somewhat underweight equity.

Market Overview of Bonds and Preferred Shares:

Bond prices benefitted from the major central banks lowering the interest rates to near zero levels in NA, to offset the economic fallout of the Covid crises. In Canada the universal bond index is up 5.2% and including interest payments, combines for a 7.4% return YTD. The declining interest rates had an opposite effect on the preferred shares market as investors (in this less liquid market) drove prices down, concerned with dividends being reset lower; despite yields being in the 5-7% range on high quality issues. All in declines YTD for pref shares (including dividends) is currently -1% and it is unlikely that prices will drop further if interest rates stabilize even at the current low levels. On the other hand bond prices have likely peaked so further returns will be derived from the now paltry yield of less than 1% for most investment grade short to midterm –investment grade bonds.

We are reviewing our fixed income mix in light of the current low yield environment, although we plan to retain a significant (if reduced) bond allocation as a safety measure while maintaining and possibly increasing our preferred shares allocation give the higher yields and the expectation that bond yields will not fall much further.

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Sources: Bloomberg, JP Morgan, Thomson & BMO Nesbitt Burns research. We deliver a full complement of thoughtful, customized wealth solutions for private clients and institutions, drawing upon global resources, top ranked research and the collective wisdom of BMO Nesbitt Burns and our internal and external partners. For more information on our team we invite you to contact us.

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