MARKET & ECONOMIC SUMMARY

Volume 8, Issue 4 – October 2020

MARKET SUMMARY

Third Quarter 2020

S&P/TSX Composite TR

Q3	YTD	1 year
4.7%	3.1%	0.03%

S&P 500 TR (USD)

Q3	YTD	1 year
8.9%	5.6%	15.2%

MSCI EAFE GR (C$)

Q3	YTD	1 year
2.9%	3.9%	1.8%

ICE BofAML Canada Brd Mkt TR

Q3	YTD	1 year
0.6%	8.2%	7.2%

THIRD QUARTER HIGHLIGHTS

- S&P/TSX Composite hits 6-month high of 16,792.70 on August 26th
- S&P 500 hits record high of 3,588.11 on September 2nd
- Canadian dollar reaches 8-month high of $0.7696 USD on August 31st
- WTI Oil price hits 5-month high on August 26th closing at $43.39 USD
- Bank of Canada maintains overnight rate at 0.25% in Q3

SUMMARY

Recovering from the pandemic-related downdraft of the first quarter, financial markets enjoyed a period of relative calm and optimism through of the summer of 2020. Equity prices in many markets continued to improve, with some sectors moving sharply higher as lockdown restrictions eased and economic activity gradually resumed. Toward the end of the third quarter, however, investor concerns resurfaced. Markets were rattled by growth in the numbers of COVID-19 infections, uncertainty related to the upcoming U.S. presidential election and the expected economic stress of reductions in government supports for businesses and individuals.

Most global equity markets started the quarter positively, led largely by investor optimism for sectors expected to benefit from current conditions, such as technology and health care. The S&P 500 Index, a broad representation of the U.S. equity market, reached an all-time high in early September before volatility resurfaced as the quarter drew to a close. The U.S. index finished the three-month period up 6.6% for the quarter and 8.4% for the year-to-date in Canadian dollar terms. The MSCI EAFE Index, which captures performance for large and mid-cap companies in 21 developed markets across Europe and Asia, followed a similar path and was up 2.9% for the quarter but still down 3.9% in Canadian dollar terms for the year-to-date.

In Canada, the S&P/TSX Composite Index also trended higher through much of the summer, buoyed by sectors such as materials (precious metals), industrials (transportation companies) and consumer staples. Despite continued weakness in the energy sector and broader market volatility later in the quarter, the Canadian benchmark finished three-month period with a gain of 4.7% but remained down 3.1% for the year-to-date.

Central banks around the world continued to gauge the ongoing economic impact of the pandemic in setting monetary policy. The U.S. Federal Reserve, for example, noted that the U.S. economy had picked up considerably, but much depends on the confidence of consumers to spend. The central bank indicated that it would allow inflation to exceed 2% as the economy recovers and that its target interest rate would be left unchanged at 0-0.25% for "an extended period." The Bank of Canada also kept its benchmark interest rate steady during the third quarter at 0.25% and said it would continue its large-scale government bond purchase program designed to promote liquidity in the financial system. The decline in interest rates has supported bond prices over the past several quarters, resulting in the B of AML Canada Broad Market Bond Index to return 0.6% for the quarter and 8.2% for the year-to-date.

Looking ahead, the COVID-19 pandemic is far from over and will likely have an impact on investment markets for months to come. Governments and central banks continue to provide support for the economy through accommodative fiscal and monetary policies, but the economic outlook remains cloudy, particularly if further restrictions to limit the spread of the virus become necessary. For this reason alone, keeping a long-term view will be especially important.

> *"Real Estate is an asset class that has consistently provided additional diversification benefits to traditional stock and bond investments". – Cy Korun*

STRATEGIC NOTES

During our annual strategic asset allocation review we review and adjust, if necessary, our long-term percentage allocations to each of the various asset classes we invest into based on a host of economic indicators. One of these economic barometers is the level of interest rates, which have been quite low for some time now.

Until now, the alternate asset tranche in our portfolios has been filled by a preferred share mandate. This was specifically designed to provide portfolio protection in a rising interest rate environment, when assets such as bonds and dividend paying stocks are negatively impacted.

However, amid the COVID 19 pandemic, interest rates have been driven to historic lows and the consensus is they may remain as such for quite some time. We therefore determined that the alternate asset tranche, while still requiring a low correlation to rising interest rates, should also be able to benefit the portfolio in a low interest rate environment.

Our research has led us to replace the preferred share mandate in the portfolio with a global real estate mandate. Real Estate provides rental income which goes up with inflation, it is not as sensitive to interest rate change as bond investments, and it is a relatively stable asset class which lowers portfolio volatility directly through price stability and indirectly through alternative diversification.

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