Justwealth 3Q 2020 Market Commentary

The divergence between economic data and the equity markets continues to widen. Global equity prices rose briskly in the third quarter while economic data generally showed only modest improvement from arguably a very weak and potentially unstable base. Although statistical analysis would demonstrate that economic data has tended to be positively correlated with corporate profits and stock prices, it is important to understand that economic data are historical in nature and stock prices are supposed to be reflective of the future – the two do not have to be correlated at all!

The most commonly cited explanation for why the stock markets have risen so sharply is the extreme accommodative actions taken by central banks and government stimulus packages. Perhaps something more important than the actual impact of stimulative efforts is the unspoken assumption that the hardships caused by the coronavirus are temporary. If economies are not able to return to "normal" operations, due to the virus, then all the stimulus in the world will not matter. We are therefore much more interested in the reported progress in testing, treatments, vaccinations or other solutions that will enable a return to normal. With the increasing regularity of announcements regarding progress against the virus, we remain optimistic that a victory for humanity will emerge.

In the meantime, there are numerous other distractions that continue to add volatility to markets: ongoing trade disputes, antitrust issues for technology mega-caps, and the upcoming U.S. election (or the related Donald Trump circus sideshow). Closer to home, the summer reprieve from coronavirus cases in Canada appears to be over, forcing some provincial governments to re-enact restrictive measures. These issues either pertain to certain regions or sectors of the global economy and should not pose a significant threat to the performance of a well-diversified investment portfolio.

One area of longer-term concern that we acknowledge is the unprecedented low yields in fixed income securities. The downward spiral of interest rates can be traced back to the early 80's in Canada but effectively bottomed out during the financial crisis…and have not recovered since. Barring some invention of new math, or a divine miracle, the outlook for a basic/traditional bond portfolio is not compelling, and certainly well below the historical rates of return realized over the past few decades. We have positioned our fixed income portfolios somewhat aggressively since our inception, and we believe that this has benefitted our risk-adjusted returns, but there is a limit to the boundary of "aggressive" before it becomes reckless. Over the coming quarters, we hope to find innovative or creative ways to improve the outlook for the fixed income components of our portfolios while exercising care and diligence that you should expect from your Portfolio Manager.

Thanks for your continued support and stay safe!

Here is a recap of market performance as of September 30, 2020*

Asset Class	Market Index	Quarter	1 Year	3 Years	5 Years	10 Years
Fixed Income	FTSE TMX Canada Universe Bond	0.44%	7.08%	6.09%	4.26%	4.35%
Canadian Equity	S&P/TSX Capped Composite	4.73	-0.03	4.26	7.16	5.80
U.S. Equity	S&P 500 ($Cdn)	6.83	16.17	14.77	14.06	16.78
Int'l Equity	MSCI EAFE ($Cdn)	2.78	1.39	2.85	5.18	7.42

** Source: Morningstar. Performance annualized for periods greater than 1 year.*

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