

CHARTBOOK

Market Comment

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Table of Contents

3. Market Comment
4. Index Returns Year-to-Date
5. Personal Saving Rate
6. Savings in Checking Accounts
7. Housing
8. Large vs. Small Capitalization Stocks
9. European vs. American Stocks
10. Vaccine Clinical Trial Success Rates
11. COVID-19 New Case Growth
12. COVID-19 Deaths
13. SOS
14. Concluding Thoughts
15. References
16. Disclaimer



Market Comment

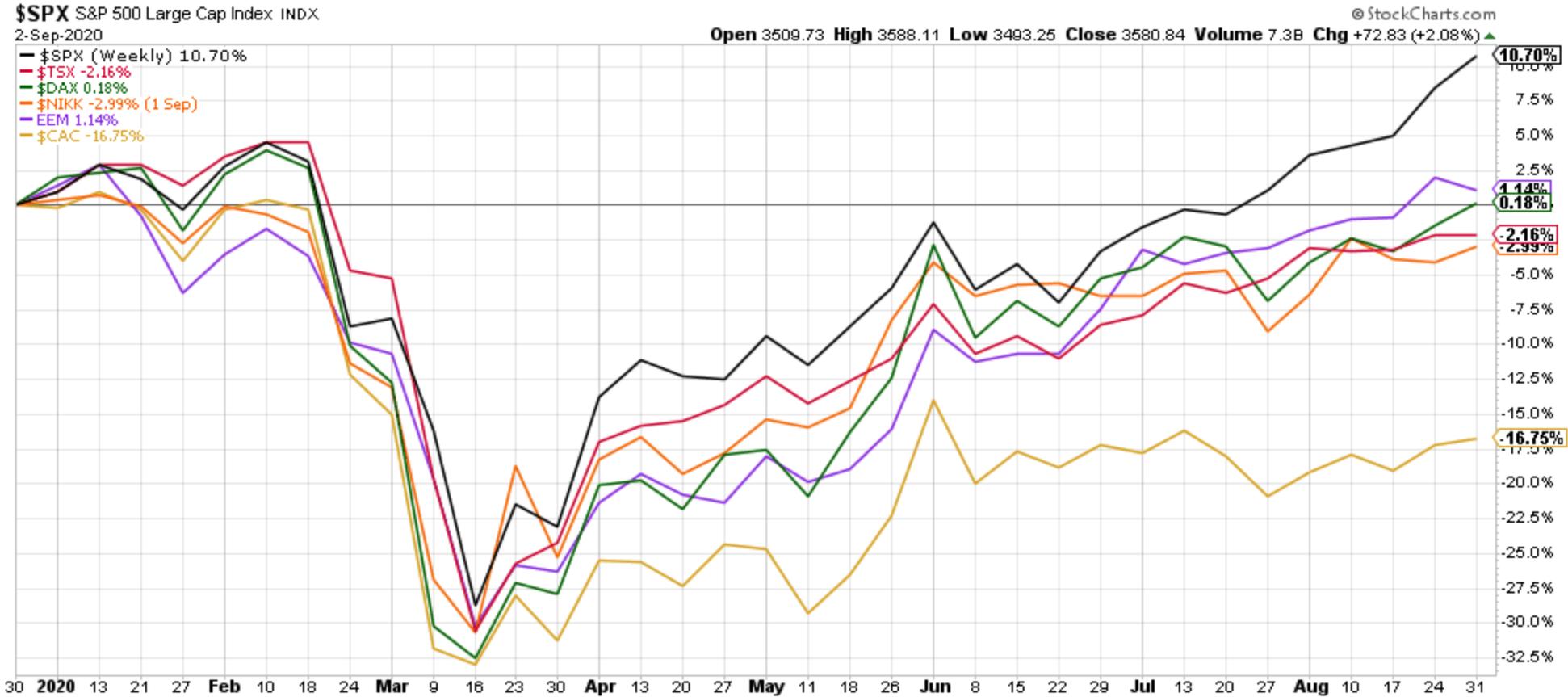
Stock markets around the world enjoyed positive returns in August for the most part, with the S&P500 setting a new all-time high. This is surprising to many as plenty of economies remain in serious recessions, but stock markets are forward looking and tend to look past current and short-term events. With recent optimism regarding vaccine progress, markets could be anticipating a post-COVID world in the relatively near future.

Last week Federal Reserve chairman Jay Powell announced an update to the bank's policies. The most significant change was to how the Fed will deal with inflation in the future, announcing that it will no longer have a hard 2% target ceiling to inflation. The Fed will now seek to achieve inflation that averages 2% over time. This means that if actual inflation is below 2% for a period of time, then increases over 2%, the Fed may let inflation exceed 2% for some time so that the average rate is 2%.

This may seem like a small change, but in certain scenarios it can have a profound impact on an investment portfolio. Inflation can be very detrimental to retirees on fixed incomes who tend to have high allocations to bonds, because the purchasing power of those bonds is eroded away more quickly with higher inflation, while retirees' expenses are likely to increase in line with inflation.

We have often discussed inflation in these Chart Books because of its risks and also because it seems more likely now than in the recent past that we do experience increasing inflation with the amount of money printing and government stimulus that has occurred during the pandemic.

Index Returns Year-to-Date

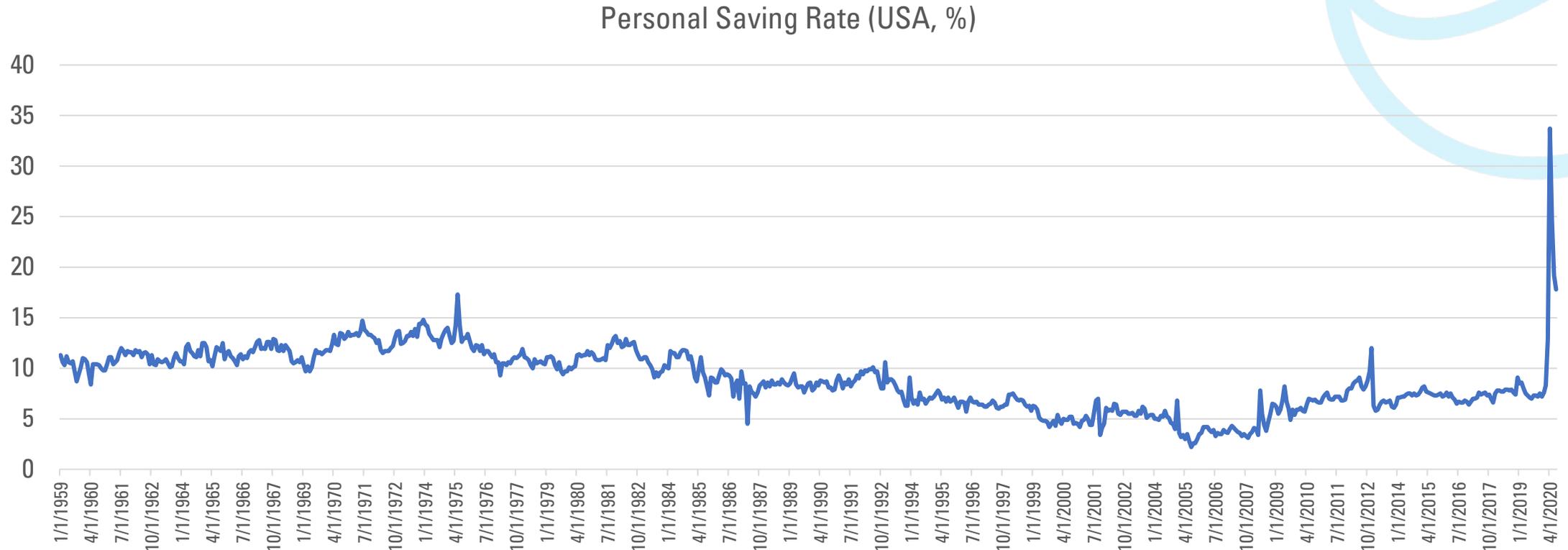


As of Sept. 2, 2020

- S&P500 (USA): 10.7%
- Emerging Markets: 1.1%
- DAX (Germany): 0.2%
- TSX (Canada): -2.2%
- Nikkei (Japan): -3%
- CAC (France): -16.8%

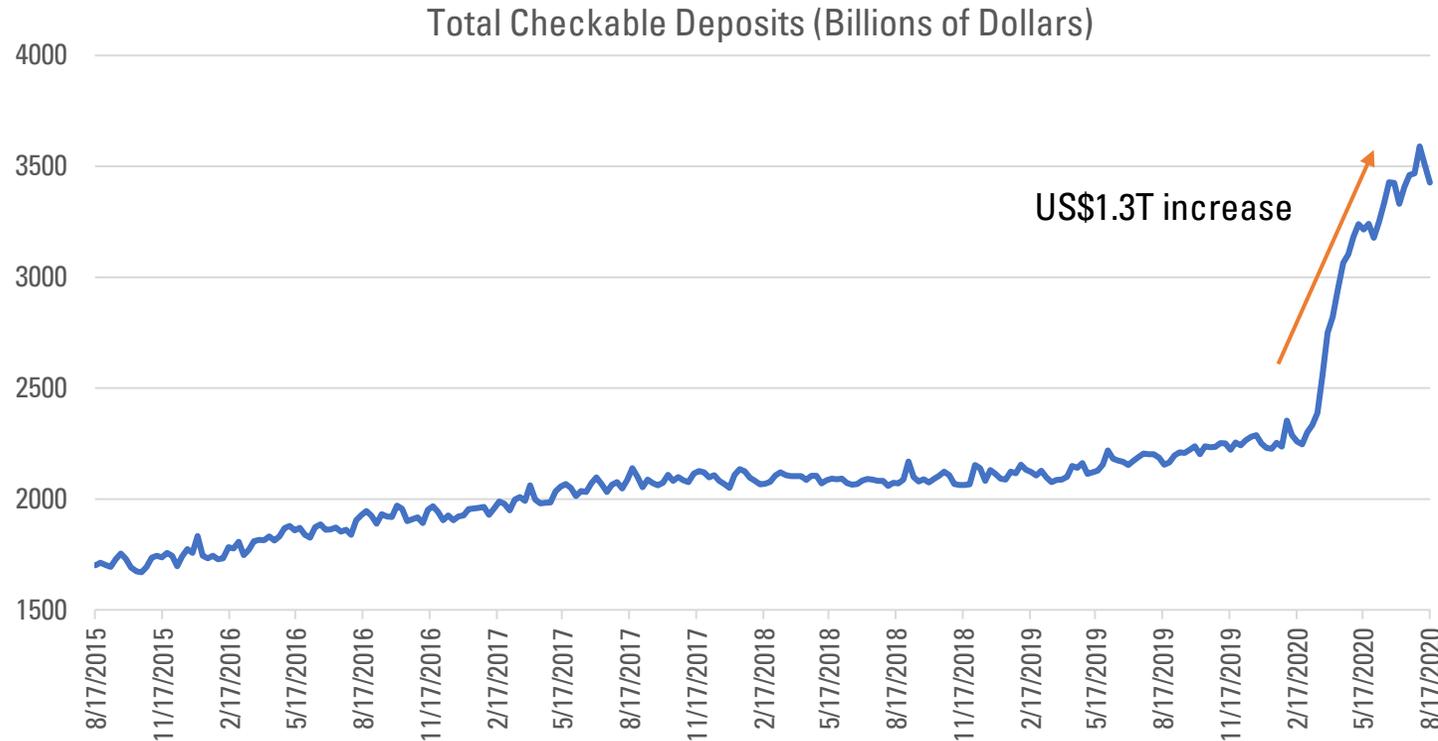
Certain markets reached positive territory for the year in August, while the S&P500 made a new all-time high.

Personal Saving Rate - USA



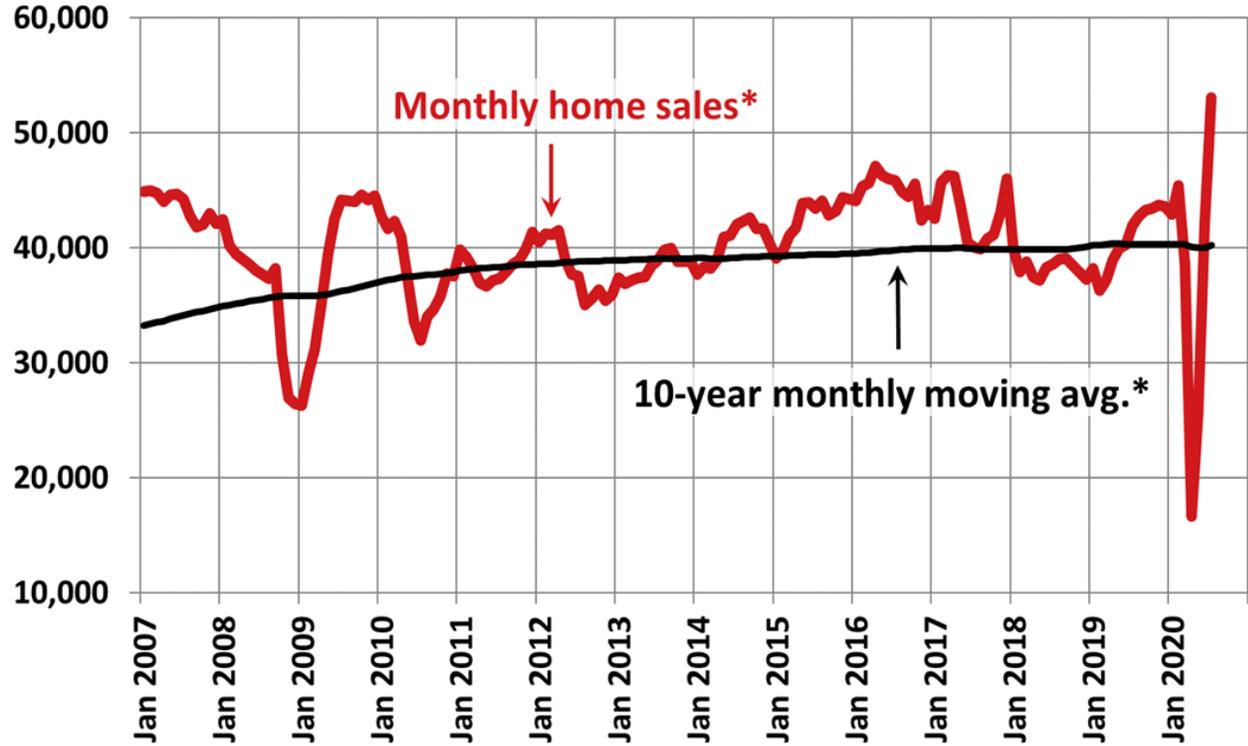
This year Americans have been saving at the highest rate ever in data dating back to 1959. This is likely due to a combination of factors including government stimulus payments, the ability to defer expenses such as mortgages and rent, and others. An important question is: where will this money go once the virus is under control or a vaccine is available? Possibilities include stocks/bonds, which would likely push their values up, goods and services, which could push inflation up, and others.

Savings in Checking Accounts - USA



Since the beginning of the year, savings in checking accounts of Americans have increased by about US\$1.3 trillion, much of which is from the US\$2.2 trillion CARES Act passed in March. Congress is currently negotiating a second stimulus package. Once again we must wonder where this money will go once the virus is under control or a vaccine is available.

Housing



* Canada; seasonally adjusted

In Canada and the US, the housing markets have been very strong, perhaps getting a boost from excess savings.

Canadian home sales in July were the highest in over 40 years.

Large vs. Small Capitalization Stocks

Apple vs Small-Cap Stocks
Comparing Market Capitalizations



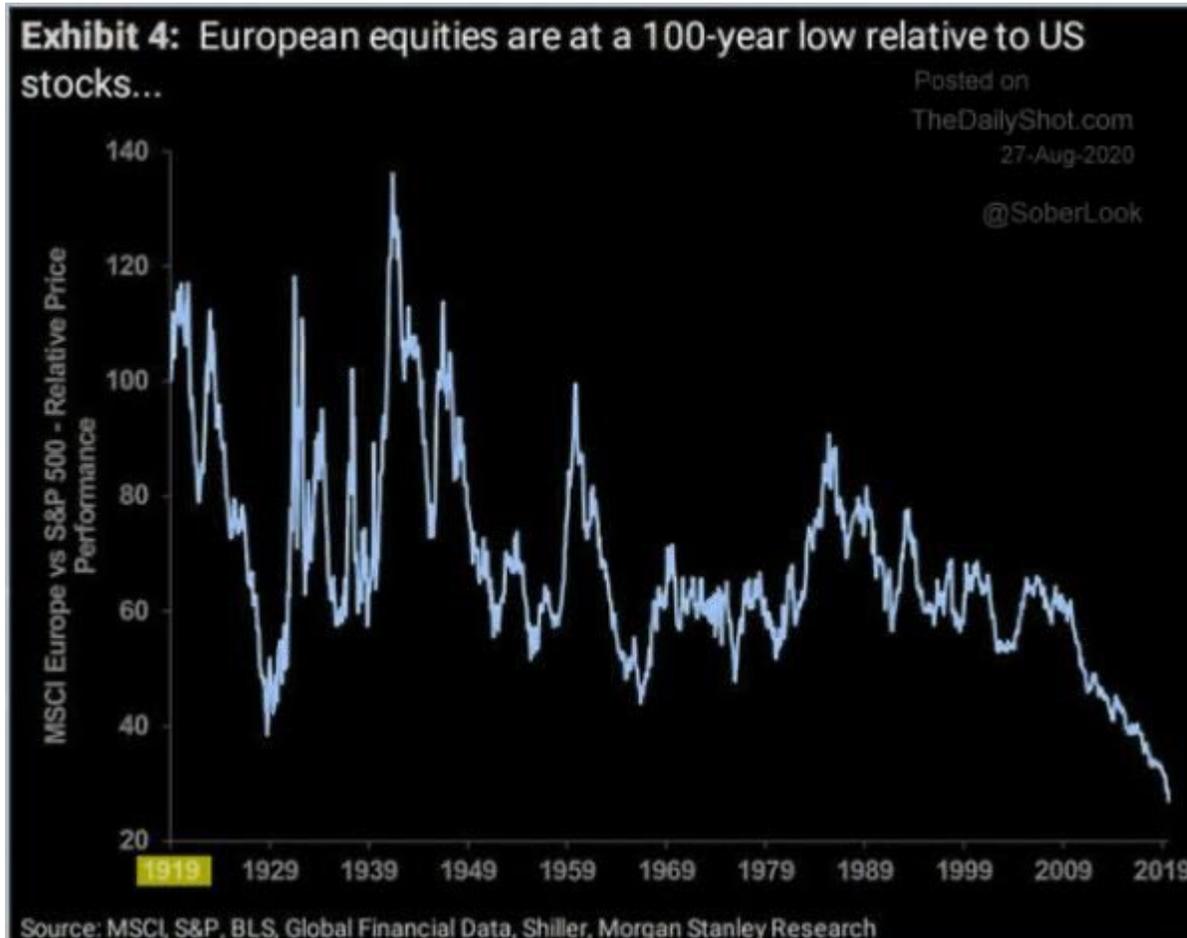
Source: Bloomberg

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The largest American companies have continued to outgrow most of the rest of the market. The largest 5 companies in the S&P500 (Apple, Microsoft, Amazon, Google and Facebook) represent about 23% of the index. The S&P500 index represents about 80% of the US stock market value, so these 5 companies represent about 18% of the entire US market value.

An incredible anomaly is that Apple is now larger than the entire Russell 2000 small cap index, which means it is essentially larger than an entire asset class (small cap stocks).

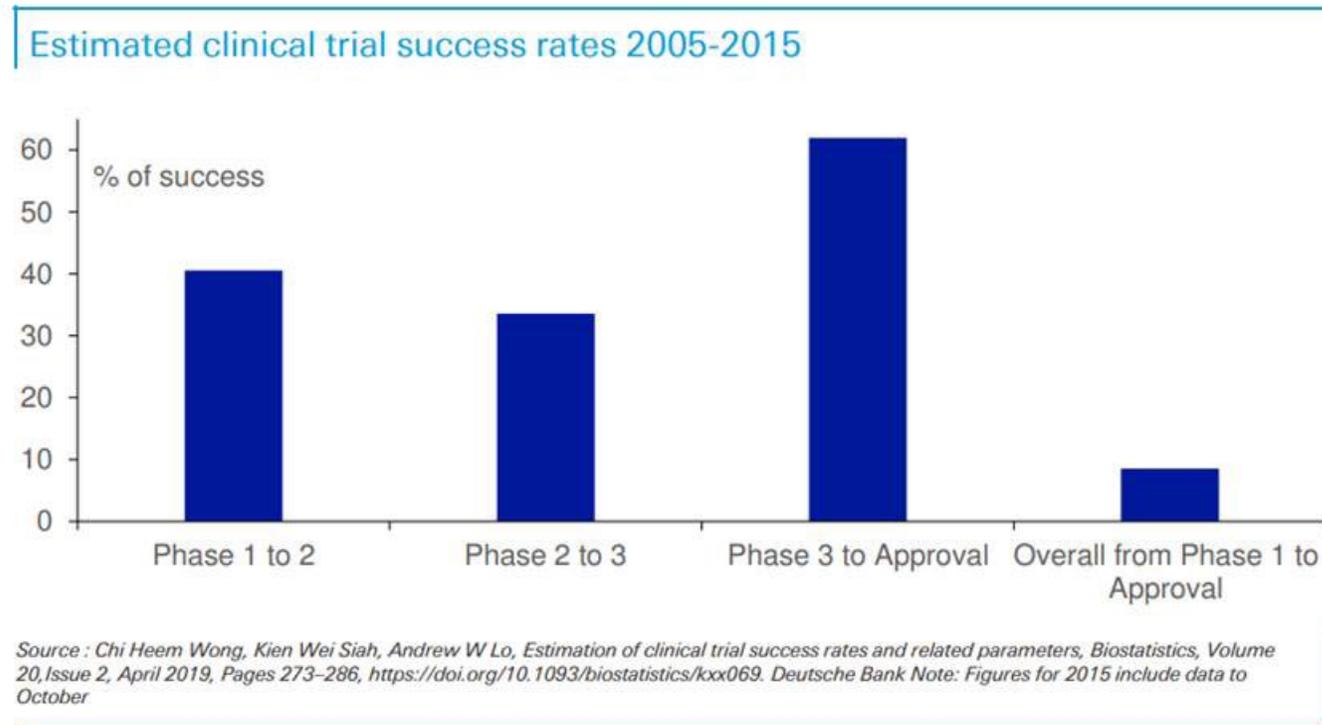
European vs. American Stocks



The relative performance of European stocks to American stocks recently reached a 100 year low. *Yes, 100 years!*

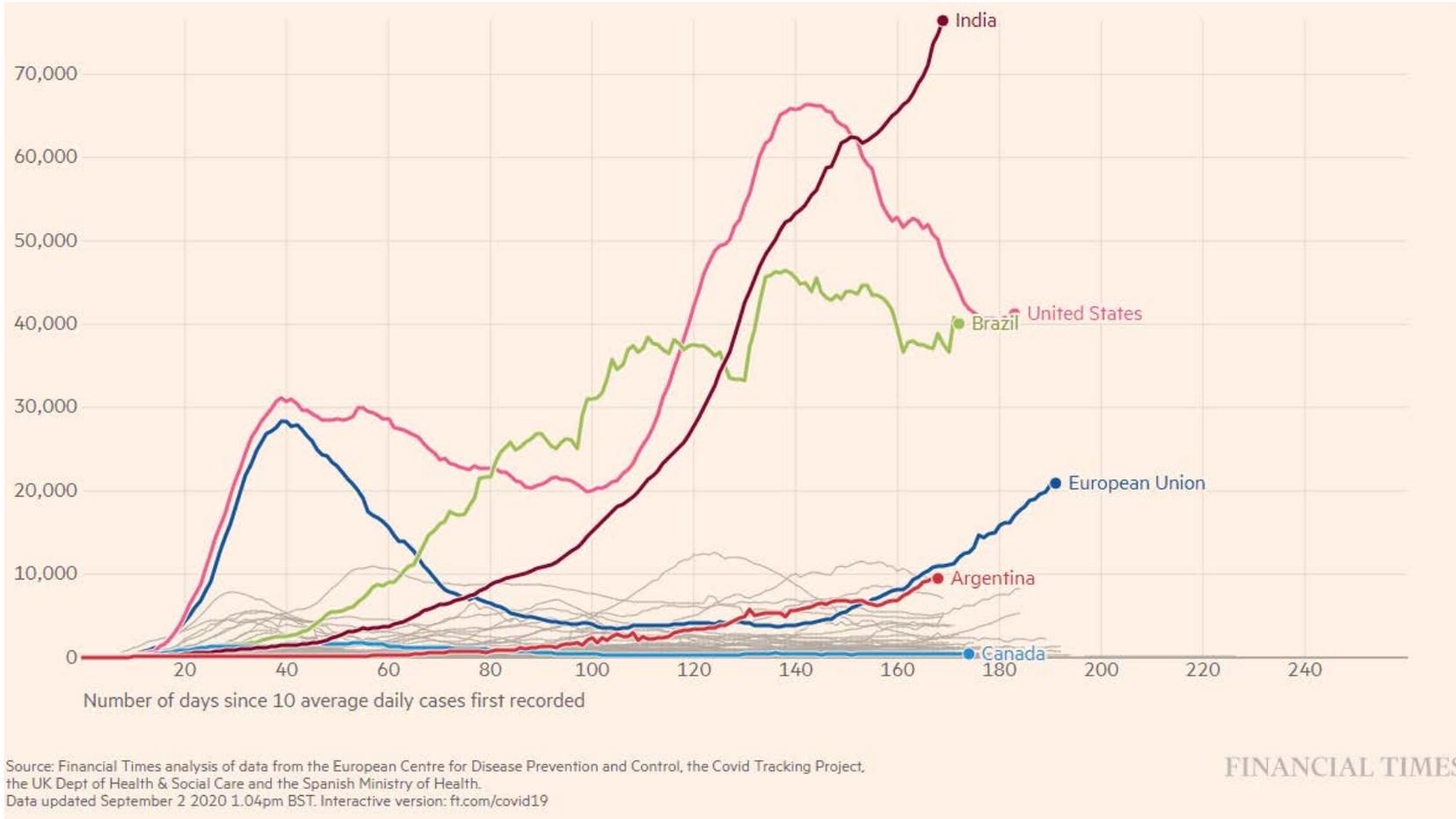
You can see that the relative performance tends to move in cycles which swing back and forth over the years. Led by stocks like Apple, the USA is where the most growth has been in the past decade or two, but this is unlikely to continue forever, especially at this extreme level.

Vaccine Clinical Trial Success Rates



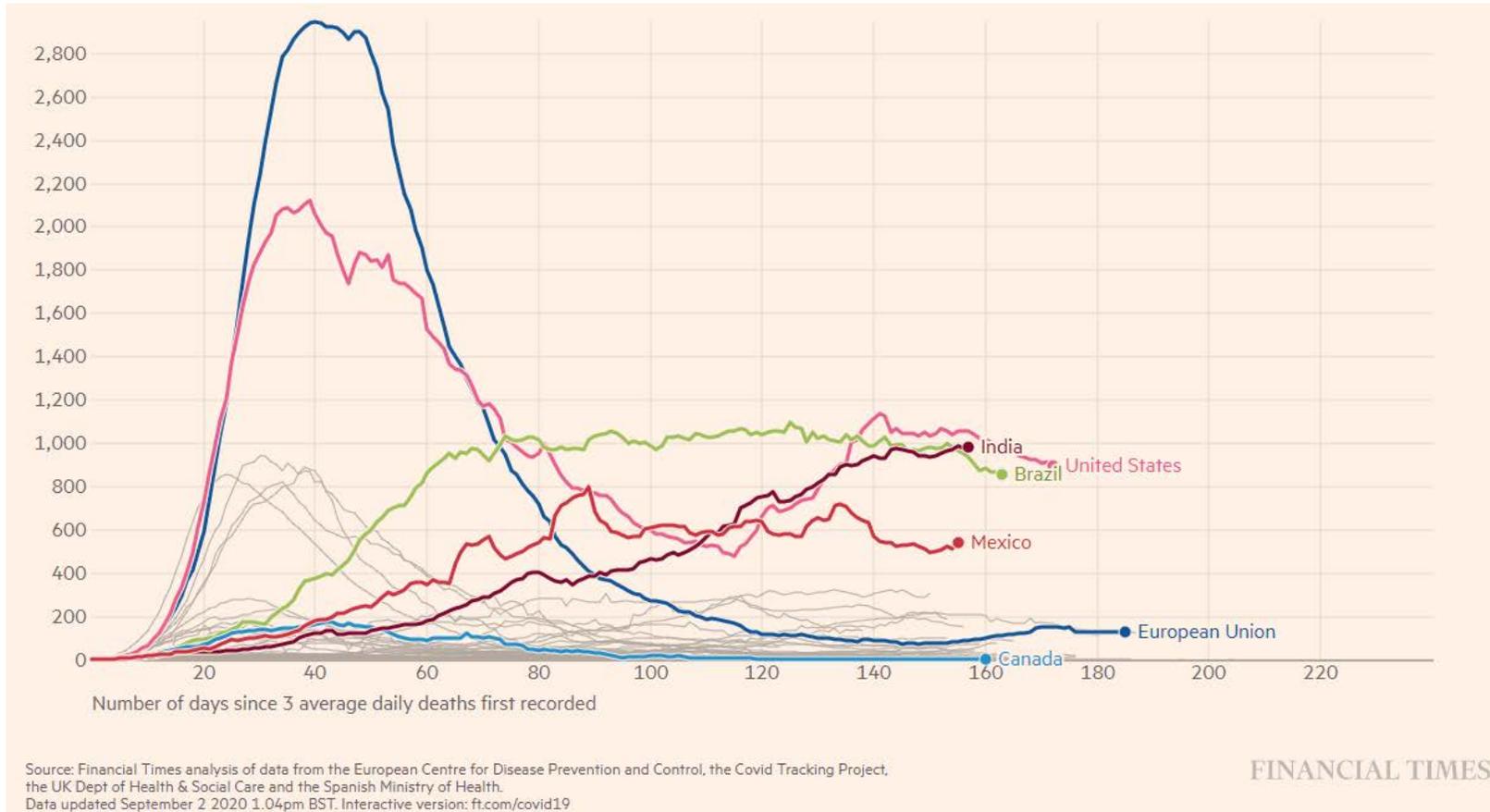
According to Deutsche Bank, from 2000-2015 about 60% of vaccine candidates that reached the 3rd phase of trials were approved for use. With 7 vaccine candidates currently in Phase 3, the probability of multiple vaccines being approved relatively soon is high.

COVID-19: New Case Growth in Select Countries



India now has the largest outbreak, which continues to grow rapidly. Many countries have seen a recent surge in cases, including Canada to an extent.

COVID-19: Deaths



New deaths have been relatively flat across the globe over the past few weeks even as cases surged, a positive sign.

Concluding Thoughts



We are cautiously optimistic about progress toward a vaccine as 7 candidates have reached the final stage of trials. However, we remain focused on managing the risks that are still prevalent in the current environment.

Stay safe and healthy and don't hesitate to reach out if there is anything you would like to discuss.



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