

CHARTBOOK

Market Comment

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Market Comment

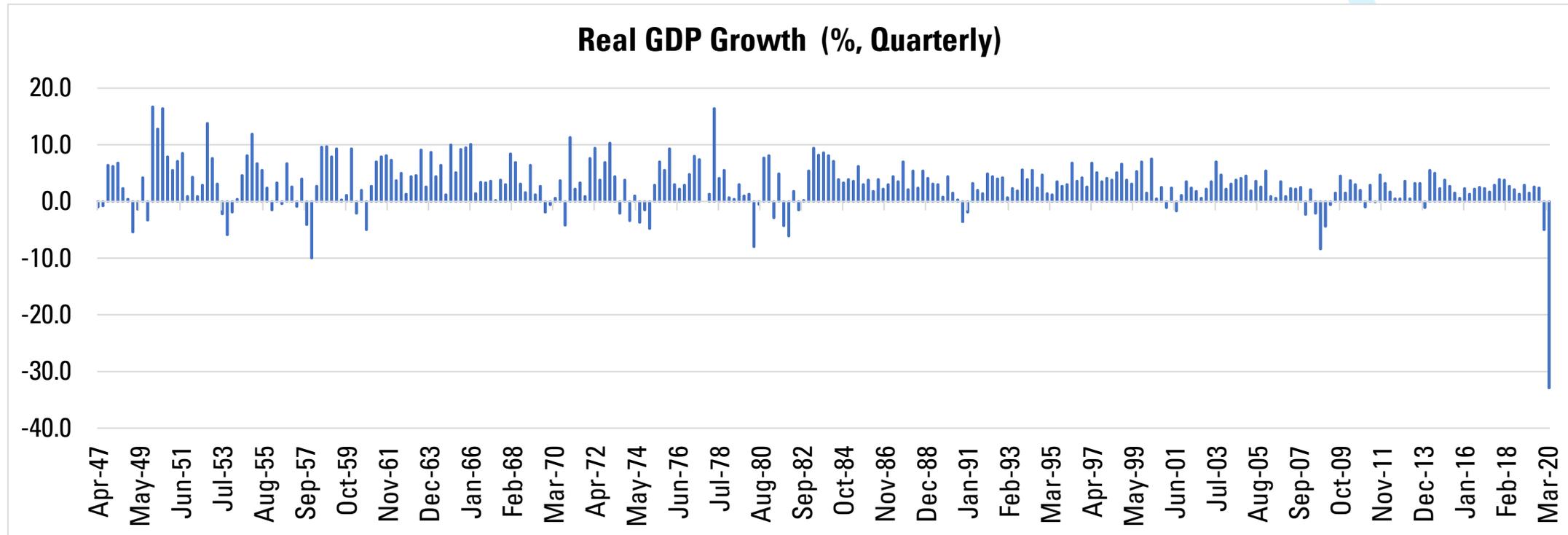
North American stock markets continued to climb higher in July, with many markets around the globe at or near their all-time high levels. This has been puzzling for many investors and analysts, as it seems illogical for stocks to be trading at such rich prices while the world experiences a pandemic and deep recession. At a time like this it's important to remember that the stock market and the economy are linked, but they are not one and the same.

Josh Brown of Ritholtz Wealth Management has a good analogy on the relationship between the stock market and the economy, which goes something like this:

Imagine you're in the park and you see a man walking his dog. The man walks slowly and steadily. The dog is very energetic and excited. It's running this way and that, pulling on the leash, then chasing a squirrel, then it's stopping to sniff something, etcetera. The man is the economy, the dog is the stock market. Over time they move together, but they don't take the same path to get to their destination.

There are many factors that affect the stock and bond markets. The economy is an important one, but not the only one. Another important one is liquidity. With central banks injecting so much newly printed money into the financial system, the markets are enjoying ample liquidity right now.

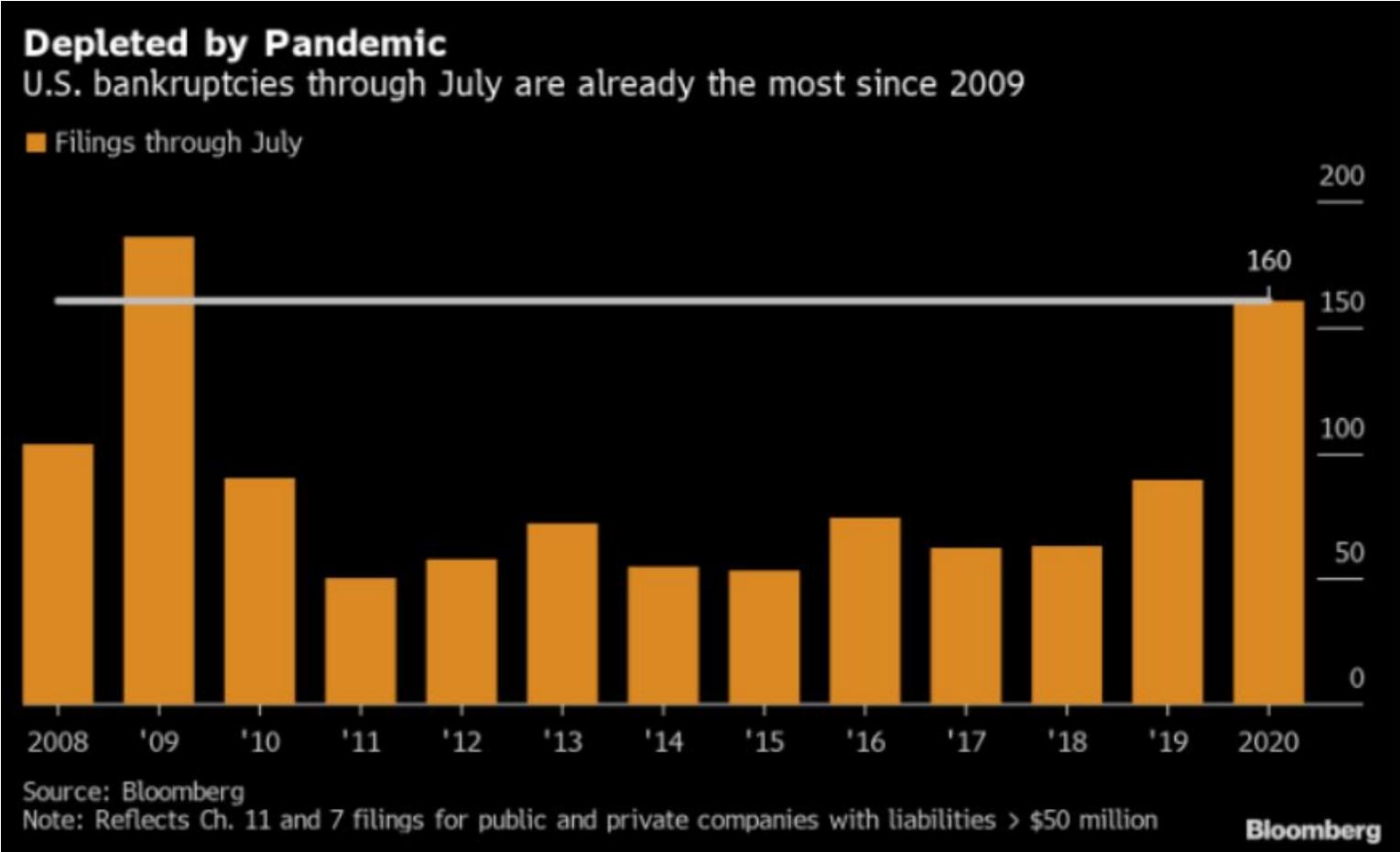
GDP - USA



Second quarter annualized GDP in the USA was down 32% from the same quarter of 2019, the largest decline on record dating back to 1947.



Bankruptcies are Rampant

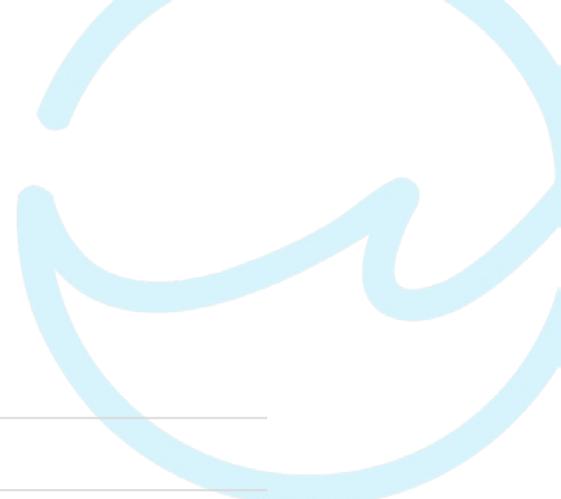


Through just the first seven months of the year, US bankruptcies have almost reached the amount recorded for the entire year of 2009.

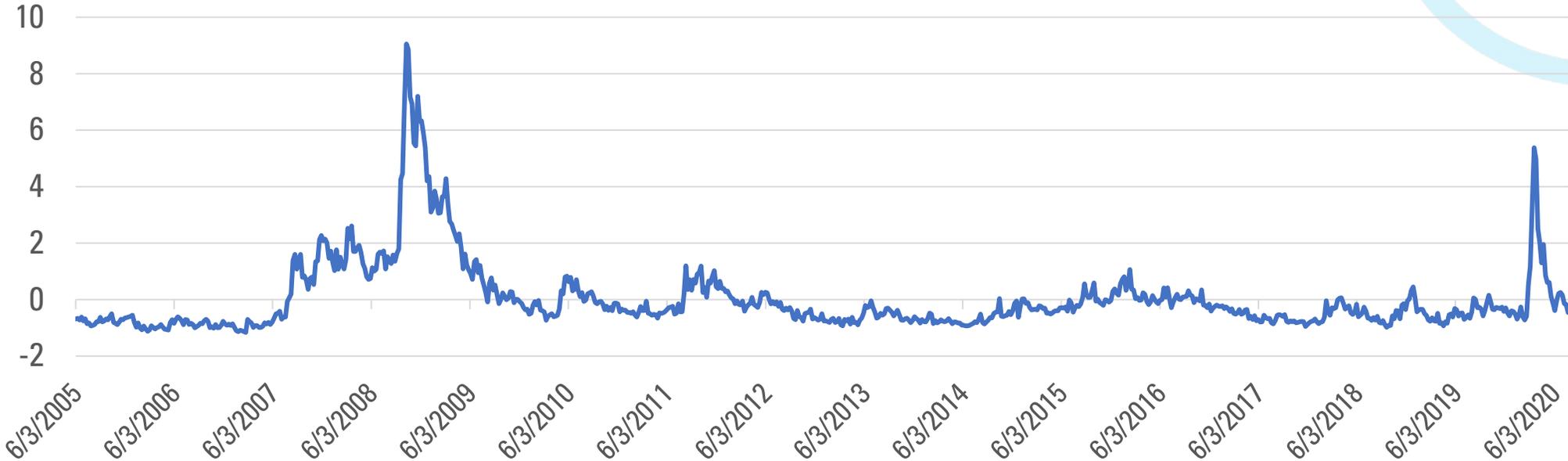
Corporate Earnings Beat Expectations



US corporate earnings are beating analyst expectations at the highest rate in data dating back to 1992. This suggests that the experts have generally been overly pessimistic, and the downturn in earnings isn't as severe as many predicted.



Financial Stress Index



Stress in the financial system as measured by this index from the Federal Reserve Bank of St. Louis has retreated back to normal levels. This is due in large part to the actions of the Federal Reserve, which have included injecting massive amounts of liquidity into the system. Their actions have certainly helped calm the markets.

US Dollar Weakening



The US Dollar has begun to weaken against most other major currencies, including CAD as in the chart. Important drivers of exchange rates tend to be interest rates, budget deficits and money printing. In this case many governments around the world are pursuing similar policies (deficit spending, money printing, interest rate cuts). A weakening US Dollar is usually beneficial for emerging market economies and corporations, and commodity prices (gold, oil).

Precious Metals



The price of gold measured in US Dollars recently reached a new all-time high, surpassing the peak from 2011 and also surpassing the \$2000/oz level for the first time. Year-to-date, gold and silver are up 30% and 43% respectively as of August 5th. Our positions in gold bullion and gold miners, which are held in certain strategies, continue to perform well. Money printing by central banks has been a catalyst for this rally.

High Yield Bonds

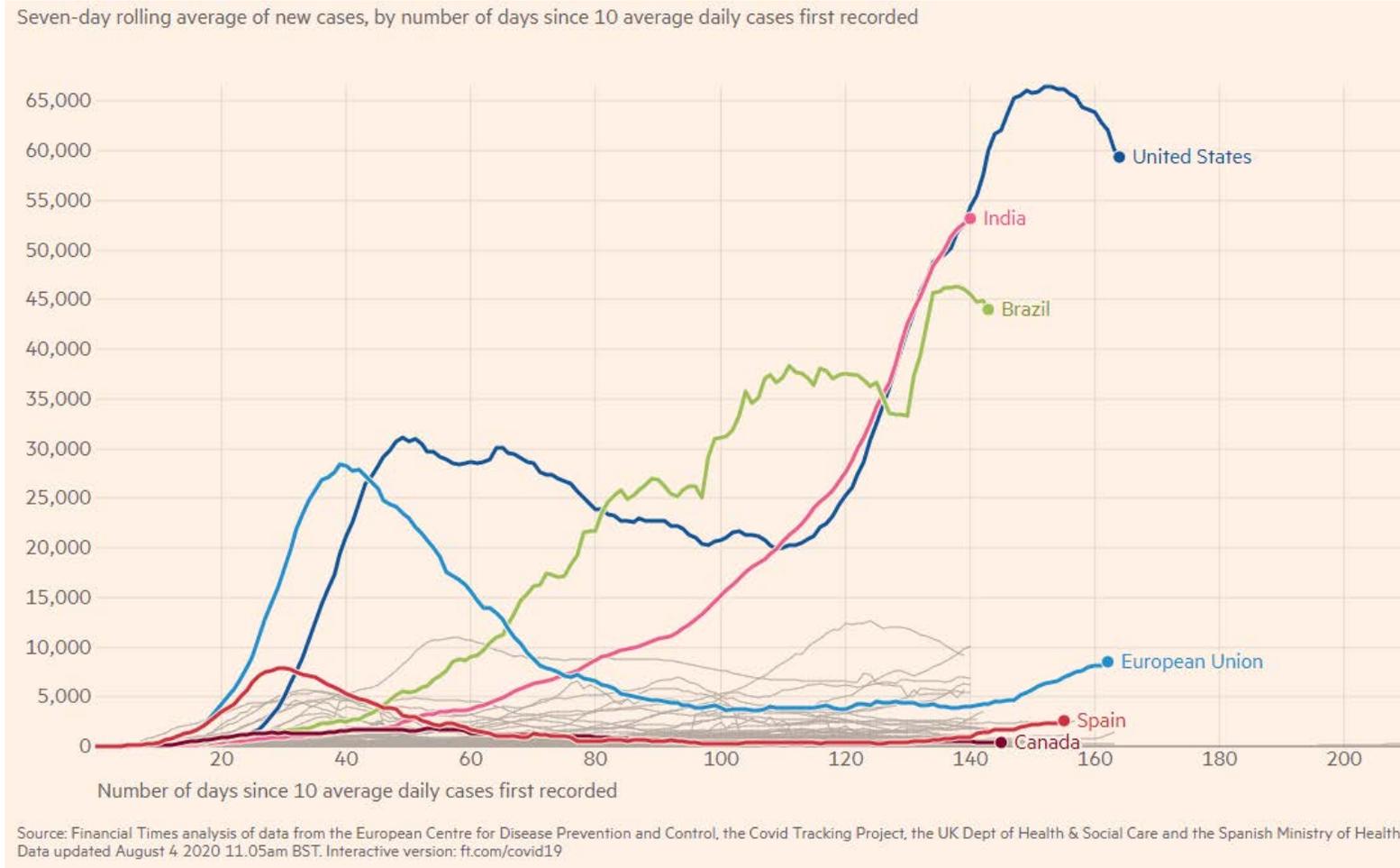
High Yield Bond Spreads

Bloomberg Barclays US Corporate High Yield Average OAS



High yield bond spreads are now at roughly their long-term average level after the spike earlier this year. Our strategy is to buy these bonds when spreads are relatively high and sell them when they are relatively low. We added high yield bonds to certain model portfolios when spreads rose earlier this year.

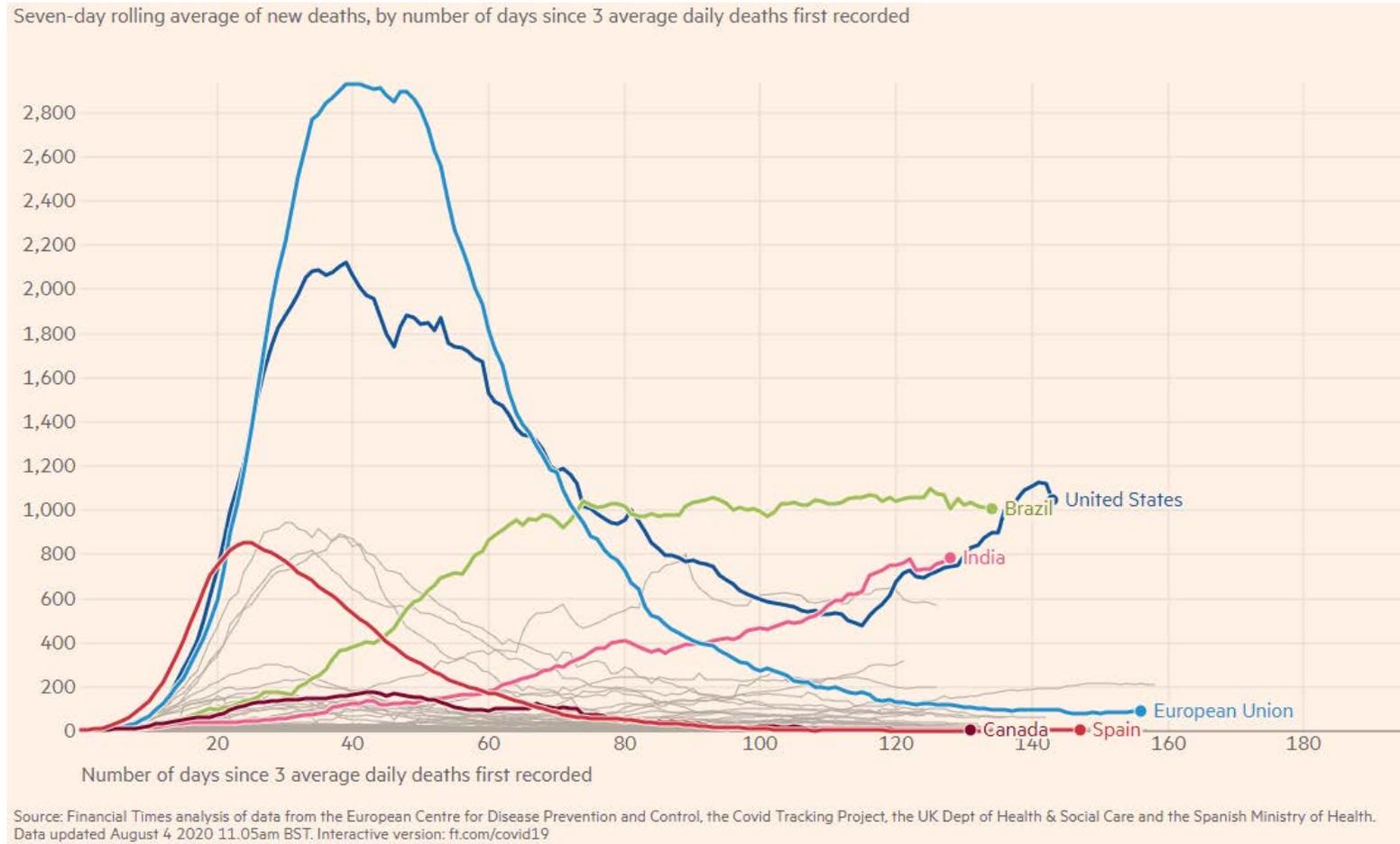
COVID-19: New Case Growth in Select Countries



The USA continues to lead the world in new case growth, but its recent surge of cases may have peaked.

Canadian case growth is so small by comparison that it barely registers on the chart.

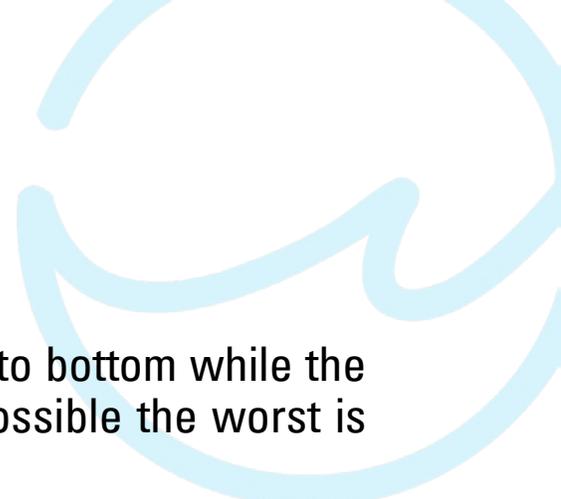
COVID-19: Deaths



Deaths have not increased at the same rate as cases in the US and have not approached the peak from several weeks ago.

This could be due to several factors; an increase in testing, the disease infecting less vulnerable members of the population than it did before, superior treatments and care, or some combination of these factors and others. No matter the reason, this is very positive.

Concluding Thoughts



With so much negativity still in the news, it's important to remember that stock markets tend to bottom while the news is bad and the economy is still in recession. There are still risks of course, but it is possible the worst is behind us for financial markets in this crisis.

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



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