



MONTHLY COMMENTARY

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MARKETS RESPOND TO VACCINE OPTIMISM



* Source: Commodity Systems Inc.

MARKET FOCUS

U.S. equities move to new high

Reflecting the economic impact of COVID-19, U.S. equities experienced the most rapid onset of a bear market in the post-World War II era. The speed of this bear was largely matched by the speed of the shift back into bull territory. New all-time highs were posted through early September (with the S&P 500 Index closing at 3,580.8 on September 2). However, the second wave of coronavirus cases

produced a near correction (-9.6%) by September 23. Nevertheless, in mid-November, news of promising results from vaccine tests allowed the S&P 500 to reach another new all-time high (closing at 3,626.9 on November 16). Similarly, while the Canadian market has yet to fully recover from the bear, the S&P/TSX Composite Index has managed to move back into positive territory for calendar 2020. At the close of trading on November 23, the domestic index stood at 17,094.5 a 0.2% gain from the end



of 2019. The U.S. market continues to anticipate further economic recovery as the vaccines are rolled out. Still, some volatility can be expected as the broader economy will likely be revived in fits and starts.

U.S. election results point to “rule from the middle”

Joe Biden’s narrow election victory as the 46th President of the United States followed an exceptionally rancorous campaign. Against the backdrop of an ongoing public health crisis, heightened levels of social unrest, and an uncertain economic recovery, expectations for a “blue wave,” reflecting a Democratic landslide, failed to emerge. While the results left pollsters scratching their collective heads, investors were quick to shift their focus forward. Given the close election results, analysts suggest that the incoming government will need to “rule from the middle,” meaning that greater bipartisan cooperation will be needed to get legislation passed. This would go a long way in assuaging market fears of dramatic changes in corporate tax rates or accelerated government spending. Further, Biden’s selection of former Fed Chair Janet Yellen as Treasury Secretary puts a market-familiar face on the administration. Still, this is speculation and market players will have to wait until after the inauguration on January 20, 2021 for proof.

U.K. faces “economic emergency” amid Brexit transition

In its November Economic and Fiscal Outlook Report, the U.K. Office for Budgetary Responsibility (OBR) revealed that the economy will likely contract by 11.3% this year, marking the largest drop in annual output since the Great

Frost of 1709. The OBR also added that output would take an even larger hit if negotiations for a free-trade agreement with the EU fail before the Brexit transition period ends on December 31. With Brexit talks bogged down, the forecast predicts that a no-deal Brexit would further reduce output by 2.0% in 2021 and 1.5% by 2025. Not surprisingly, with these uncertainties on the horizon, Chancellor of the Exchequer Rishi Sunak warned that the U.K.’s “economic emergency has just begun.” Sunak was not alone in expressing concerns. Speaking before Parliament, Bank of England Governor Andrew Bailey stated the long-term economic impact of a no-deal Brexit “would be larger than the long-term effect of COVID-19.”

LONGER VIEW

Markets are searching for any certainty around the potential fallout from the spread of COVID-19. With economic activity shut down around the globe, central banks and governments are doing “whatever it takes” to keep the economic system functioning. Central banks have responded by cutting interest rates, creating programs to keep credit flowing and increasing the size of their asset purchasing programs, which effectively means printing money to buy assets. On the fiscal side, governments are expected to provide “helicopter money” to individuals who have been forced out of work. While we are not sure of the exact timeline, we are confident that this period of stress will eventually pass and investors with long-term horizons have an excellent opportunity to purchase stocks at bargain prices.



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