THE COERENTE VIEW

3RD QUARTER 2020

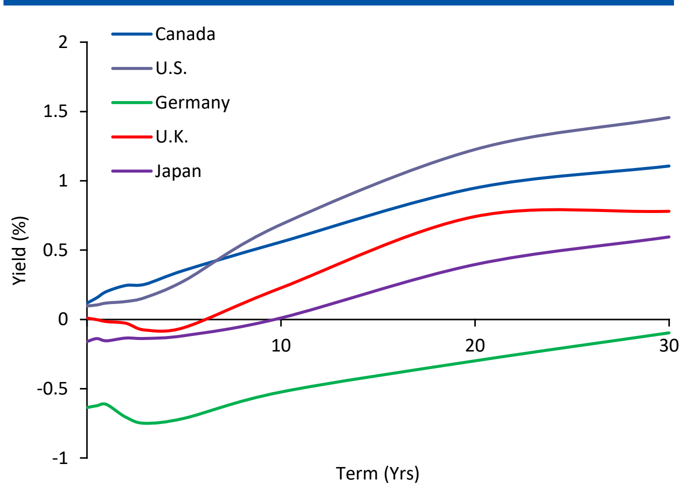
Market Statistics

	Sep/20	Jun/20	Mar/20	Sep/19
Yields (%)				
90 Day T-Bill	0.12	0.21	0.26	1.66
10 Yr. Canada Bond	0.56	0.53	0.70	1.36
30 Yr. Canada Bond	1.11	0.99	1.31	1.53
Rates				
C.P.I. (annual %)	0.15	0.66	0.89	1.87
US$/C$	0.75	0.74	0.71	0.76
Euro/C$	0.64	0.65	0.64	0.69
Prices (US$)				
Crude Oil (bbl.)	40	39	20	54
Natural Gas (mm)	2.53	1.75	1.64	2.33
Gold (oz.)	1,888	1,793	1,583	1,466

Market Returns

	Periods Ending Sep. 30/20			
			Annualized	
	3 Mo.	1 Yr.	5 Yrs.	10 Yrs.
S&P/TSX	4.7	0.0	7.2	5.8
S&P 500 (C$)	6.6	16.0	14.1	16.7
S&P 500 (US$)	8.9	15.1	14.1	13.7
MSCI EAFE Net (C$)	2.6	1.2	5.2	7.4
MSCI EAFE Net (US$)	4.8	0.5	5.3	4.6
MSCI World Net (C$)	5.6	11.2	10.4	12.2
MSCI World Net (US$)	7.9	10.4	10.5	9.4
Bond Universe	0.4	7.1	4.3	4.4
91 Day T-Bills	0.1	1.3	1.0	1.0

Yield Curves



The Economy

The global economies continue to improve from the devastation experienced in the second quarter when many parts of the world simply shut down in order to avoid the spread of the Coronavirus. The top chart on the following page illustrates that the Global Purchasing Managers' Index (a leading economic indicator) now exceeds 50 – suggesting more growth to come. Extraordinary levels of government spending by developed nations has helped fuel growth while the world attempts to manage the spread of the virus and progress toward a vaccine. Widespread deficits and government debt have reached levels not seen since World War II.

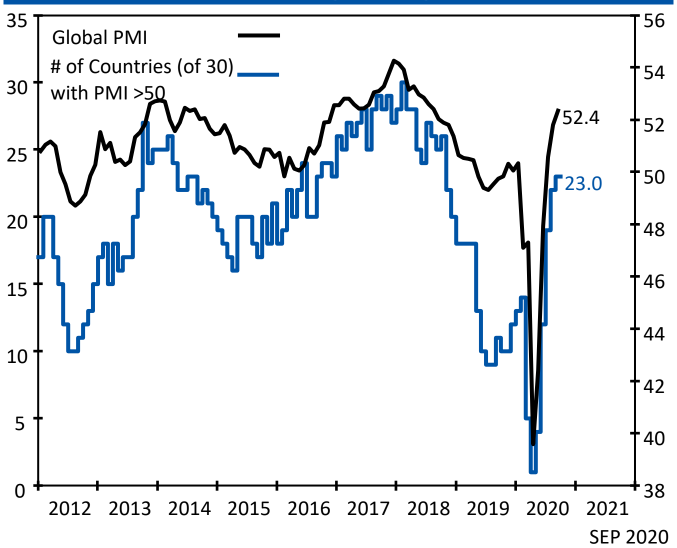
	Gross Debt as a % of GDP		Fiscal Balance as a % of GDP	
	2019	2020	2019	2020
World	82.8	101.5	-3.9	-13.9
U.S.	108.7	141.4	-6.3	-23.8
Euro Area	84.1	105.1	-0.6	-11.7
Germany	59.8	77.2	1.5	-10.7
France	98.1	125.7	-3.0	-13.6
Italy	134.8	166.1	-1.6	-12.7
Spain	95.5	123.8	-2.8	-13.9
Japan	238.0	268.0	-3.3	-14.7
U.K.	85.4	101.6	-2.1	-12.7
Canada	88.6	109.3	-0.3	-12.6

Since the great recession of 2008, central banks globally have implemented expansionary policies to help fuel growth and prevent deflation. The pandemic spurred central banks to lower interest rates even further and increase money supply (print money) in an unprecedented manner (see second chart on page 2). As well, they have accelerated and expanded their purchase of long-term securities (quantitative easing) to include government bonds. Essentially, monetary authorities are purchasing their own government's bonds to help finance deficits. This can only result in currency devaluation and inflation. With governments globally taking this approach during the pandemic, changes in relative currency values may not surface immediately.

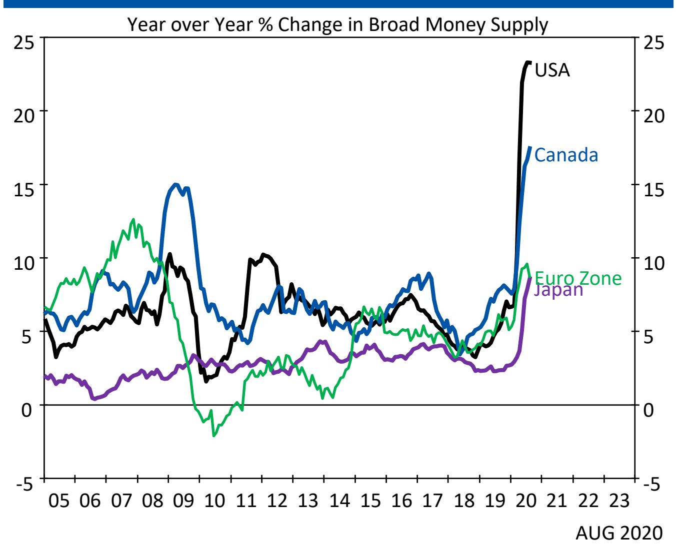
A "second wave" of the virus now appears on our doorstep. Depending on how it is managed, we may experience additional economic setbacks which will most likely result in the continuation of aggressive expansionary fiscal and monetary actions. As we work our way through the pandemic, we would expect investors to eventually focus on countries that are best able to manage their finances. Getting out of debt is typically easier for countries that can generate higher economic growth rates, are less exposed to embedded spending programs and are not dependent on global lenders, i.e. their economies are more self-sufficient.

Sources: TD Securities Inc., Bloomberg, International Monetary Fund World Economic Outlook June 2020

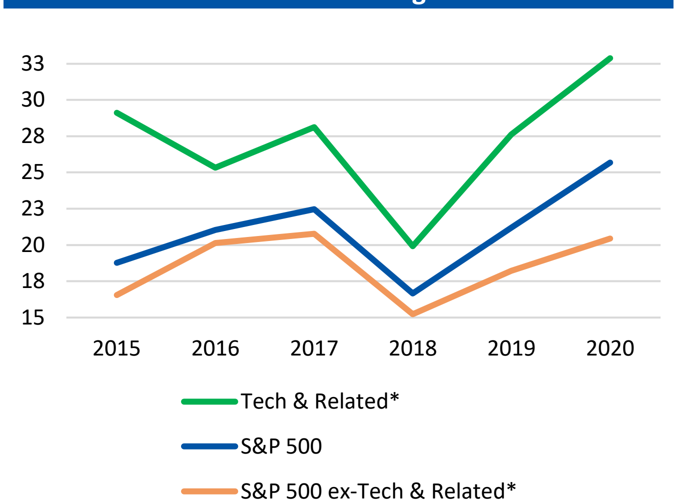
Global Purchasing Managers' Index



Money Supply Growth



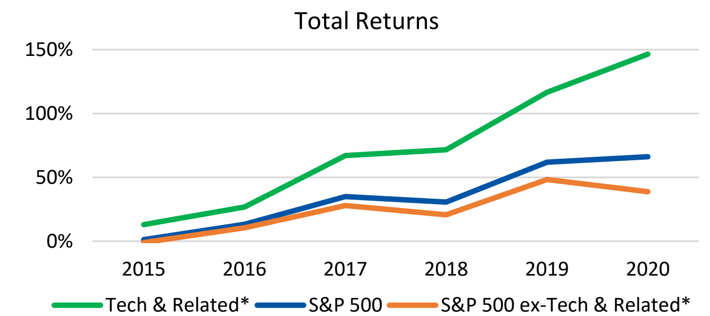
Forward Price-Earnings Ratios



*Tech & Related consists of the technology subsector plus Amazon, Facebook, Google and Netflix.

The Markets

Equity markets had a good third quarter in an environment of improving economies and low interest rates. The S&P/TSX gained 4.7% while the World markets returned 5.6%. Bond returns were rather pedestrian as interest rates remained low and well below the one percent level. The bond universe index returned 0.4% during the quarter. The rebound in stock prices has not been commensurate with the declines experienced when the coronavirus first hit. While all stocks declined, the recovery has, as would be expected, centered on companies that can generate increases in earnings despite the pandemic. Technology and technology-related companies have by far been the strongest performers as their products and services are now in even greater demand. **Prior to Covid, technology and technology-related companies comprised 28% of the S&P 500. Today they make up 39% of the index.** It can no longer be said that the S&P 500 is a diversified index.



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Besides the performance of technology stocks during the pandemic, what is also striking is that the rest of the market has, in fact, declined slightly since 2019, i.e. the start of Covid 19. While technology stocks have indeed benefited from the pandemic, share prices have increased faster than earnings and for many, share price valuations are now clearly stretched. There are, however, a number of other industries that have also experienced improved earnings during the pandemic including pharmaceutical, communication and consumer products. Valuations for companies in these sectors are currently much more reasonable as the chart on the left indicates.

Central bankers have re-enforced that low interest rates will remain in place for a number of years, supporting stock market valuations and making bonds unappealing. However, even low interest rates cannot protect from the share price correction that could occur if earnings do not reach expectations. Inevitably, the higher the stock valuation the more severe any potential decline. A diversified portfolio, holding shares of multinational companies and not overladen in any one sector, is most prudent as it remains unclear how long we will be feeling the effects of the pandemic. Strong cash flow companies that provide dividends are preferred as they can also provide steady income levels that exceed those available in bonds.

Sources: TD Securities Inc., Bloomberg, International Monetary Fund World Economic Outlook June 2020