



JULY 2020 MARKET UPDATE

As always, we trust that you remain healthy and are able to adjust and adapt to current necessities of life in society.

We have come to the half-way point of 2020 and four months since life as we knew it changed dramatically. The investment year started with optimism that looked to extend a solid economic cycle and one of the longest - running bull markets. This came to an abrupt and nasty end in late February with the global health pandemic. An economic contraction and market sell-off quickly followed in a matter of weeks. The severity of this weakness was the sharpest in the past 80 years. The fastest trip ever onto bear market territory. The end of March saw the rally and stock market recovery start anew.

The ensuing questions become commonplace. How can the stock market be advancing while the world continues to deal with the pandemic and severe recession? The economies of most countries have started re-opening from state-mandated shutdown. Still, as we begin to come out from underneath the fog, unemployment remains at shockingly high levels and many parts of the economy remain closed. Those employed in some of the more impacted industries - travel, tourism, restaurants, hospitality, retail - continue to face an uncertain future. One estimate in the U.S. has approximately 2.8 million American permanently unemployed as a result of the pandemic. These jobs not expected to return in any recovery. This number will probably increase as we start to see businesses filing for bankruptcy or creditor protection in the months ahead.

The markets, however, have bounced back under the assumption that the worst is behind us. Even any pauses to business re-openings and the risk of a second wave in the future is thought to be less severe than in February/ March. Positive news on vaccine trial development, virus treatments together with a belief that we are better prepared for dealing with any future health crisis, has provided some comfort for the future.

Markets are also optimistic with the monetary and fiscal actions taken by central banks and governments. The belief that whatever needs to be done by central bankers and politicians will be done. Everyone is convinced that interest rates will remain lower for longer. There are indications that there will be no interest rate increases through at least the end of 2021. Overall, investors appear to be glad to look past this pandemic at better times ahead.

This market recovery from the March lows has probably overshot to the upside. Company valuations and market valuations do not appear to be relevant today. The fear of missing out (FOMO) has brought about some panic buying and a bit of a melt-up. The U.S. market recovery has been very selective. The concentration of price gains has focused on a handful of large technology companies. The average, diversified, U.S. investor has not seen the same strength recently. The same is true for the Canadian markets. A few select names has contributed to much of the market gains.

The second half of 2020 is bound to be a continuation of this rocky ride. Promising medical news may result in upswings while an acceptance of long-term damage to small businesses, unemployment and the finances of our cities and local governments will bring corrections.

No one knows what is going to happen medically or economically in the weeks and months ahead. There are no experts to provide guidance on all the issues we are dealing with. Economists and businesspeople can address the speed of re-opening and any economic damage, and our wonderful health officials can address the medical and public health aspects of the coronavirus, but there are no experts who can address all areas of concern. It becomes a matter of judgement, not expertise.

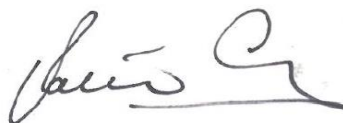
As we head into the summer months and the second half of the year, we will make decisions regarding our future without knowing what the future brings. To quote Howard Marks of Oaktree Capital in a 2001 memo titled - You can't Predict. You can Prepare - "we may not be able to predict the future, but that doesn't mean we're powerless to deal with it". Get outside and enjoy the summer! Valerie and I continue to focus on helping you achieve your personal and financial goals as well as your objectives. We are always here to work with you.

As always, remain optimistic, yet cautious.

Best regards,
CIBC Wood Gundy



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