CIBC World Markets Inc.
333 Bay Street. 28th Floor.
Toronto, ON M5H 2R2

Tel: 416-594-7971
Fax: 416-594-7951
Toll Free: 1-800-263-3803

October 2020 Update – The new COVID Reality

This summer certainly provided a wonderful respite from the tensions of the Spring. The weather was fantastic, businesses were able to open, global economies and markets recovered faster than expected and our portfolios recouped the losses suffered in March.

As we enter the fall, we are confronted with a second wave of COVID cases and the potential economic impact. So far, we have seen a rise in cases, but have not seen a corresponding rise in hospitalizations and deaths. While hopes for a vaccine remain high, clearly, we shall be living with COVID for the remainder of the fall and winter and will need to adapt our lifestyles and our economic reality.

COVID Calculus

As the second wave begins to accelerate in Europe, the U.S. and Canada we see a change in approach by Governments when crafting response. The lessons learned from the first shut down would suggest that governments need to be more targeted with both their public health response to outbreaks and their income support to those affected. Instead of using a hammer they need to use a scalpel.

Unfortunately, industries like travel, restaurants, gyms, bars and other businesses that need close personal contact to operate are going to suffer. Certainly, the Canadian government has attempted to provide additional support to these businesses, but in a more targeted approach. In the U.S. additional financial support has proved to be a political football prior to the election so we are beginning to see worry grow about people being left out in the cold.

We are also seeing signs of COVID fatigue. This is especially true for young people who often do not feel the effects of COVID. Governments will have to balance restrictions on activity with a growing unwillingness to comply. We do not envy policy makers in this situation.

Which brings us to the next topic of discussion, COVID stimulus. Gauging the long- term economic impact of COVID has been difficult because of the tremendous fiscal and monetary stimulus that has been undergone over the last six months.

COVID Stimulus

It is our expectation that fiscal stimulus will continue. The need is very high and the cost to borrow money for governments remains almost free when you factor in the future inflation expectations.

The impact of the first round of fiscal stimulus was profound. *In the U.S. as many as 75% of people receiving the $973/week in unemployment was earning more than when they were working. The saving rate in the U.S. went form around 6% to 33% overnight as the combination of the $1200 cheques (up to $3,400 per family) went out combined with enhanced unemployment*. For a combination of reasons (cash in the bank, no travel) we saw sales of recreational vehicles, used cars/trucks, electronics, home improvement and other discretionary purchases explode. We are not sure this spending is sustainable.

So far, consumers have been happy to spend. It remains to be seen if they will continue to be so carefree when faced with more business closures. In the spring, we feel that many people felt that the pandemic would be temporary, and life would soon return to normal. Now many people are reassessing the future and are likely making adjustments to their lifestyle that better reflects the potential for job loss or loss of income.

Clearly, the original fiscal stimulus was necessary. That being said, government deficits have exploded with Canada and the U.S. running at a rate of 15% - 20% of GDP. This is clearly unsustainable for long. The next wave of stimulus will and should be more targeted and less generous. We are also beginning to see a move away from temporary lay offs to more permanent job loss which creates a very different dynamic.

At some point the fiscal stimulus will have to start moving away from income support and into investment, especially in infrastructure. The Canadian government has already indicated that they are looking at high speed internet, climate change, and agriculture as and area to invest for the future.

We continue to monitor consumer sentiment, business confidence, and bankruptcies as these are indicators of financial stress.

The Other Costs of COVID.

While we tend to focus on the economic cost of COVID there are other costs that are beginning to come to light. Humans are social animals and COVID has really put a kink in our social patterns. It is becoming clear that there has been a significant mental health cost to the lockdown and ongoing social distancing protocols. We are noticing it with the calls we receive, and we see it with recent research.

So, reach out to someone you know that may be in an isolated situation, or someone that has been stuck at home with kids and work and maybe share a coffee over Zoom. We are also available for virtual conference calls, for anyone wishing to do so.

The U.S.

Wow, even in a few months things change so much. As our neighbour, the biggest economy in the world, the biggest stock market in the work, the only remaining superpower, and our biggest trading partner it is impossible to ignore what is going on down there.

The Outcome of the Election

While most Canadians focus on the political theatre that is masquerading as a Presidential race, we should also consider that are a number of other important contests in this election. The other important race will be for control of the Senate. As we have seen in the past, control of the Executive branch doesn't mean that much without control of both houses.

And now we have a generational shift happening with the U.S. Supreme Court. A conservative 6-3 majority could have a profound impact on government programs and society for many years.
From an investment perspective, this is one of the most closely followed events in history and most professional investors have taken precautions going into the election. Portfolio protection premiums around November are very expensive so we choose to focus on quality stocks and having a diversified portfolio.

It should be noted that the U.S. stock market has reacted more to the discussions around fiscal stimulus and the Federal Reserve programs than the Presidential election. This was even true when Donald Trump was first diagnosed with COVID!

Like Y2K and getting a flu shot, sometimes the anticipation is worse than the event.

Back to your Portfolio

While September was a tough month for some of our tech leaders, the third quarter was good for our portfolios as we got back to even for the year.

Our strongest performers have been U.S. equity, while our Canadian equity allocation improved it is still behind for the year. Our financials exposure in Canada has been especially tough as many of banks and insurance companies have registered high single digit to low double-digit negative returns.

Our preferred shares had a good quarter as bank preferred shares rallied on the likelihood of less supply going forward.

As it stands right now we have a small allocation to cash, lots of liquidity, and are close to fully weighted in our Global allocation. Earnings season is upon us so we will likely adjust our positions throughout October and early November.
Stocks are richly valued, but bonds do not offer a real yield (yield less inflation) so are richly valued as well. There is surplus capital in the world looking for a home so, for now, equities are the best choice. Growth has outperformed Value by a historic margin and will likely continue until rates begin to rise and there is clear evidence that the global economy is back on a solid growth path.

We will carefully watch the election and the progress of the second wave of COVID, future fiscal stimulus, and most importantly the potential for a vaccine. We are also keeping an eye on the financial health of small businesses and the solvency of Canadian consumers to see if there will be additional stress on the Canadian economy.

Kind regards,
CIBC Wood Gundy,

Lisa Applegath
Investment Advisor, Portfolio Manager

Tom Trimble
Portfolio Manager

N.B. We wanted to remind you of our direct phone numbers (below) and to ask for your continued patience when trying to reach us. Whenever possible, email continues to be our preferred and best way of communication.

Lisa Applegath
(416) 594-7948
Lisa.applegath@cibc.ca

Susy Fossati
(416) 594-7370
Susy.fossati@cibc.ca

Tom Trimble
(416) 594-7952
Tom.trimble@cibc.ca

Jennifer Qiu
(416) 594-7971
Jennifer.qiu@cibc.ca

Matt Hennebury
(416) 594-7170
Matt.hennebury@cibc.ca

Mara Draper
(416) 304-2253
Mara.draper@cibc.ca