



June 30, 2020 Q2 - 2020 - What a year

Well it's been an extremely wild year so far. I write yet another quarterly letter from the confines of my home. I spend quite a bit of time wondering what tomorrow and next week will look like. Today I found myself daydreaming about whether life will ever return to the level it was at before. As always, I had a consistent routine at night...check the futures, review currency positions, bonds and crypto currencies and go to bed. However, now I wake up in the morning, again usually around 5:30am to see if anything material happened. Scan the morning global research around Covid-19 and the many other material macro issues outstanding and there are a lot.

I read a very interesting quote recently that said something like..." it's not a matter of reading the material, it's the matter of interpreting it appropriately that makes the difference between success and failure".

While my views aren't always accurate they have been much more right this year than wrong. I continue to share as much and as often as I can as I work to refine my process for a better outcome for all.

Here are the things I will cover today

1. The world economy
2. Global stock markets
3. Global central banks
4. Global bond markets
5. Portfolio construction
6. Look ahead

The World Economy

Based on many factors, I believe we are near the end of the "hope phase" part of this cycle. The markets have recovered but the economy has not. We are facing one of the most unheard of disconnects between economic activity and fundamentals. The US job picture is the worst since the great financial crisis of 2008.

This graph shows permanent job losses continues to rise as quickly as we have ever seen.

The broader context here, however, is this: even with the last two months of reported payroll gains, only one-third of jobs lost have been recovered. Meanwhile, the share of those reporting permanent job losses (588k M/M) are now rising at a pace consistent with the fastest pace seen during the GFC.

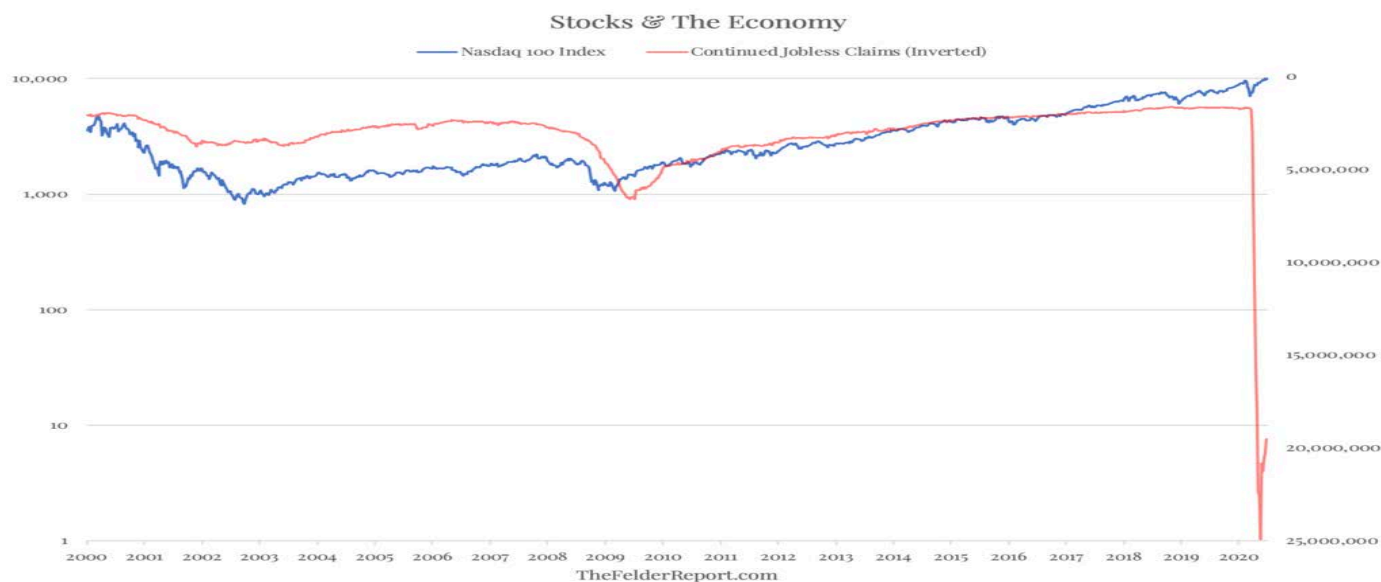
	Initial Claims				Continued Claims				LIR		Covered Employment
	N.S.A	S.F.	S.A.	S.A. 4-Week	N.S.A	S.F.	S.A.	S.A. 4-Week	N.S.A	S.A.	
115 2/22/2020	199,278	90.5	220,000	220,000	2,105,457	122.4	1,720,000	1,705,000	1.4	1.2	145,230,691
116 3/29/2020	216,982	99.8	217,000	214,000	2,057,280	121.1	1,699,000	1,710,250	1.4	1.2	145,230,691
117 4/7/2020	200,382	95	211,000	215,750	1,977,272	116.2	1,702,000	1,701,500	1.4	1.2	145,230,691
118 4/14/2020	251,416	89.3	282,000	232,500	2,074,782	116.3	1,784,000	1,728,250	1.4	1.2	145,230,691
119 4/21/2020	2,920,162	88.3	3,307,000	1,004,250	3,436,645	111.7	3,059,000	2,061,000	2.4	2.1	145,230,691
120 4/28/2020	6,015,821	87.6	6,867,000	2,466,750	8,168,375	109.7	7,446,000	3,497,750	5.6	5.1	145,230,691
121 4/4/2020	6,211,406	93.9	6,615,000	4,267,750	12,461,658	104.6	11,914,000	6,050,750	8.6	8.2	145,671,710
122 4/11/2020	4,965,046	94.8	5,237,000	5,506,500	16,277,322	102.9	13,819,000	9,559,500	11.2	10.9	145,671,710
123 4/18/2020	4,281,646	96.4	4,442,000	5,790,250	17,794,965	98.8	18,011,000	13,297,500	12.2	12.4	145,671,710
124 4/25/2020	3,515,439	90.9	3,867,000	5,040,250	21,772,595	97.3	22,377,000	17,030,250	14.9	15.4	145,671,710
125 5/2/2020	2,835,561	89.9	3,176,000	4,180,500	20,879,704	92.6	22,548,000	19,688,750	14.3	15.5	145,671,710
126 5/9/2020	2,356,626	87.7	2,687,000	3,543,000	22,794,143	91.5	24,912,000	21,962,000	15.6	17.1	145,671,710
127 5/16/2020	2,181,640	89.2	2,446,000	3,044,000	18,861,428	90.5	20,643,000	22,669,500	12.9	14.3	145,671,710
128 5/23/2020	1,915,138	90.2	2,123,000	2,608,000	19,008,624	89.8	21,268,000	22,392,250	13.1	14.6	145,671,710
129 5/30/2020	1,620,008	85.4	1,897,000	2,288,250	18,638,166	90.4	20,606,000	21,906,750	12.8	14.1	145,671,710
130 6/6/2020		99.7				90.8	20,289,000				
131 6/13/2020		95				91.8	19,522,000			13.4	
132 6/20/2020		96.5				92.9					
133 6/27/2020		101.3				93					
134 7/4/2020		106.5				100.1					

Source: Hedgeye.com



The European economy continues to sputter, and European banks have been forced to stop paying any dividends to ensure they can withstand the current part of this economic weakness.

Canada's unemployment rate continues to be in the low teens...a number we haven't seen in many, many years. This chart shows jobless numbers versus the Nasdaq stock market...



Source: thefelderreport.com

Global stock markets

Stock markets, particularly the US stock market indices, have recovered from the March 23rd lows. However, the only broad-based market in the world that is positive year to date would be the Nasdaq. This current market environment is a lot like many different periods in history. You can draw similarities with 1929, 1972, 1987, 2001, 2007, 2015... all wrapped into one.

The TSX is down roughly 10% year to date given their heavy weighting in Canadian banks (-20% from their highs) which have had a very challenging year. As I positioned client portfolios with very little exposure to this sector and it has helped fair them well.

Market YTD returns:

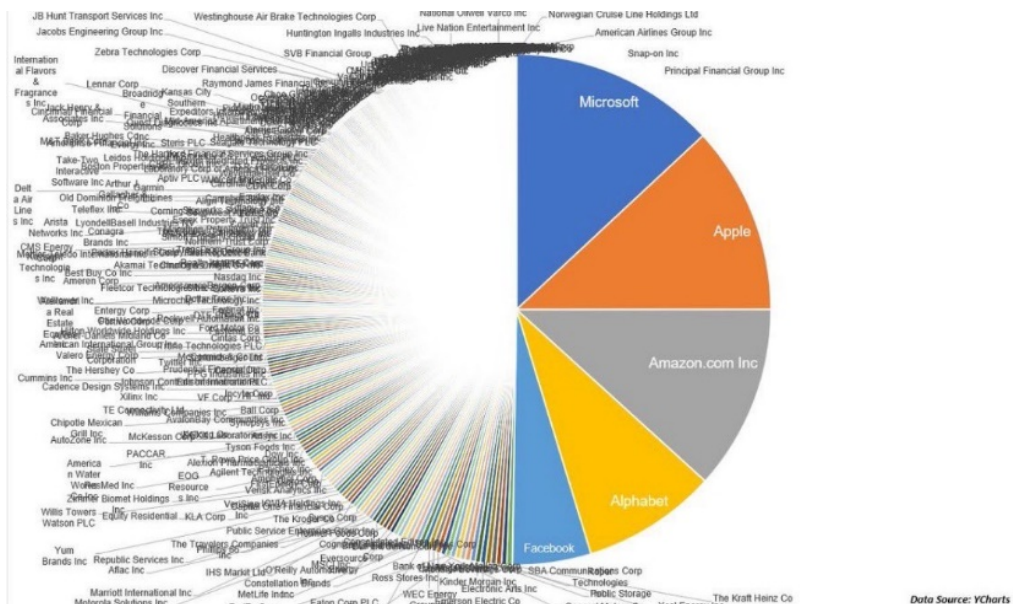
S&P500 -5%

DOW -10%

Russell (US small mid-caps) -18%

MSCI EAFE (Europe Asia and the Far East) -11%

I have posted this chart below in the past. However, this market is extremely narrow where very few companies are driving index returns. This historically has been a warning sign that we are reaching extreme levels. We have seen this movie before in Canada with Nortel and JDS and many other world indices in the past. When a small amount of companies are driving returns, it tends to lead to a fragile market, and we are close to the end of this cycle and tech leadership.



Source: Ycharts

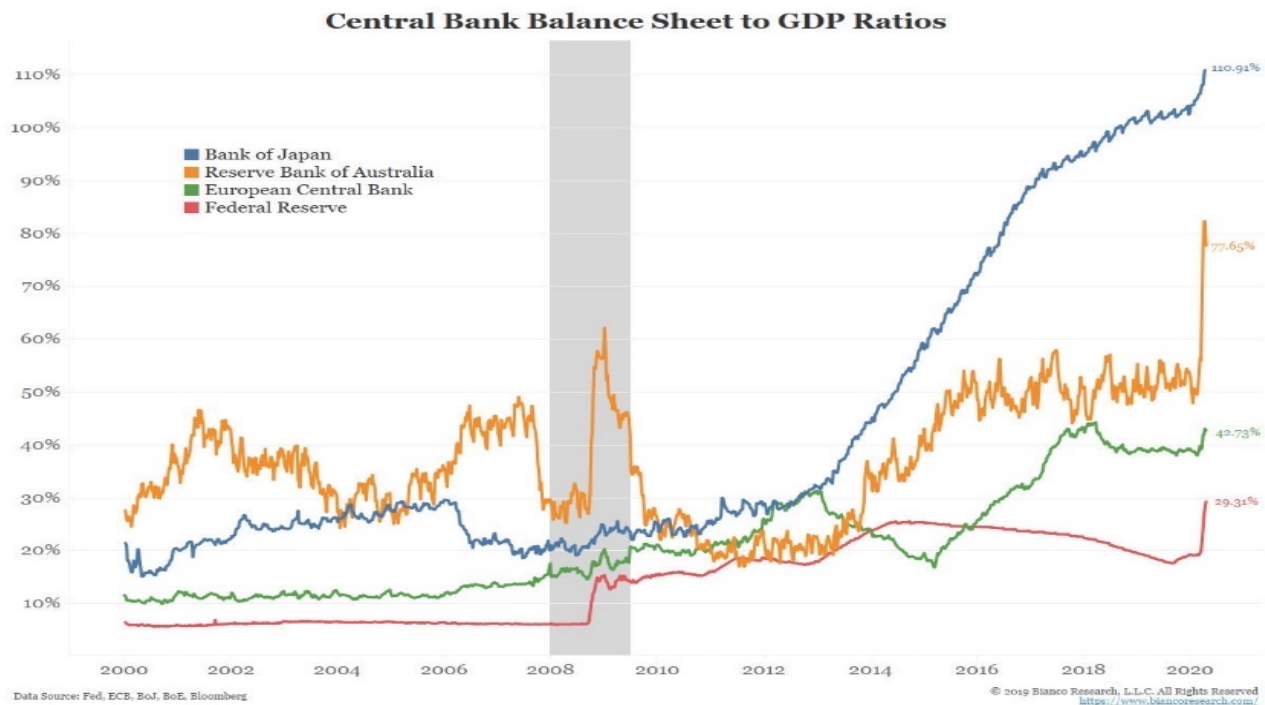
Global Central Banks

Why do global central banks matter? They matter in many, many ways. The first way is more debt does not allow you to grow faster...even if that debt service payment is small. It has major implications on what each currency is worth and very important long-term impacts in our world.

The whole financial system is built off positive interest rates. Because central banks have intervened, the whole pension system is essentially bankrupt globally. The underfunded nature of the pension crisis is North of \$20 trillion. This does not get a lot of attention but one of the many things to think about long term.

The market is less free than it has ever been and therefore, gaming or preparing for the inevitable, is important to think about as we go forward. When bouts of weakness appear...more intervention... resulting in lower interest rates and central banks buying more bond and stocks...ultimately, we are forced to look for alternative investments that provide similar risk/reward that bonds used to offer.

We saw that the credit market (bonds) froze again in March/April. Central banks bought Treasuries first as it froze first, then moved on to corporate bond ETFs, then junk bond ETFs and then corporate bonds directly. There is no doubt they will buy individual stocks in the future but where and how is something to think about as this crisis persists.



Source: Bianco Research

Global Bond Markets

The global bond market continues to head towards zero and negative in almost every country in the world. The central banks are making a concerted effort to get to zero and stay there in hopes of people taking on more risk. Presently, the US continues to still have some of the highest yielding debt in the world. At the same time though it maintains the safe haven asset status as the world reserve currency. While there are enormous challenges ahead in every asset class, bonds will be the most interesting.

Forward looking

I have been reading and learning about blockchain and crypto currencies for the past 2 years. It has been a fascinating journey and one that has been sped up as a result of the central planner's insane money printing and Covid-19. When I do bring this up, I tend to get a very confused look and it is a very confusing area within technology. However, from a simplistic perspective blockchain is a very safe and secure way to store or share information with less risk of hack of middlemen. Some of the major commodities companies have started to process transaction via secure blockchain. This will revolutionize the way business is transacted in the future. It will put serious pressure on the illegal skimming that happens in places like the major ports of the world and banks and anyone else that presently sits between a buyer and a seller and gets paid to do this.

Cryptocurrencies

Most recently, Paul T. Jones wrote about this in his May Market Outlook. For those who don't know, Paul has been an extremely successful hedge fund manager over many decades. He is presently comparing Bitcoin (which makes up roughly 70% of the crypto world) as very similar to what Gold was in 1976 when he was managing money. I have heard other famous investors talk with a similar bent which has kept major buyers absent. As he points out the major reason for institutions and hedge funds being absent is liquidity and price discovery with liquidity being the major reason. Hedge funds are typically levered 30 to 1 and need to have the ability to unwind very quickly if need be. Presently, bitcoin has a \$120 billion market cap which is very small relative to \$10 trillion in gold and \$300 trillion in financial assets worldwide. This offers one of the best asymmetric risk reward set ups I have ever seen in my career.



Asset Allocation and the look ahead

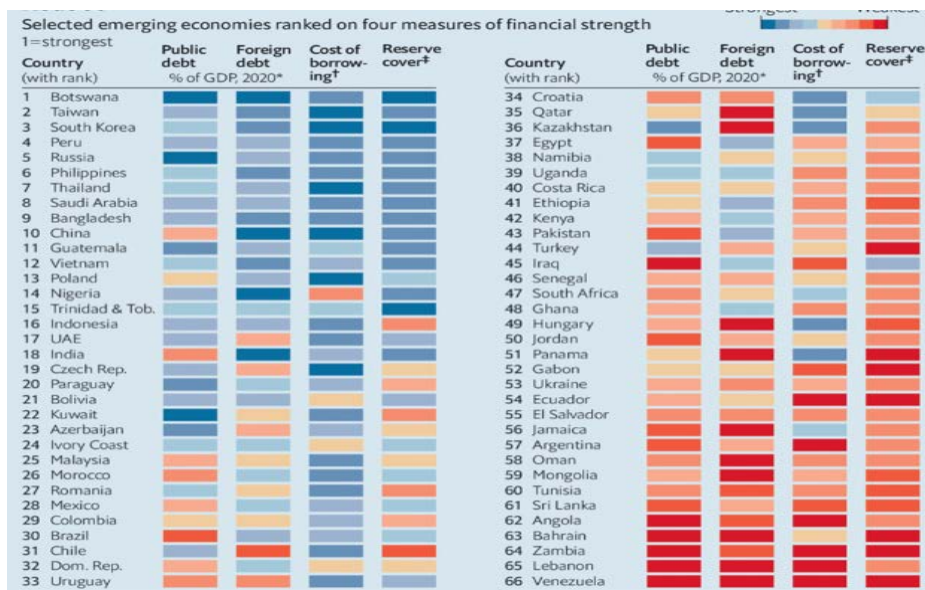
The three best performing assets year to date are GD_X, TLT and Bitcoin and I have positioned clients' portfolios to have exposure to them.

GD_X (gold companies) +28%, TLT (long bonds) +25% and Bitcoin +25%

I continue to position portfolios for what I believe lies ahead. Largest positions would be in USD, Government bonds. However, I believe the following positions offer the most opportunity; gold and gold miners.

Over the longer-term, Emerging Markets and cryptocurrencies have the best risk reward potential available to individuals.

As I think about where and how the world grows there are important countries to look at and see who will be the strongest. While the United States have been the stock and world economic superpower for the last decade, the likelihood of this continuing is growing smaller each day, while they lead the world today, I don't believe they will in the near future.



Source:the economist

As always, I continue to work towards ensuring your portfolios are positioned for what lies ahead. The reason being is that I want to be able to ensure you can meet your goals which we have set out for you.

As a result, I pride myself on trying to manage the risk and if I can continue to be able to do this the returns will continue to come as they have. So, your portfolios are built for growth but prepared for risk.

Should you like a video call or phone call to review any of your individual portfolios or answer any of your questions please let me know.

Thank you for your trust and have a great rest of the summer.

Ben

Sincerely,

Ben Hart, CIM, FMA
Vice President,
Portfolio Manager



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