NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

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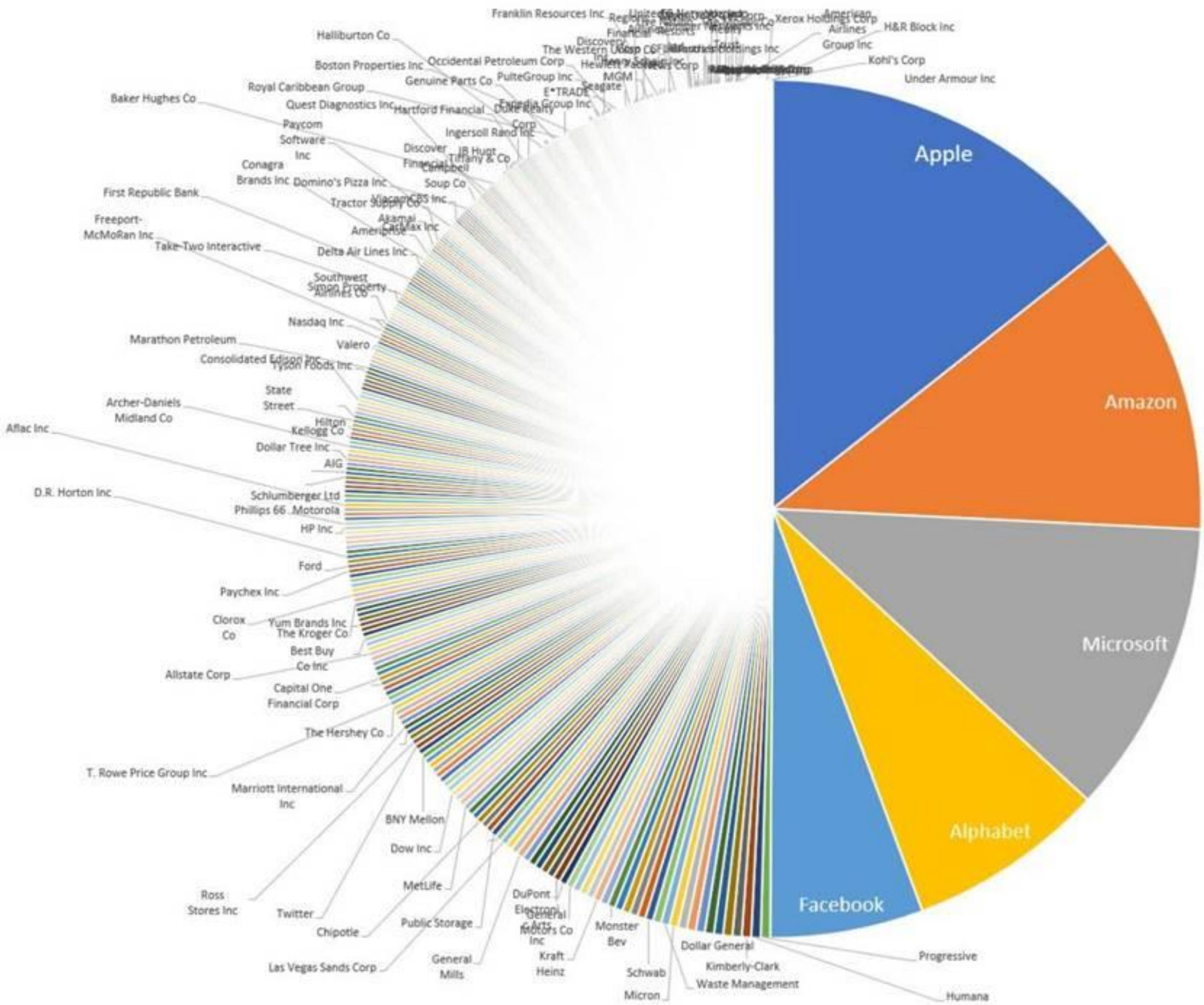
Market Update September 1, 2020

"A good graphic showcasing the current composition of the S&P 500. The five largest companies now have the same market cap as the smallest 389 companies in the Index. Apple alone is as big as the smallest 201 companies in the S&P 500."



This chart tells you three things. One is that if you don't own any technology, you have potentially lagged the market in terms of performance lately. Second, technology as a sector, tends to historically *peak* late in the economic cycle, so I am inclined to start selectively trimming some profit. Three, this chart may help explain that question, "Why is it that the stock market appears to be doing well despite weakness in many parts of the economy?"

Index	**% gain/loss from February 20 peak prior to Covid market correction**
Nasdaq (U.S. dominantly Tech)	**+21%**
S&P500 (U.S. Broad market)	+ 4%
TSX (Cdn Broad market)	- <8%>

Canadian Banks / Utilities…

Canadian banks retreated as the central bank dropped interest rates to near zero in response to the pandemic. Over the last two quarters banks have been adding significant reserves for potential loan loss provisions. While the government created mechanisms for the banks to offer loan deferrals, that will be unwound in a staged manner over time. Further, CERB stimulus will eventually come to an end as well and banks will be faced with reality as to what extent the loan loss provisions are necessary – or not.

While the Canadian government (as with many) has been printing money in an unprecedented fashion, not seen since WWII, I believe this may ultimately lead to a rise in longer-term bond yields which would be beneficial to the banks who make profits in part, on the spreads between what they pay for deposits and receive from making loans.

Despite price weakness, the banks have been moving up since June.

Utilities as a sector, demonstrated the opposite price movement in response to interest rate cuts, rallying much higher over the summer. This is because they typically offer dividends that are derived from regulated businesses that in time, can raise their prices.

Beware of the Ides… *of Fall?*

While portfolios have generally been snapping back smartly, we are entering September and October, which historically, but not always, have been the two worst months in the calendar for stock market performance. I tend to like having a bit of cash going into the fall for this reason and this year, this period will lead right to what may be a very chaotic election in the U.S. November 3rd.

History of Pandemics….

Back near the beginning of the year, I sent out a piece by Visual Capitalist which illustrates the history of pandemics. I don't know why, but throughout history they seem to come and go most often within two years or so. I thought I would remind you of that piece, just in case you were starting wonder if this would ever end 😊 You can view it here: https://www.visualcapitalist.com/history-of-pandemics-deadliest/

Meantime, we adapt. I do hope you were able to enjoy the summer weather despite the restrictions in place around travel and socializing. This too, will pass.

Happy Autumn and the coming colours!

Best,

National Bank Financial

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Source: Michaelbatnick/ NBF Financial Markets, Reuters, Visual Capitalist