NATIONAL BANK FINANCIAL WEALTH MANAGEMENT

R HUNTER WEALTH MANAGEMENT GROUP

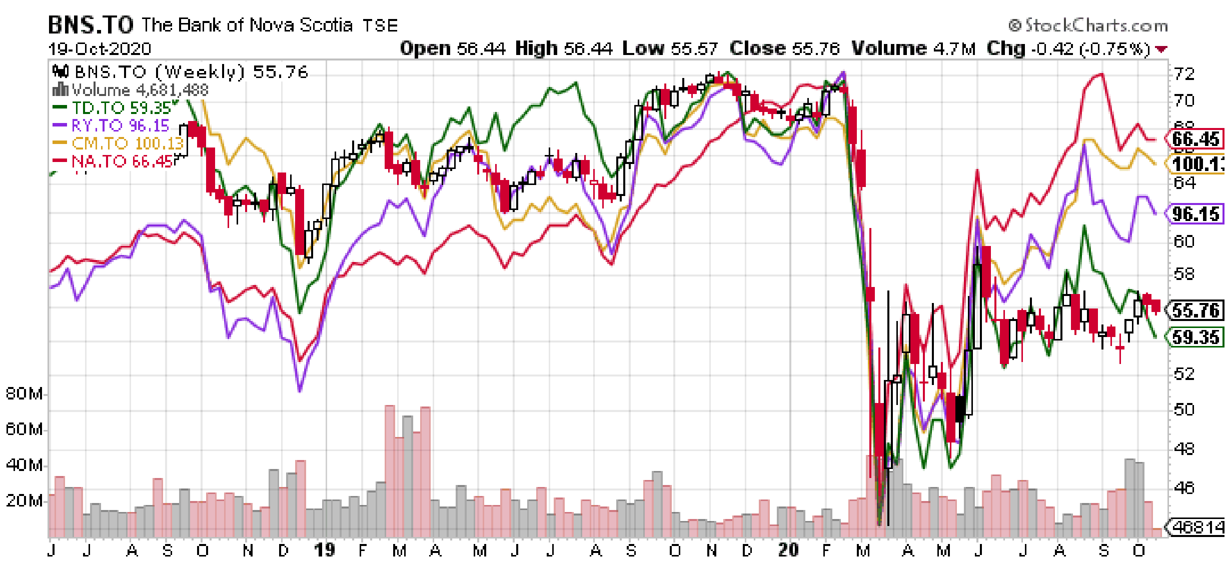
Market Update… **October 19, 2020**

	Markets since Feb 20th peak (prior to Covid correction)	Markets year-to-date
Nasdaq (U.S. Tech)	**+17.7%**	**+27.2%**
S&P 500 (U.S. Broad Mkt)	**+ 1.6%**	**+ 5.9%**
TSX (CDN Broad Mkt)	**< 9.3%>**	**< 4.6%>**

Recovery from the most recent correction is behind us in the U.S. market but not quite yet in Canada…

- The American market (more diverse, global) has outperformed the Canadian
- The Technology sector has been most responsible for performance this year. (See my Market Update of Sept 1st at RHunterWealth.ca)
- Canada (largely commodities) has been a great market for income but not so much for portfolio growth.
- The U.S. market currently looks fully valued and many of the technology stocks that have outperformed can in part be attributed to the pandemic i.e. Amazon

Canadian Banks.



The banks tend to trade together and have a long history where the weakest bank, tends to catch up. In the chart above I excluded BMO only to not crowd the chart. It would reside in the middle of the group right now.

- National Bank is the top performing at the moment.
- TD and BNS the weakest at the moment.
- TD currently pays 5.3% and BNS currently pays 6.5% dividend yield (excluding dividend tax credit if applicable)

During the last few quarters, the banks have put aside about $23 billion collectively for loan loss provisions and I expect they may do so again with a rising Covid case count, as they report their Q4 in coming weeks. I doubt we will see the usual dividend increases or share buy-backs with the quarter.

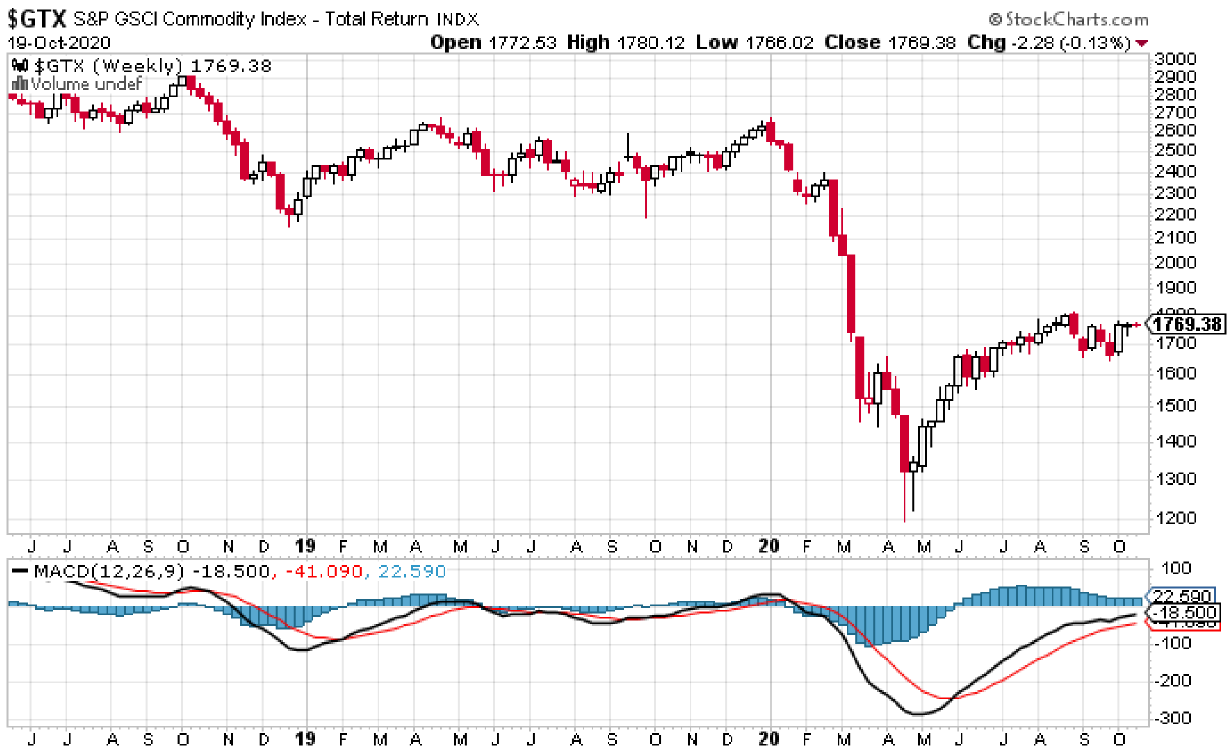
That said, **I envision one of two scenarios for our banks.**

One is where post-government stimulus, lots of people go bankrupt and those loan loss provisions are required. The National (CBC) reported tonight that 1 in 5 Alberta mortgages are deferred (worst in Canada).

Another is that a by-product of this pandemic is that Canadians are saving more. Prior to the pandemic Canadians saved just 2-3% of disposable income. In Q2, that jumped to +28.2% says Stats Canada. Nearly everyone I survey locally, tells me that their credit card balances have dropped precipitously since the pandemic as they are not going out or travelling etc. So, given the obvious devastation to parts of the economy (Energy, Tourism/Travel, Services) other sectors may be doing okay. I have had several clients that own their own businesses tell me that this is one of their best years ever. Post-government stimulus might see those massive loan loss provisions being reallocated back to bank earnings next year and that could result in a significant uptick in bank earnings.

As a relative risk, I view the banks as the best value and defensive story in the market right now. Remember that 5 and 10 year bonds are paying less then half of one percent.

Energy.



The commodity index has stalled and appears to be rolling over. NBF believes oil and gas prices will be weak for the foreseeable future, well into next year augmented by the pandemic.

Here is the thing. While renewable energy is 'flavour of the year', I think we need to recognize that the transition from oil to windmills will take at least a decade – not months. I believe that eventually, the transition fuel will be natural gas and even locally, I am noticing buses with large signs on the back declaring, 'Now powered by CNG' or on BC Ferries where the Spirit ships have 'Now powered by Natural Gas' scrawled along the side of them. I also don't believe that our governments can sustain financially, a total elimination of fossil fuels and Natural Gas may be deemed *the cleaner energy solution* as a result – which we have a lot of in both Alberta and B.C.

Meantime, I think it will be a while and I have actively sought to eliminate energy producers from portfolios as we approach year end as tax loss sales – or not.

What about energy infrastructure like the pipelines?

If you believe that we will continue to transition away from oil, we will need pipelines for some time into the future. They have been sold down in the market with the energy producers which I think is a mistake. In terms of value, less may be more. Enbridge currently yields 8.45% cash yield.

I would keep select infrastructure like pipes and remove all energy producers, particularly after major BP came out with a devastating outlook for demand growth which I sent clients last month.

Cash values.

I have been letting cash build recently, primarily because September and October are historically the two worst months of the calendar year, historically – though not so much this year. Still, we have the most contentious U.S. election I can recall in a few weeks and regardless of the outcome, Mr. Trump will still occupy the White House until January 20th. I am wondering if we might see a little market volatility from that or this second wave of Covid to perhaps create a buying opportunity be it in a name, a sector or even the broad market. I have a buy list.

Economic winners from a Biden win…

- De-escalation of trade wars
- Infrastructure spending
- Emphasis on renewable energy – not oil.
- Health Care

Be safe.

Are you sick of hearing that yet? Still, with this second wave underway it is important to be careful out there. I have been working remotely for seven months now as have my staff. Our firm is using the pandemic time to renovate our offices. Eventually, we anticipate greeting you there again – hopefully soon. In the meantime, my staff and I while working remote, are very much here and only a phone call away.

Best wishes as our season changes and we welcome fall.

This information was prepared by Rob Hunter, an Investment Advisor with National Bank Financial. The particulars contained herein were obtained from sources that we believe reliable but are not guaranteed by us and may be incomplete.

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Sources: The National (CBC), Hamilton ETFS – Financial Sector Specialists, Globe & Mail, Reuters, Statistics Canada, Stockcharts.com