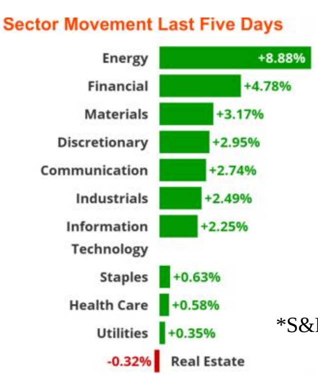
A Sigh of Relief…Uncertainty still…a Glimmer of Hope

Month Update for November 30, 2020

Lest We Forget…In Canada, November is often synonymous with the poppy—remembering the war sacrifices made for the freedom and democracy we sometimes take for granted. Although most divided, the recent US election was an example of that expression of freedom and democracy: freedom of speech, expression, peaceful assembly and the right to VOTE. The US exhaled in jubilation as it entered a new phase in its political climate—perhaps heal from the division and chaos that gripped the nation in the last four years. Although as most would believe, uniting the nation will be a tall order for President-elect Biden—given the damage done.

> "In Flanders fields the poppies blow
> Between the crosses, row on row,
> That mark our place; and in the sky
> The larks, still bravely singing, fly
> Scarce heard amid the guns below."
> John McCrae, May 3, 1915

Government gridlock is what the markets ordered as a result of the election. Markets surged to investors' hopes that the likelihood of a continuing partisan divide over control of the White House, the Senate, and the House might keep a favorable tax and regulatory environment intact—along with more palatable stimulus measures. During election week, the Dow climbed 6.9%, the S&P 500 rose 7.3%, and the Nasdaq jumped 9%, their best weekly performance since April and the TSX increased 4.3%. Meanwhile, Trump chose to litigate the election results with his unwillingness to concede—creating a level of uncertainty with the transition of power going into the Presidential inauguration on January 20, 2021.



*S&P 500 Closing market data as of Nov. 30, 2020

The announcements (Pfizer/BioNTech, Moderna, AstraZeneca) of possible Covid-19 vaccines came as encouraging news to a global market waiting for hope on the pandemic battle. The vaccine euphoria helped move the S&P 500 to new all-time highs in November as investors discount a world with a vaccine. The prospect of a recovery also initiated a cyclical rotation into sectors that had been lagging—producing a broader based rally.

Canadian equities posted strong performance in November, with the S&P/TSX Composite up 10.3%. Health Care was the top performing sector, while Materials lagged.

The S&P 500 gained 10.8%--its best performance since April. Smaller caps outperformed, with the S&P MidCap 400 and the S&P SmallCap 600 rising 14% and 18%, respectively. Volatility declined, as VIX closed the month at 20.57. International performance was also strong with the S&P Developed ex-US up 15% and S&P Europe 350 up 17%.

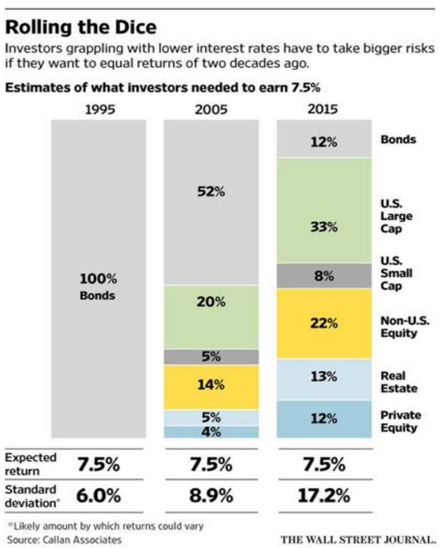
*Data as of November 30, 2020 close

Current Yields

GOVERNMENT OF CANADA			U.S. TREASURY		
3 Month Bond	5 Year Bond	10 Year Bond	3 Month T-Bill	5 Year T-Note	10 Year T-Bond
0.12% 0.0000	0.44% 0.0000	0.68% 0.0000	0.09% ▼ -0.0023	0.36% ▲ 0.0014	0.84% ▲ 0.0018

A Technical Picture: *The short-term trend for equities remains solidly positive accompanied by improvement in all aspects of our short and medium-term timing models. That, along with strong seasonal tailwinds all the way out into Q1 2021 suggests the bias for equities remains to the upside for the foreseeable future. We would allow for some consolidative action in the S&P/TSX Composite at some point soon which should serve to alleviate the overbought conditions developing in short-term momentum gauges. We expect any weakness to be shallow and short-lived. Crude oil (WTI contract) also broke out of a medium-term consolidation pattern above resistance at $43.80. That breakout signaled a resumption of the uptrend and opened a new trading target of $53.75.* Russ Visch CMT, Technical Analyst, BMO Private Wealth

Is the traditional 60/40 portfolio mix of stocks and bonds out of date in today's environment—particularly with the bond portion? Investors had always looked for the ideal portfolio that provided income, growth, an inflation hedge and downside protection. Historically, the 60/40 portfolio met those requirements; but, turbulence in the markets over the past few decades combined with the low level of interest rates and disruptions from technological innovations have put some limitations on the traditional mix. Remember, the premise had always been about managing portfolio risks—producing risk adjusted returns.



The cascading effect of interest rates (to their lowest levels in 30 years) has had a profound effect on portfolio asset mix and the challenges of maintaining return expectation requirements. Investors have to take on bigger risks to equal returns of the last two decades—increasing the volatility in their portfolios (chart: Standard Deviation).

We've been in a lower-for-longer rate regime for some time now—along with a period of relatively benign inflation. With the amount of excess liquidity around the world today, at some point, inflationary pressures are due to resurface. Although, some believe that economic normalcy may not come until 2022.

In Canada, economist surveyed expect the Bank of Canada to keep its Target Rate at the "effective lower bound" of 0.25% until the end of 2022 and some expect rates to remain unchanged into 2023. This will undoubtedly present continued challenges for those with low risk tolerance looking for investment income. Basically now, safe government bonds do not provide much income. If we do get some inflationary pressure in the future, bonds are at risk—as yields rise and bond prices go down. So, for the ultra-conservative, it is a "gut check" on the amount of risk he/she is willing to undertake for supplemental income from investments—invariably expanding their risk budget.

The obvious solution is diversity in the portfolio asset mix with a reasonable level of risk—perhaps with a deeper analysis of correlation values that can help reduce portfolio volatility. Make no mistake, bonds are still necessary to provide some downside protection during market turbulence; as a "flight to quality" shift takes shape. Although at this time, it is a duration call on bonds—shorter duration providing less volatility.

Goldman Sachs Asset Management projected that a 60/40 portfolio would only provide 2 to 3% in annual real returns versus past decade returns of 8%. So then, should the traditional allocation split look more like 70/20/10 of Equities, Fixed Income and Alternatives? Ultimately, portfolio mix will always go back to the discussion on risk tolerance and return targets. It is either increase the equity mix or lower return expectations—perhaps also an adjustment on time horizons.

Stay safe, stay vigilant and stay healthy.

Your Success is Our Success....

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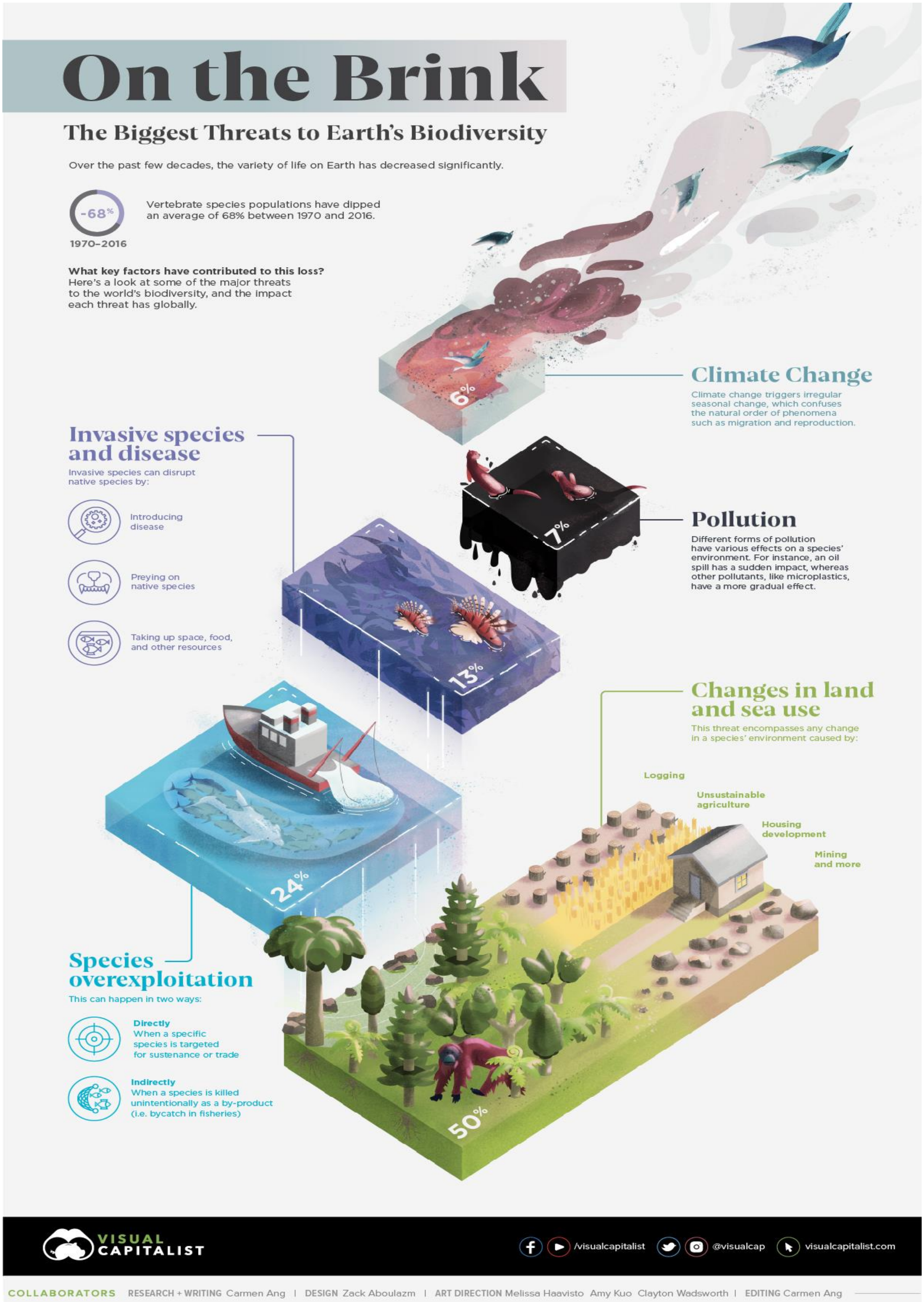
On the Brink
The Biggest Threats to Earth's Biodiversity
Over the past few decades, the variety of life on Earth has decreased significantly.
-68%
1970–2016
Vertebrate species populations have dipped an average of 68% between 1970 and 2016.
What key factors have contributed to this loss?
Here's a look at some of the major threats to the world's biodiversity, and the impact each threat has globally.
6%
Climate Change
Climate change triggers irregular seasonal change, which confuses the natural order of phenomena such as migration and reproduction.
7%
Pollution
Different forms of pollution have various effects on a species' environment. For instance, an oil spill has a sudden impact, whereas other pollutants, like microplastics, have a more gradual effect.
13%
Invasive species and disease
Invasive species can disrupt native species by:
Introducing disease
Preying on native species
Taking up space, food, and other resources
24%
Species overexploitation
This can happen in two ways:
Directly
When a specific species is targeted for sustenance or trade
Indirectly
When a species is killed unintentionally as a by-product (i.e. bycatch in fisheries)
50%
Changes in land and sea use
This threat encompasses any change in a species' environment caused by:
Logging
Unsustainable agriculture
Housing development
Mining and more
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