glc asset management

Market Matters

Summary for May 2020

Highlights

- Markets continued to rebound in May as companies begin the process of re-opening to business.
- Oil's dramatic swings in pricing moved to the positive despite uncertainty relating to both supply and demand.
- The Information Technology sector has been the TSX's runaway leader, fueled by Shopify's enormous success.
- Bond markets stabilized with interest rates remaining at historic lows.

Markets continued to rebound in May

Equity markets extended their gains (and v-shaped rebound) in the month of May and bond markets stabilized with interest rates remaining at historic lows.

The great re-opening experiment has begun

Across the globe, nations inched closer to ending isolation measures (as long as we all agree to stay six feet apart) and plans to re-open economies were unmasked (but masks are recommended).

While re-opening conditions varied greatly by region, the news was met with relief. After weeks of worrisome and sometimes uncomfortable isolation, anticipation and hope for better days ahead lifted spirits on the proverbial Main and Wall Streets.

Dare to defy Shopify… and more on May's Canadian markets

Canadian equities joined the global rally. On a total return basis (i.e., including dividends), all eleven Canadian sectors offered positive returns.

The Information Technology sector remains the run-away leader across North America. In Canada, the sector generated a 42.5% return on a year-to-date basis and 14.6% return in the month of May alone, helped by companies that facilitate online shopping and connectivity. No other sector comes close to that performance. The sector has also more than doubled its weighting in the index during the last 17 months, from 4% at the beginning of 2019 to 9.3% at the end of May.

The sector's shining star is internet retail commerce enabler, Shopify. With seemingly unstoppable growth and investor interest, the company managed to tack on $16.6 billion in market value in just one week during May (about the size of adding Loblaws to its value). The stock sits at $124.7 billion in market value at month end, the

Market Summary

Canadian Fixed Income[1]	Month	YTD
FTSE Canada Universe Bond Index	0.3%	5.7%
FTSE Canada All Corporate Bond Index	0.6%	2.8%

Canadian Equities[2]	Month	YTD
S&P/TSX Composite	2.8%	-11.0%

	Month		YTD	
Global Equities[2]	Local	CAD	Local	CAD
S&P 500	4.5%	3.6%	-5.8%	0.2%
MSCI EAFE	3.8%	3.2%	-13.9%	-9.9%
MSCI Emerging Markets	0.5%	-0.3%	-12.0%	-11.2%

Currencies and Commodities (in USD)	Level	Month	YTD
CDN $	$0.726	1.3%	-5.7%
Oil (West Texas)	$35.49	88.4%	-41.9%
Gold	$1,733.63	2.7%	13.8%
Reuters/Jeffries CRB Index	$132.24	12.8%	-28.8%

Canadian Sector Performance[2]	Month	YTD
Energy	2.3%	-28.7%
Materials	2.0%	9.7%
Industrials	2.2%	-5.8%
Cons. Disc.	8.1%	-13.3%
Info Tech	14.6%	42.5%
Health Care	5.5%	-28.8%
Financials	0.4%	-20.9%
Cons. Staples	4.6%	1.2%
Comm. Services	1.8%	-7.9%
Utilities	0.0%	-2.7%
Real Estate	-0.4%	-24.2%

Local currency unless otherwise stated.
[1]Total return [2]Price only return
Source: Bloomberg

second largest company on the S&P/TSX Composite index, behind only RBC. Shopify is now a 5% weight of the index after the stock was up 18.4% on the month and 102.4% since the beginning of the year.

Consumer Discretionary stocks also put in solid gains in May, assisted by large retail companies that can provide and/or quickly transitioned to online and 'safe' in-store sales (the retailing sub-sector was up 11.3% on the month). This is particularly true for home renovation and maintenance items; people have used the ample isolation time to take care of those long-delayed home improvement projects. Canadian Tire, as an example, was up 20.4% on the month as more of their stores reopened. Reflective of companies whose products and services help make spending time at home more comfortable, Sleep Country was up 20.2% in May.

While year-to-date winners continue to be those companies experiencing increased demand due to the 'lockdowns', industries, such as traditional retail, remain more challenged given the uncertainty as to re-opening timelines and risks of a second wave of infection – both suggesting a possible tepid return of consumers.

Overall, however, an important rotation from the aforementioned growth and 'lockdown' beneficiary stocks into value and cyclical sectors, where companies levered to broader economic activity, began to take hold in May. We see this condition as being fundamental to helping markets hold onto their gains.

Oil regained substantially during the month. While the numbers are eye-popping (up 88.4% on the month), these gains are exaggerated by the historically low starting point; 'black gold' values remain pressured and are still down -41.9% since the beginning of the year. These wild swings are commensurate with the exceedingly high level of uncertainty on a variety of factors relating to both supply and demand. On the demand side, how quickly and to what level will demand recover remain unknown. For the supply-side, there are rapidly shifting supply responses: the number of crude oil rigs operating in the U.S. has fallen from just under 700 pre-COVID to the low 200s now (in Canada the number is just 7, down from an average of 83 in 2019); and, OPEC, Russia and partners are struggling to enforce and extend their production cut agreements.

No drama in bond land

Canadian bond markets were relatively quiet for the month (just the way we like our risk-mitigating assets to be). Government bond yields (especially at the short end) had little reason to react, as global monetary policy actions and economic uncertainty are keeping yields hovering near all-time lows.

The next two most important questions

While few still question whether the isolation and shut-down measures in March until now have helped to 'flatten the curve' and slow the spread of the COVID-19 virus, there are now two new emerging questions of concern: **"If we re-open, will they come (and spend)?"** and **"If they come, can we keep them safe?"** Much uncertainty surrounds both those questions and forecasts vary wildly. However, we see little else but rosy optimism in the eyes of investors when looking at recent stock price gains. Investors seem perfectly happy to look past battered and beaten year-to-date earnings results (what's done is done, right?), and are focusing on riding the potential upswing in economic activity in the second half of 2020 and into 2021. If these optimistic expectations don't materialize, we should expect another repricing of stock values and more unpleasant market volatility ahead.

We can, and must, do more to support, promote and achieve equality

The early days of June 2020 bore witness to large protests against racial discrimination and a fight for equality. June also marks Pride Month in support of awareness and equality for those in our LGBTQ2+ community. From anger, to frustration, to recognition and celebration, the message is clear: we must push forward, lean in and step up to achieve equality in all its forms. GLC Asset Management Group stands shoulder to shoulder with our parent company, Canada Life Insurance Company, in our open support to those who face discrimination and our collective efforts to achieve equality and make this a better world for all people. Learn more about Canada Life's Pride Month celebration and response to the recent events of racial divide.

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