

Issue 10

## TECH FALLING

Everyone loves tech stocks, but signs are emerging that the market is starting to love them a little less. The Nasdaq Composite has been the vehicle of choice for investors in 2020. The tech-heavy index has gained 17% this year, while the S&P 500 index is roughly flat. The Nasdaq Composite gave up 1.1% this week, to 10,503.19, while the S&P 500 gained 1.2%, to 3224.73, and the Dow Jones Industrial Average, up 2.3% to 26,671.95 outpaced them both. The S&P/TSX composite index closed up 98.98 points to 16,123.48 for a 2.6% increase on the week. Our main stock index rose for a third straight week to the highest closing since March on continuing gains from Gold and strength of the country's railways.

The advances of the S&P 500 and Dow came at the expense of major tech stocks such as Facebook, Amazon, Netflix, Alphabet and Microsoft. All four stocks closed lower last week. Those declines led to the Nasdaq Composite's first weekly loss in three weeks. These stocks have been considered the beneficiaries of the stay-at-home environment as investors bet on the companies' business models to keep them growing during the pandemic. What the Nasdaq needs right now is a catalyst – and it just might have one. Earnings season just started, and that's a good reason as any for the hottest tech stocks to underperform after outperforming by so much. We saw that in action after Netflix reported earnings on Thursday afternoon and promptly tumbled 6.5% on Friday. The rest of the FAANGs (Facebook, Apple, Amazon, Netflix, Google) could be set up for a similar response.

On Tuesday, JPMorgan Chase and Citigroup kicked off earnings week for the U.S. financial sector by both posting profits that beat analysts' expectations on strong trading and investment results. Goldman Sachs on Wednesday reported blowout second-quarter earnings as the bank said it generated \$2.42 billion in profit, or \$6.26 a share, notching its biggest earnings beat in nearly a decade. Those institutions with big trading and investment banking operations such as JPMorgan, Goldman Sachs, Morgan Stanley, and Citigroup, all enjoyed massive revenue gains. That could largely be traced to the Federal Reserve's aggressive response to the financial markets' near meltdown in March, including slashing interest rates to almost zero, buying Treasury and agency mortgage-backed securities to pump trillions into the economy, and taking the unprecedented step of backstopping corporate credit markets.

The S&P 500 index's resulting 40% recovery from its lows and the record issuance of investment-grade debt securities were reflected from the Fed's actions. The worst might lie ahead, however, as the six biggest U.S. banks – U.S. Bancorp, Wells Fargo, and the aforementioned four – added approximately \$36 billion to their reserves for future loan losses. So far, that hit appears to have been deferred by the federal governments' fiscal actions, notably the \$3 trillion Cares Act.

The aggressive fiscal and monetary campaign we have seen thus far is an entirely appropriate response to the coronavirus, which produced what was probably a record economic contraction in the quarter just ended. Even with the mega-stimulus, inflation will remain subdued this year and next, given that unemployment is likely to remain in double digits – above the peak in the 2007-09 recession. "This is not a normal recession,"



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## MARKET SUMMARIES

*(at Friday's close)*

S&P/TSX Composite **up 0.62%** at 16,123.48 (**down 5.51% ytd**)

S&P/TSX Venture **up 2.02%** at 674.95 (**up 16.87% ytd**)

S&P 500 **up 0.28%** at 3,224.73 (**down 0.19% ytd**)

Dow Jones Industrial Avg. **down 0.23%** at 26,671.95 (**down 6.54% ytd**)

Nasdaq Composite **up 0.28%** at 10,503.19 (**up 17.06% ytd**)

### Metals

Gold: \$1812.30

Silver: \$18.75

Copper \$2.90

### Energy

Brent Crude Oil: \$43.14

WTI Crude Oil: \$40.74

Natural Gas: \$1.72



JPMorgan Chase CEO Jamie Dimon commented on the bank's earnings call last week. "The recessionary part of this you're going to see down the road."

In Canada, Finance Minister Bill Morneau this past week says the Liberals are easing eligibility rules for the government's emergency wage subsidy and changing the amounts businesses can receive. Morneau's recent fiscal update boosted the budget for the program to \$82.3 billion from \$45 billion in a sign of impending changes and an extension beyond this summer. The government's proposed changes to the wage subsidy are part of a bill that will be debated this week when the House of Commons sits. Morneau says the program will now end December 19<sup>th</sup>.

When looking at the Canadian credit spreads in comparison to U.S. credit spreads, the Fed's much faster and more aggressive quantitative easing programs, which included sizeable investment-grade credit purchases, was the single largest driver of the Canada/US disparity. Canadian credit spreads should start to catch up to the U.S. as "Canadian credit spreads typically mirror US credit moves – Canada just seems to correct more slowly".

## WHAT'S AHEAD

As the coronavirus cases continue to surge, states are considering new stay-at-home orders despite pushback from state leaders. Florida reported 12,523 new cases of the coronavirus on Saturday, marking the fifth consecutive day the hot-spot state sported more than new 10,000 infections, according to the state's health department. As the number of coronavirus infections expands, people are understandably reluctant to go back to anything that approaches normal activity. The combination of official restrictions and hesitation at the individual level are keeping downward pressure on the economy. Distress continues in major economic sectors, which brings about the reason for the next stimulus package. Time is running out for Democrats and Republicans to agree on the next stimulus package, portions of the CARES Act are set to expire in less than two weeks. As of today, the Senate is back in session and Congress will begin to actively discuss the ins and out of a second stimulus check as part of another relief bill to help Americans and a shaken economy. There's much anticipation about the new stimulus package and it not only includes the possibility of second stimulus checks, but extension of the PPP, return to work bonuses, unemployment benefits, liability protection, and other economic priorities will be of discussion as Congress returns from recess.

Our quote of the week is from American Philanthropist and founder of Bridgewater Associates, Ray Dalio.

**"If you are not aggressive, you are not going to make money, and if you are not defensive, you are not going to keep money."**

## FINANCIAL PLANNING TIP OF THE WEEK

Trusts can be used individually or as part of an overall strategy. A properly drafted and managed trust can provide advantages under the following points:

- **Estate planning** – Failure to play your affairs in advance of death can mean leaving your estate in disorder. A trust is a flexible way to deal with the probate process to avoid delays, high administration costs and tax liabilities.
- **Tax planning** – Trusts are commonly used in estate planning arrangements for wealthy individuals to direct the distribution of their estate in such a manner and time as they consider appropriate.
- **Asset protection** – Trusts can be one of the most effective ways of protecting assets from being seized if you fall into financial difficulties.
- **Preserving family assets** – A trust offers a mechanism for preserving family assets while offering the flexibility to allow payments to beneficiaries as the need arises.
- **Continuing a family business** – If the shares in the business are transferred to trustees prior to death, a trust can be used to prevent the unnecessary liquidation of a family company.
- **Trusts also offer increased flexibility, confidentiality and the ability to avoid forced heirship.**



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