

Wickham Investment Counsel Inc.

Quarterly Review

October 2020

FLY ME TO THE MOON

Financial markets roared at full throttle in the third quarter, resulting in a classic V shaped recovery (as shown in Chart 1 using the S & P 500 Index). Fueled by more than \$20 US trillion of global stimulus and with interest rates near zero, and led by technology, world stocks surged to reclaim the record high surrendered in February, when COVID-19 made its debut. It is all about time in the market, not market timing that makes money.

The general expectation is that markets are set to extend their rebound into 2021. An ongoing recovery in corporate earnings, following a severe hammering earlier in the year, seems most likely. For example, the S&P TSX Composite index could close the year near 17,000. This would leave it roughly unchanged for the year. It is expected to climb further to 18,000 by the end of 2021, exceeding the record high (17,971 in February 2020). The index plunged in March 2020 to 11,173, its lowest level in eight years.

The only problem with this moon shot is that the pandemic never went away. A marauding COVID has renewed lockdowns and mounting deaths around the world, as well as, fears of a second wave suggest any complacency is transit. There is room for more government spending stimulus, but not much more room for monetary policy. Optimism that vaccines are on the way to end the pandemic is well founded. Global efforts to develop a vaccine are coming to a head, with late stage trials by Astra Zeneca, Pfizer, Moderna, Novavax and Johnson and Johnson among others. Some will possibly show results before year-end. Any approval or emergency use authorization this year would be a major success, while even if approved, manufacturing and broad distribution will take time.

As a result of the health crisis, digital transformation of companies has accelerated. We are seeing this in our own industry as the move to electronic applications and signatures, virtual meetings and how we work and interact as teams and our client's develops. Open banking, where the individual owns the bank account and their personal information is coming from Europe to allow multiple accounts in e-wallets. Secular trends in place for e-commerce, payments, digital entertainment, telehealth, cloud computing, accounting and the use of technology as a business platform have accelerated. The potential for more rapid revenue growth and adaption has created billion dollar companies overnight. At the other end of the spectrum, airlines, cruise ships, traditional retailers, hotels and restaurants have been pummeled. Bank stocks have slumped and hydrocarbon energy companies decimated. Renewable energy, infrastructure and food stores are better places to be.

I put fixed income in the surprise category, as the yields on government and investment grade corporate bonds are now laughable. Would you like to lock in 1/2 of 1% for 10 years on a Federal government bond or 2% for 30 years on a corporate credit? A better surprise has occurred in the preferred share market. Preferred shares can pay a reliable yield of 4–6% annual income but in recent years have been volatile, illiquid and unloved. However, in

July, limited recourse capital notes (LRCNs) were introduced and are changing the way banks and life insurance companies raise necessary regulatory capital. These institutions will move to replace their preferred shares giving rise to a supply imbalance in the next few years. Hello – the expected scarcity value is already driving preferred share prices higher and putting happy faces on holders.

S&P 500



	Dec 31, 2013	Dec 31, 2014	Dec 31, 2015	Dec 31, 2016	Dec 31, 2017	Dec 31, 2018	Dec 31, 2019	Sep 30, 2020	% Change Dec-Sep
Stock Market Indices									
S&P/TSX Comp.	13,622	14,632	13,010	15,288	16,209	14,323	17,063	16,121	-5.52%
Dow Jones Ind.	16,577	17,823	17,425	19,763	24,719	23,328	28,538	27,782	-2.65%
S&P 500	1,848	2,059	2,044	2,239	2,674	2,507	3,231	3,363	4.09%
Nasdaq Comp.	4,177	4,736	5,007	5,383	6,903	6,635	8,973	11,168	24.46%
Commodities									
Gold - US\$	1,202	1,184	1,060	1,252	1,309	1,281	1,523	1,896	24.49%
Crude Oil WTI - US\$	98.42	53.27	37.04	53.72	60.42	45.41	61.06	40.22	-34.13%
Natural Gas - US\$	4.25	2.91	2.35	3.74	2.95	2.94	2.19	2.53	15.53%
Currencies									
€ in Cdn \$	1.47	1.41	1.50	1.42	1.50	1.56	1.46	1.56	6.85%
£ in Cdn \$	1.76	1.82	2.04	1.66	1.69	1.74	1.72	1.72	0.00%
US\$ in Cdn \$	1.06	1.16	1.38	1.34	1.26	1.37	1.30	1.33	2.31%
Interest Rates									
Cdn Prime rate	3.00	3.00	2.70	2.70	3.20	3.95	3.95	2.45	-37.97%
US Prime rate	3.25	3.25	3.50	3.50	4.50	5.50	4.75	3.25	-31.58%
Cdn 10 Yr bond	2.78	1.79	1.41	1.72	2.04	1.95	1.64	0.54	-67.07%
US 10 Yr bond	3.03	2.17	2.27	2.44	2.40	2.69	1.92	0.69	-64.06%

Source: The Globe & Mail