Quadrant Private Wealth

What Really Matters

QPW Perspectives – November 2020

The end of 2020 is rapidly approaching. It's been a year no one could have predicted. COVID-19 dominated peoples' personal, business and financial lives around the world. And the coronavirus will continue to dominate headlines in a tug-of-war fashion between negative news regarding a surge in infections and positive news regarding vaccine development progress. As year-end approaches, it seemed to be a natural time to pause and assess where we are.

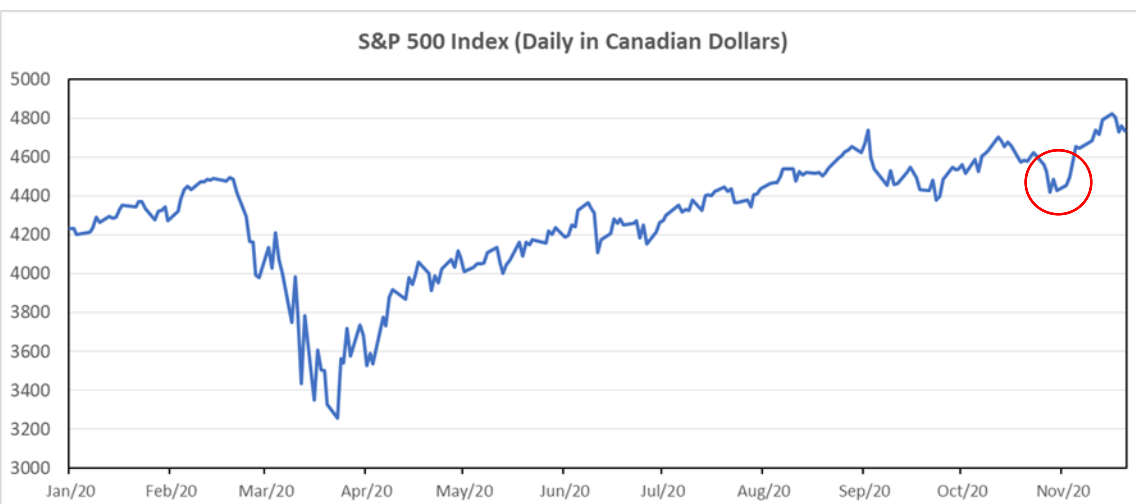
Despite the mix of positive and negative COVID-19 news, financial markets have chosen to remain optimistic for the most part as the year has gone on.

2020 Year-to-Date (YTD) Returns	YTD Mar. 31/20	YTD Sept. 30/20	YTD Nov. 20/20
Canadian equities (S&P/TSX Index) CAD$	-20.9%	-3.1%	+2.7%
U.S. equities (S&P 500 Index) USD$	-19.6%	+5.6%	+12.0%
International equities (MSCI EAFE Index) USD$	-22.8%	-7.0%	+2.1%
Canadian Fixed Income (FTSE Canada Universe Bond Index) CAD$	+1.2%	+8.0%	+7.8%

March 2020 marked negative year-to-date returns for equity markets as this was the height of spring COVID-19 lockdowns and uncertainties. Since the summer, equity markets have continued to focus on positive forward looking expectations of an economic recovery. Markets improved significantly on a year-to-date basis as of the end of the third quarter of 2020 and have continued to ascend during the fourth quarter in response to developments regarding COVID-19 vaccine progress.

Were Politics at Play?

Despite all of the "drama", the U.S. presidential election was not a notable event for financial markets. As seen below, it can be characterized as insignificant in terms of equity market impact.



Source: Bloomberg

With Joe Biden as President-elect, expectations going forward include:

- Handling of COVID-19. President-elect Biden has stated this is a top priority. His approach is expected to be more empathetic and scientific evidence based versus the Trump administration.
- A less confrontational and volatile political environment – not a difficult statement to make for obvious reasons. This would be expected to result in reduced trade tensions, although China may be a notable exception given statements made by President-elect Biden during his campaign.
- A greater push for green initiatives. This could come in the form of reduced subsidies to fossil fuel companies, infrastructure spending to support green initiatives or investing heavily in green technology and electric vehicles. However, the speed of progress will depend on whether Congress remains split, as the Senate is currently controlled by the Republicans while the Democrats have control of the House of Representatives.

From the financial markets' perspective, a split government between the two chambers of Congress is the most market friendly outcome. This is because, historically, in these situations the government has been able to do and change little and status quo reduces uncertainty. This is why, as the previous graph shows, there was a dip in the U.S. equity market in the weeks leading into the election (uncertainty) and then an increase as the results came in and it appeared that neither party would have full control.

What Matters to Markets

Overall the election was a minor distraction. The main driver was, is, and will continue to be, the pandemic.

In recent weeks, equity markets have moved higher as there are now 3 promising COVID-19 vaccines in near final regulatory testing phases with meaningful effectiveness rates. There are also no less than 4 additional vaccine candidates in mid to late stage trials. While the results are encouraging, safety and data reviews are still underway. Any developments which will ultimately help return major world economies to pre-pandemic levels sooner rather than later are expected to drive financial market performance over the next 12 months. A few aspects of the pandemic to keep in mind:

- Progress towards a COVID-19 vaccine has been positive but no solution has completed all stages of final regulatory safety testing at this time.
- Once a vaccine(s) has met all stages of approval, there may be production and distribution logistical challenges.
- A global vaccination program of this magnitude will require tremendous effort and cooperation among all countries and levels of government.
- Public uptake levels of the vaccine may be challenged depending on the public's perception of the effectiveness and safety of the vaccine being provided.
- Lives around the world are still being lost to COVID-19 and this will continue over the near term.

Depending on evolving positive or negative news regarding these aspects of the pandemic, financial markets may be volatile on both the upside and downside. And once the worst of the pandemic is behind us, there will be the process of unwinding the tremendous levels of support currently being provided by governments and central banks as the global economy improves. This too, may be another reason to anticipate volatility in the markets down the road.

The timing of the development and distribution of a safe, effective COVID-19 vaccine will be the single biggest driving factor behind the timing of an economic recovery. Given the tremendous rebound experienced in equity markets this year, it appears that investors are focusing on expectations of a recovery in the near term (as stock market moves are often indicative of forward looking expectations).

However, the significant recovery in equity market indices on a year-to-date basis does not mean the economic recovery is well underway. It bears repeating a statement from our previous newsletter. “The stock market does not equal the economy.” Equity markets, as represented by equity market indices are currently trading at valuation levels that are not supported by sustainable earnings. Also, the stock market indices do not consider exposure to downside risk. Focussing on downside risk protection in portfolios is of paramount importance in the current market environment.

What Really Matters

Health and safety are what ultimately matter in today’s world. For everyone.

We sincerely hope that each of you are continuing to stay safe and keep healthy. And we are ready to assist in whatever way you may need. From a portfolio management perspective, we continue to protect portfolios against excessive downside risk through the selection of best-in-class, capital preservation focussed managers who invest in resilient businesses that can weather challenging times such as these. From a wealth management perspective, we continue to do what we have always done – take the time to understand our clients’ complete financial picture so that we can offer our best advice.

About Us

Disciplined. Compassionate. Effective.

Quadrant Private Wealth is an independent, comprehensive, integrated wealth management firm committed to your financial well-being and peace of mind. We take the time to understand your complete financial picture. We tie all of your information together, including tax planning, to paint a picture of what your financial future could look like. And we aim to earn your complete confidence in the process.

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