Equities Bounce Back In Second Quarter

By Ian M. Riach

Equity markets rebounded sharply in Q2. The S&P TSX Composite Index rose approximately 16%, posting its best quarterly gain since 2009.[1] The S&P 500 Index gained approximately 20% (US$), its best quarter since 1998.[2]

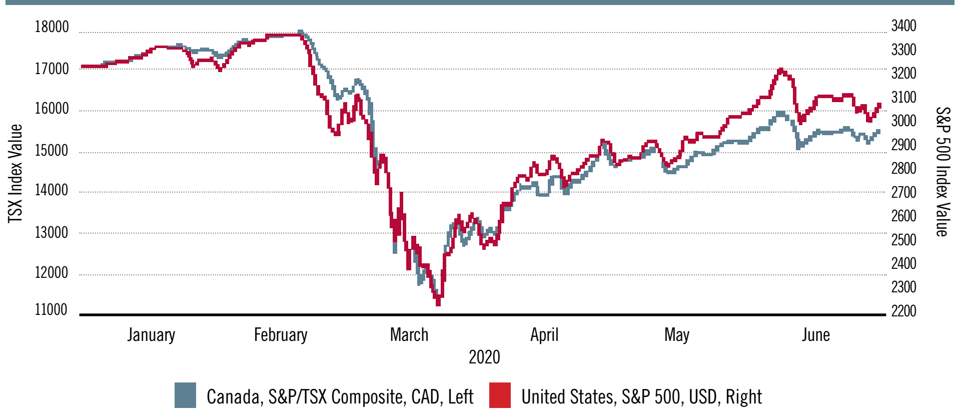
As the graph shows, it has been quite the six months. After starting the year strong, stocks reached bear market territory in February before rebounding impressively off March 23 lows. Since the trough, the S&P/TSX Composite and S&P 500 indices are up close to 40% in local currency terms.[3] European and Asian indices lagged but were not far behind.

We believe the rebound—especially in its early stages—stems from the policy responses of monetary and fiscal authorities. Central banks acted very quickly, lowering interest rates and enacting (or reinstating) quantitative easing measures by purchasing securities in the open market. Governments also acted very quickly, introducing business and consumer support programs, the magnitude of which has been stunning. At the virtual summit in March, Group of 20 leaders pledged to inject over $5 trillion (US$) into the global economy to counteract the pandemic's effects.[4] In Canada, over $1 billion has been spent in support and the Parliamentary Budget Office has stated the federal government budget deficit could reach over $250 billion in 2020-21 or approximately 12.5% of GDP. This is up from approximately $25 billion or 1% of GDP in 2019-20.[5,6]

Improved investor sentiment, influenced by the partial reopening of many economies, has also helped fuel the rise. Early on, the rally was very concentrated in technology and technology-oriented consumer companies, as well as gold mining businesses. US market leaders were the usual suspects: the so-called "FAANG stocks" plus Microsoft, Nvidia and Intel. In Canada, Shopify led the early rally, rising almost 120% (and now has a larger market capitalization than the Royal Bank). Shopify was followed by gold mining companies, Barrick and Kinross. In keeping with improving investor sentiment, the rally broadened during Q2.

As Kevin McLachlan describes in *Untangling The Current Market/Economy Relationship* on page 10, there appears to be a disconnect between the stock market and the real economy. We think this will continue as long as monetary and fiscal authorities keep doing "whatever it takes" to ensure financial market stability and support consumers and businesses. However, we do acknowledge the economic recovery faces many risks, including a "second wave" of COVID-19, increasing geopolitical and trade tensions, and the upcoming US election. For these reasons, we remain somewhat cautious in aggressively adding to equities at this time.

Canada and United States: Equity Index Returns, December 2019 - June 2020.



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Market Performance (%)	Q2 2020	1-Year
S&P/TSX Composite Index	17.0%	-2.2%
S&P 500 Index (CDN$)	15.7%	11.8%
MSCI EAFE Index (CDN$)	10.5%	-0.9%
FTSE TMX Canada Universe Bond Index	5.9%	7.9%
CDN$ Versus US$	3.6%	-3.5%

The above Index reviews are calculated from external sources and, where applicable, reflect total returns.
All figures are in Canadian dollars and are as at June 30, 2020.

1. Source: Bloomberg L.P. https://www.bloomberg.com.
2. Source: Bloomberg L.P. https://www.bloomberg.com.
3. Source: Bloomberg L.P. https://www.bloomberg.com.
4. "Extraordinary G20 Leaders' Summit Statement on COVID-19," March 26, 2020, https://g20.org.
5. "Government of Canada takes action on COVID-19," June 11, 2020, https://www.canada.ca.
6. "Scenario Analysis: COVID-19 Pandemic and Oil Price Shocks," March 27, 2020, https://www.pbo-dpb.gc.ca.