Keeping In Touch

Good Afternoon,

As we near mid summer, I wanted to provide a market commentary update. Over the past week we have solicited market commentary from a number of valued sources including Philip Petursson, Chief Investment Strategist at Manulife Financial, Jurrien Timmer, Director of Global Macro at Fidelity Investments, David Wolf, Portfolio Manager at Fidelity Investments, Myles Zyblock, Chief Investment Strategist at Dynamic Mutual Funds and Jean Boivin, Head of Blackrock Investment Institute. This research provides us with a spectrum of commentary. I have also included the video clip of Philip Petursson's BNN interview from July.

Paramount is COVID 19 and what lies ahead in the near future while we await a vaccine. Given the recent resurgence of the virus globally and the reluctance for governments to go back into lock down mode, most analysts believe that governments and Central banks will continue to inject stimulus to support the economy. Effectively, we are buying our way out of the economic downturn until a vaccine is distributed. There is still much uncertainty out there which tends to spook markets shorter term.

Valuations on stocks are on the higher side of normal but not expensive given the low interest rates and low inflation. Central Bank policies are accommodative and expected to remain for quite some time but this will lead to higher inflation eventually. Most economies are in recovery mode today but the path will have volatility as one can expect more COVID 19 issues in the near future. There is also the US election in three months. Again, it is not anticipated that there will be another global economic shutdown but smaller regional restrictive actions offset by more fiscal stimulus. As Philip mentioned on the call we had last month, the markets will slowly grind their way upwards over the next 12-24 months.

With fixed income, the corporate and high yield bond markets will outperform the Government bond markets. The risk spreads in the high yield markets have tightened since March when governments stepped in to back stop any decline in the credit markets. The Canadian dollar could gain strength over the next 12 months if oil prices move back above $50 and the US dollar could weaken against other currencies given the significant debt they have incurred this year. Gold will likely continue to hold it's elevated valuations if the US dollar decreases in value.

With the gradual reopening of economies, we feel that stock valuations will be supported by increased earnings in the future. There may be some dividend cuts in some sectors however we do not see these in the major Canadian banks or utilities. Also, common in markets downturns, we have seen weaker companies shut down or have been consolidated. Governments will have to deal with the debt issues in the future via higher taxation.

We are seeing investment fund managers begin to dollar cost average into the markets and also believe in this strategy over the next 6-12 months. The focus is on the recovery and what one wants to own in their investment portfolio 12-18 months out from here. Our focus is to invest in solid blue chip dividend stocks and well managed investment funds while always keeping the clients investment objectives and asset allocation the key factor.

In the meantime, if you have any questions or would like to chat or see me, please give me a call.

Take care

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