

Dear friends,

Wall Street will always find a way to dumbfound us and rebound. This second quarter turned out to be the best performance of the Dow Jones since 1987. The S&P 500 beat out the 1998 record by advancing 20% (or 15.8% in C\$). During the darkest hour of this pandemic, the virus plunged capital markets in a profound panic. By the end of March, investors gathered enough courage to propel the S&P/TSX to a 16% advance in Q2. Even though the COVID-19 cases are up in the Sun Belt and in other parts of the world, stock markets managed to remain afloat since June. This is due in large part to a sequence of positive signals, showing that the worst economic consequences of the pandemic are behind us. The price of crude and gold were way up in Q2, in lockstep with the rebound in the economy.

	Closing 30-Jun-20	Change** Quarter	2020
Stock Indices (% in C\$)			
S&P/TSX	15,515	16.0%	-9.1%
S&P 500	3,100	15.8%	0.3%
MSCI EAFE*	1,781	10.2%	-8.6%
Currencies			
CAN\$ (US\$/C\$)	0.7366	3.6%	-4.3%
Euro (US\$/EUR)	1.1233	1.8%	0.2%
Commodities (US\$)			
Oil (WTI)	\$ 39.27	91.7%	-35.7%
Gold	\$ 1,784	10.6%	17.3%
Volatility Index			
VIX	30.43	-23.11	+16.65

* MSCI Europe, Australasia and Far East (US\$)

** Changes are expressed in C\$ for Stock Indices.

The unprecedented support of central banks and governments worldwide is sustaining investor appetite for equities and raw materials. These cyclical assets should pursue in this upswing with the restart of industrial demand and, most importantly, the apparent tameness of the virus in Asia. In its latest update, the IMF projected a global GDP contraction of 4.9% in 2020. Taking into account the positive lingering effects of monetary and fiscal interventions, the IMF is looking for growth of 5.4% next year. This self-induced recession is probably already over according to many economists. In fact, the latest economic numbers surprised a lot of experts. Knowing that the stock market troughs lead the end of a recession by 4 to 6 months on average, we remain cautiously optimistic for the rest of the year. That said, we maintain a prudent stance in stock selection.

You can blame our current prudence on high stock valuations, especially in the USA. The S&P 500 trades at 22 times 12-month forward earnings. The forward price-to-earnings ratios of the Telcos, Techs and Consumer stocks are quite stretched. For the rest of the planet and for Canada, the situation is more tolerable with forward P/E multiples of 17 and 19 respectively. The strong economic recovery is mirrored by surging earnings that should reach their apex in Q3 of 2021 according to the consensus for the S&P 500 index. Plenty of relevant issues are still lurking below the surface. Upcoming earnings announcements will be very enlightening in the next few weeks. Surely, we will see surprises, adjustments and a good dose of volatility. We will pounce on every pullback and seize the opportunity to add new positions on stocks trading at a reasonable price.

If the Wuhan virus finally stopped the longest recorded economic expansion, the capital markets are back on track. All major indices were down for the count, but not out. We are still hovering below the February highs and in negative territory for the year. Even if the return numbers seem impressive since the trough, we have to remember that return calculation is not linear. As an example, the stellar 38% bounce from the S&P/TSX low on March 23rd is not enough to erase the 37% drop that occurred from peak to trough. Accordingly, we are still down 9.1% for the year as of June 30th. Only the Tech-heavy NASDAQ index is up after 6 months in 2020.

2020 in Review *	Start	Peak	Trough	End	Start -	Peak -	Trough -	Start -
Index	31-Dec-19	19-Feb-20	23-Mar-20	30-Jun-20	Peak	Trough	End	End
S&P/TSX **	17,063	17,925	11,228	15,515	5.1%	-37.4%	38.2%	= -9.1%
S&P 500	3,231	3,386	2,237	3,100	4.8%	-33.9%	38.6%	= -4.0%
Dow Jones	28,538	29,348	18,592	25,813	2.8%	-36.7%	38.8%	= -9.6%
NASDAQ	8,973	9,817	6,861	10,059	9.4%	-30.1%	46.6%	= 12.1%

* Changes are expressed in local currency.

** Peak on February 20, 2020 (17,944).

Conclusions and Perspectives

While we stay positive for the rest of the year and believe we could close 2020 with positive returns, we are aware that the key will be to adapt and adjust our strategy to the ever changing trade winds. It goes without saying that a brutal second wave of coronavirus transmission would not be good news. Barring this catastrophic event, we do not think that a repeat of a complete confinement is likely. The economy should stay open this time around. Public health officials are more prepared and better equipped to face this enemy. The hope of a vaccine combined to the steadfast commitment of the authorities to support the economy compensate for a lot of uncertainties. As a matter of fact, the markets would not be where they are today without this valuable support we believe.