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Gestion de portefeuilles / Portfolio management

La voie des Alizés

Navigating the Trade Winds

October 2020

Dear friends,

After a healthy five-month rebound, September was a difficult one. Stock markets were rattled by the increase in the number of COVID-19 cases around the world that led to some profit taking from investors. However, even after a 10% correction from the record high of early September, the S&P 500 managed to end Q3 with an upside of 8.5% (or 6.4% after conversion in Can $). Meanwhile, despite a 3.9% gain in the third quarter, the S&P/TSX index remains in negative territory for the year, dragged down by the underperformance of the financial and energy sectors. On the plus side, the gold sector is showing a promising performance with the ounce of gold creeping up toward US $2,000. The gold sector still represents a safe haven to keep in these volatile and uncertain times.

		Closing	Change**	
		30-Sep-20	Quarter	2020
***Stock Indices** (% in C$)*				
S&P/TSX		16,121	3.9%	-5.5%
S&P 500		3,363	6.4%	6.8%
MSCI EAFE*		1,855	2.2%	-6.6%
Currencies				
CAN$ (US$/C$)		0.7507	1.9%	-2.5%
Euro (US$/EUR)		1.1720	4.3%	4.5%
Commodities (US$)				
Oil (WTI)	$	40.07	2.0%	-34.4%
Gold	$	1,900	6.5%	24.9%
Volatility Index				
VIX		26.37	-4.06	+12.59

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

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

Despite President Trump's short hospitalization and the incapacity of Congress to put up a new stimulus package, the stock market found its footing in early October and started to rise again. While lots of uncertainties remain with the elections in the US, Donald's infamous tweets and the unresolved pandemic, we think investors will continue to favor equities in this near-zero rate environment. However, we believe caution is required with regard to some stocks in the tech sector whose valuations defy common sense. We recognize Google, Apple, Facebook, Amazon and Microsoft are ubiquitous in our daily lives, but does it justify those extreme price-earnings ratios? Each of these Silicon Valley stars have a market cap close to or in excess of US $1 trillion. GAFAM stocks are more capitalized than the GDP of Germany, UK or France. Combined, they have a weight of 22% in the S&P500 stock index, a concentration not seen since the 2000 dot-com bubble. This is for some analysts, a clear indication of overvaluation that must be closely monitored. At this time, some of the 2020 stock market's IT stars are so grossly overvalued that investors should be extremely careful chasing them.

We particularly affectionate stocks with interesting growth potential but we stay afar from unreasonable valuations. In September, we took advantage of the pull-back in Alphabet to add it to our model portfolio. Added at US $1,460, Google's parent company was trading 15% below its latest high. More opportunities should arise over the next months. In particular, we believe the oil sector should present interesting gains as this sector's companies haven't been trading that cheap, relative to oil price, since 2000. The day when a return to a normal life will become possible, those stocks should climb a bit more as consumption and travel get back closer to pre-pandemic levels. Regardless of all the uncertainties, the world economy pursue its revival and hopes for more economic stimulus and a vaccine should help bring good returns in the last stretch of the year to celebrate Christmas.