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July 2020 Q2 Commentary & Outlook

Second Quarter Momentum

The end of June marked the close of Q2 2020 and, despite a few significant pull backs, both U.S. and Canadian stock markets finished the month and the quarter in positive territory, a long way from the post-crash lows near the end of Q1.

As a reminder, the S&P TSX Composite index finished the first quarter down over 21%, up from the initial plunge of nearly 40% but off significantly from the earlier mid-quarter highs. In Q2 the Canadian equity index managed to regain another 16%, still down 9% at the close of the second quarter.

The S&P 500, the U.S.'s broadly based stock market index, ended the first quarter down 20% but regained as much in the second quarter, ending the first half of the year down just 4%. In contrast, the tech-heavy U.S. Nasdaq index, which was negative 14% at the close of Q1, added back just over 30% in the second quarter, closing out and the first half of the year ahead 12% overall.

VIX is Elevated, However…

The Volatility Index or VIX, which is often referred to as the fear index, reached astronomical levels early in the market correction and now remains relatively high, suggesting continued uncertainty. However, although much of the economic news as of late has been bad, it seems the unprecedented levels of fiscal and monetary stimulus as well as the promise of treatments or a successful vaccine have so far been sufficient to keep investors confident to stay invested and money flowing into stocks.

2009 All Over Again?

Many are drawing a comparison to the trend of the market recovery between March and June of 2009 after the crash of 2008. If markets were to follow a similar path this time, the comparison would suggest a continuation (perhaps with a break over the summer) of the current recovery into the end of 2020.

But let's not lose site of the fact that there are some fundamental differences between 2009 and 2020. More specifically, our global pandemic has yet to run its course and a contentious U.S. presidential election is looming, which itself could be cause for additional uncertainty in coming months.

However, to counter those concerns we also now have unprecedented levels of fiscal and monetary stimulus, which will most certainly continue to act as a tail wind to both the economic and market recoveries over the near term.

Q2 Earnings in Focus

With the shares of many companies already trading at or above targets, investors will be

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focused on the second quarter earnings reports, paying close attention to how pessimistic or optimistic the consensus is in support of current and future valuations.

Taking Advantage of Short-Term Weakness

As outlined in our June commentary, investors should expect some choppiness in the market as we work our way through this cycle. Within this overall market scenario we are continuing to take advantage of any short-term weakness to build positions in our high conviction stocks and, where applicable, take advantage of the heightened volatility by using increased option premiums to enhance cash flow.

As new information presents itself and market conditions change, we will continue to make active investment management decisions as we work towards meeting your financial goals.

Stay Safe and Healthy

As always, we would like to encourage everyone to stay safe and healthy as social restrictions ease and we take initial steps towards re-opening the economy.

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