Girard, Pilkey & Associates Wealth Management
Portfolio & Markets Review

Daniel E. Girard, CFP, CIM, CIMA, B.A. (Econ)
Portfolio Manager, Investment Advisor

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Capital Markets & Portfolio Strategy Update

Equity Markets Took a Bit of a Breather in September

September brought an end to the five month winning streak for equity prices as investors moved to a more risk-off sentiment. Contributing to this shift was a strong uptrend in global coronavirus cases, concerns over what is projected to be a contentious and volatile election, and the stalemate in negotiations for more U.S. fiscal stimulus. On the positive side, however, even though markets overall were negative in September our Balanced Growth Model Portfolio was able to squeak out a slightly positive return for the month, gaining 0.3%. Returns are strong so far in October as well with the Model up 1.4% month-to-date.

The weakness in the equity markets last month was highlighted by a strong pullback in the technology sector, with the NASDAQ down 5.2% during the month and the S&P500 3.8%, respectively. October has seen a fairly strong rebound so far though, so we'll see if September's weakness was just a pause in the recovery, or a harbinger for weaker markets as the virus continues to spread and the U.S. election draws nearer.

Canadian equities fared slightly better last month than our neighbors to the south, having lost only 2.1% in September. The losses were relatively widespread across most sectors, but oil and gold, and commodities in general, struggled the most over concerns about the global demand outlook.

International equities also dropped in September, with the MSCI EAFE Index (Europe and Japan) down 2.6%; they were buoyed somewhat though by the emerging markets, as the Chinese economy remained a few months ahead of the rest of the world in recovering from the economic devastation caused by the Covid-19 induced shutdowns.

Girard, Pilkey & Associates Wealth Management
519 883-5315 • 1 877 592-6206

Daniel E. Girard, CFP, FMA, CIMA, B.A. (Econ)
Portfolio Manager
Vice-President, Investment Advisor
daniel.girard@cibc.ca

Alan Pilkey, CPA, CA, CFA, CFP
Associate Investment Advisor
alan.pilkey@cibc.ca

CIBC Wood Gundy

The fixed income markets had a slightly positive month, but were pretty quiet overall. Within bonds, governments did better than corporates as credit spreads widened during the month, which is consistent with a risk-off sentiment among investors (reflecting an increased demand for safer government bonds over higher-risk corporate bonds).

With regards to currency, the U.S. dollar came back into favor last month, as risk aversion increased, and gained over 2.0% against the Loonie.

As mentioned above, our Balanced Growth Model Portfolio was able to buck the trend last month and manage a slight gain of 0.3%. The outperformance for the month was due to our fairly defensive positioning and better-than-market gains from our low-volatility Canadian equity index and a few of our external U.S. and international fund managers.

Here's how the key indexes performed for the month of September:

Bellwether Indices	Source: CIBC Wood Gundy				
As at September 30th, 2020	Price Performance % Change				
	1 mo	**3 mo**	**6 mo**	**12 mo**	**YTD**
S&P/TSX Composite Index	-2.1	4.7	22.5	0.0	-3.1
S&P 500 U.S. Index	-3.8	8.9	31.3	15.1	5.6
MSCI EAFE (Europe & Japan)	-2.6	4.9	20.7	0.9	-6.7
FTSE Canada Bond Universe Index	0.3	0.4	6.3	7.1	8.0
Canadian vs. U.S. Dollar	-2.0	1.9	5.6	-0.6	-2.5
Morningstar CDN Neutral Balanced[1]	-0.5	3.4	13.0	2.1	0.3
GP&A Balanced Growth Model[2]	**0.3**	**4.4**	**13.0**	**2.1**	**-0.3**

[1] The Morningstar Canadian Neutral Balanced benchmark is an industry regulated benchmark that reflects the performance of all Funds in Canada that invest at least 70% of total assets in a combination of equity securities domiciled in Canada and Canadian dollar-denominated fixed income securities. In addition, they must invest greater than or equal to 40% but less than or equal to 60% of their total assets in equity securities.

[2] The GP&A Balanced Growth Model portfolio returns are the aggregate actual performance of all clients currently in that investment strategy managed by GP&A Wealth Management (time weighted and net of costs). Individual client portfolio performance may differ materially from the performance results set out above due to various factors including cash flows, risk/return profile, individual investment preferences, etc.

Looking Forward

Although markets have been volatile, the landscape hasn't changed much over the last few months. Investors are focused on four key issues: the U.S. election, virus case counts (and potential shutdowns), another round of U.S. stimulus, and interest rates.

With regard to the U.S. election, it's a week away now and the odds makers have Biden winning, as they have for most of the year. Although it was initially thought that a Biden win would be negative for the markets, that sentiment has turned and it's now being viewed as a positive (due to the belief that the positives will outweigh the risk of higher corporate taxes and increased regulations).

As for the ongoing fiscal stimulus saga in the U.S., markets turn higher whenever it looks like a resolution is near. This could be a positive for equites this week as current rumblings are that a deal could be reached any day now (but likely wouldn't be voted on until after the election).

The pandemic continues to be the most important issue globally, rightfully so, and unfortunately cases continue to rise all around the world as temperatures drop and economies are more open. The good news is that fatalities due to the virus are way down, and that's certainly something to cheer for. Let us all hope for better treatment protocols, and a safe and effective vaccine, sooner rather than later. Once we get through this, though, and we will, markets will go on a tear to the upside and we don't want to be too defensive when that happens.

Lastly, low interest rates are definitely the key driver of investment returns since the March sell off; and low rates are here to stay for quite awhile. Central banks have been unequivocal in saying that.

We have been living in very unique investment markets for twenty years now since the tech implosion in 2000, and they just keep getting stranger. The constants though are the increasing importance of "technology" companies, low interest rates (which affect how we value corporate earnings and cash flow), and the attractiveness of quality companies with highly consistent earnings. As we invest your savings and wealth, we're constantly looking for investments that will give us a strong risk/return profile given the above realities. We spend more time than ever before analyzing how investments are reacting to changes in the above variables and comparing them to the past; looking for information as to what's actually changed in investing and what's remained constant.

We use this information to form our asset allocation strategies and select the specific investments to try to consistently achieve strong risk-adjusted portfolio returns for you. As the world continues to evolve, and works through it's current challenges, we'll keep up the work to make sure your wealth is protected, and growing, as we look forward to better times.

As always, stay well and don't hesitate to ask if you have any questions. Although it's not business as normal, it is business as usual for us and we're here if you need us.

Sincerely,

Daniel Girard

Daniel E. Girard

Data Sources: CIBC World Markets, Thomson ONE.