Girard, Pilkey & Associates Wealth Management
Portfolio & Markets Review

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Capital Markets & Portfolio Strategy Update

A note from your GP&A Wealth Management team

It's been a challenging year so far in so many aspects of our lives. Between concerns for the health of ourselves and our loved ones, challenges with respect to our businesses and careers, worries about investments and savings, and being forced to minimize contact with others, we have all been through a lot. And although I have no doubt that we'll get through this, and hopefully get back to an even better *normal*, your wealth management team wants to say thank you for your patience through all of this.

We thank you for your patience as we have had to move to a more virtual relationship, for your kind words of concern when we've spoken, and for your input as we've tried to operate as effectively as possible in this environment.

As well as saying thanks, we also want to assure you that we've been working very hard during this period, as has the whole CIBC organization, to make sure your savings are being attended to and well managed, both in terms of growth but also protection. To that end, we have increased our research resources and the amount of time we allocate to investment selection, asset allocation and portfolio reviews; all to make sure we're well positioned for multiple potential scenarios during this exceptional period.

The team has been working hard as well to ensure we continue to provide the level of service you expect, and deserve, in an environment where it's been more difficult to get together.

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We have also been trying to increase the amount of communication we provide to you to keep you informed of our thinking, activity in portfolios and performance during this volatile time. With respect to that, we are in the process of increasing the use of our website to provide video updates, as opposed to only written commentaries, and to add other useful content on the markets, economy, investing, and financial planning topics. You'll hear more on this soon.

You may have noticed that we have been much more active lately in making portfolio changes than has typically been the case. This is due to the rapidly changing investment and economic environment, but also because of some structural changes we've made that will allow us to be more nimble going forward in making portfolio adjustments if and when needed. We know, however, that these investment changes can be confusing when viewing the monthly statements, or online, so we will be arranging an interactive client webinar soon to provide a year-to-date update and offer the chance for you to ask any questions you may have. Stay tuned for an email about that within the next couple of weeks.

It has been, and it continues to be, a challenging time. Rest assured, though, that we are being very attentive and active in this environment to make sure your portfolio is well positioned to accomplish your objectives, and also well protected against the multitude of short-term risks. Also know that even though this time is certainly unique, the principles of sound investing and portfolio management have not been suspended. We always knew another recession and bear market would come along, as it's simply part of the market cycle, and we develop and manage portfolios knowing that. We didn't think it would be a pandemic that caused the next recession, but something was going to slow the economy down and our portfolio holdings are designed to be able to weather such storms as they come (without causing any issue to our long-term return objective). Investing has always been a "three steps forward, one step back" experience, if it's done right. This time is no different.

Now let's review last month's markets and results…

Investor Optimism Lead Markets Higher again in August

August ended with global equity markets having another strong month as the recovery continued from the COVID-19 induced depths. Seemingly brushing aside increasing virus case numbers, investors instead continued to focus on the positives: hopes for a vaccine sooner than later, significant policy support from central banks, improving economic data, and second quarter earnings that mostly surprised to the upside.

Leading into August, the recovery from the March lows had been highly concentrated within a small group of high-growth companies. In August, however, that started to change and we saw a broadening out of the number, and type, of stocks participating in the gains; which may be signaling a normalizing of economic growth. That led to very strong gains for the month, with the S&P500 up a significant 7.2% (4.2% CAD), the international MSCI EAFE Index gaining 5.2% (2.2% CAD), the MSCI Emerging Markets Index adding 2.2% (-0.6% CAD), and Canada following suit, albeit not quite as strongly, with a gain of 2.3% (helped by a strong rebound in the oil & gas and banking sectors). Returns in Canadian portfolios, however, were held back a bit as the rise in oil pushed the Canadian Dollar higher and thus lowered foreign returns when viewed in CAD.

Looking at the bond market, a change in Fed inflation policy south of the border helped push bond prices higher, but not high enough to prevent losses for the month as risk subsided and more money flowed into the equity markets. As such, the Canadian Universe Bond index dropped -1.1% in August, and the corresponding U.S. bond index fell -0.82% for the month. Gold, another defensive investment, struggled in August as well, again due to risk subsiding, and lost a slight -0.32% for the month. It's also been very weak so far in September.

Our Balanced Growth Model Portfolio was well positioned for the broadening out of the market gainers and had another solid month, with a 1.7% return in August. That's despite still being fairly defensively positioned.

As I write this review, the markets have turned decidedly weak in September as virus case counts rise globally and the U.S. election looms. The Model Portfolio, however, is sidestepping a lot of the weakness as the defensive investments are providing their

CIBC Wood Gundy

intended protection. Currently, the S&P500 is down -7.03% for the month (as of September 25th) while the Balanced Growth Model Portfolio is down a more modest -1.54%.

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

Bellwether Indices	Source: CIBC Wood Gundy				
As at August 31st, 2020	Price Performance % Change				
	1 mo	**3 mo**	**6 mo**	**12 mo**	**YTD**
S&P/TSX Composite Index	2.3	9.6	3.4	3.8	-1.1
S&P 500 US Index	7.2	15.5	19.6	21.9	9.7
MSCI EAFE (Europe & Japan)	5.2	11.3	7.4	6.6	-4.3
FTSE Canada Bond Universe Index	-1.1	1.8	3.9	5.8	7.7
Canadian vs. U.S. Dollar	2.8	5.6	2.8	2.0	-0.4
Morningstar CDN Neutral Balanced[1]	1.2	5.2	2.5	3.5	0.9
GP&A Balanced Growth Model[2]	**1.7**	**5.3**	**2.6**	**4.3**	**0.2**

Looking Forward

Although the current weakness in the markets may continue for a while, as we move into winter and the risk of a second wave of the pandemic increases, and as we make our way through what will likely be one of the most dysfunctional U.S. elections in modern history, we don't think there will be a sustained sell-off. The factors that have kept the equity markets buoyant since March are all still in place, and as such, should continue to provide significant support to the markets and prevent a lasting bear market. This is especially true with the positioning we have in the Model Portfolio.

[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 (net of costs). Individual client portfolio performance may differ materially from the performance results set out above due to various factors including cash flows, actual risk/return profile, individual investment preferences, etc.

So, as always, try to keep the volatility in perspective and understand that it's simply part of investing in public markets. The true value of the underlying assets don't fluctuate like the day-to-day market prices do, but the volatility is the price for liquidity and higher long-term returns. For assets that don't need to be sold anytime soon, the volatility will have no bearing on your long-term wealth.

Stay safe and healthy, and please know that even though most of the team is working from home, it's business as usual for us. So don't hesitate to ask if you have any questions, or for anything that you normally would; we're here to help.

Sincerely,

Daniel Girard

Daniel E. Girard

Data Sources: CIBC World Markets, Thomson ONE.