Quarterly Commentary

Fall 2020

Time

Autumn of 2020 is turning out to be yet another interesting time stamp during a year that has shifted the way we spend our time and plan for our futures. This time last year I never would have predicted I would be writing a quarterly newsletter from my home office. Yet here I am, and it has caused me to reflect on the importance of time and how we spend it. Everyone has the same number of hours in a day, and days in a year, but how we spend that time varies. Wealth is much like time: it is a conduit that allows us to spend time doing what we enjoy, or helping others in their time of need.

When financial markets take a tumble, as they did in March this year, or back in 2008-2009, many of the people I spoke with expressed two common themes:

- My time working just got protracted as I can no longer retire in the lifestyle I was envisioning.
- How much time will it take for the markets, and more importantly my portfolio, to recover?

Our team spends their time protecting and growing your financial wealth so you can utilize your allotted time to spend it on what is important to you.

Where to from here

In my summer newsletter I had outlined several “moles” that were popping up that could derail the equity markets. We did experience a pullback (NASDAQ briefly entered correction territory in September), but with all the negative noise out there, the equity markets for the most part have been surprisingly resilient. My biggest near-term concerns are concentrated in three areas with the potential outcomes, as usual, being largely unknown:

1. Level of global economic shutdown from an increased COVID-19 outbreak.
2. A protracted contested U.S. election. The level of mail in ballots will certainly add to this unknown.
3. Potential for momentum selling. The uptick in the equity markets this year has been largely concentrated and attributable to the technology sector. If we experience momentum selling in this sector, all sectors will most likely feel the collateral damage. A contributing factor is if the rapid rise in stocks was driven by increased leverage, then deleveraging to cover margin calls also exasperates to the downside.

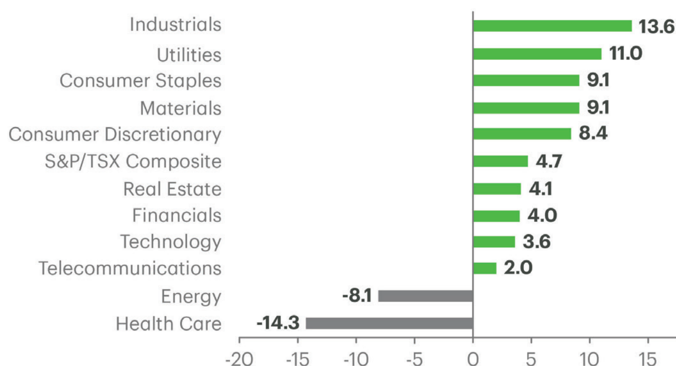
I believe the primary driver of continued upside for the equity markets is the ultra-low fixed income yields in the bond markets together with very accommodative Central Bank policies. I recently reviewed TD's Canadian Corporate investment grade bond inventory with less than 2 years to maturity. With interest rates being so low, and the bonds trading above par value, most of them had negative yield to maturities. This is the first time I have seen that in my 35 years of being in the financial services industry. With interest rates being near zero and inflation above 1% and forecasted to move higher, you end up with a negative real interest rate. With most investment grade fixed income investments, your purchasing power is eroding. Hence investors are moving more idle cash into the equity markets. One positive outcome from this dynamic is that Governments can finance their ever-increasing debt with longer dated low interest rates while inflating that debt to away.

I always get concerned when almost every fixed income money manager bombards my in-box daily with fixed income alternatives deemed by them to be low risk alternatives to current yields offered by investment grade bonds. There is no free lunch. Higher yields mean higher risk. That concept of investing has always been tried and true. A bond or GIC may be very boring, but nice to have if the equity market falls apart. Is the potential for a higher return worth the increased risk? Risk being defined as a loss of capital. I weigh and balance this question every day.

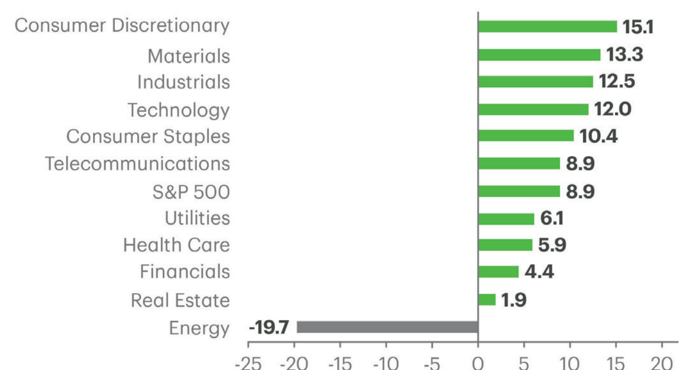
Equity Markets

Investors looked past the public-health calamity to focus on rebounding economic figures and the rapid development of COVID-19 vaccines. In Canada, nine of the 11 S&P/TSX sub-indices posted positive returns. Industrials were the top performers, rising 13.6% on equipment auctioneer Ritchie Bros., which rose 42.9% as the pandemic generated efficiencies related to online auctions.

The S&P 500 rose 8.9% in Q3, the Dow rose 8.2% and the NASDAQ Composite was up 11.2%. Ten of the 11 sectors in the S&P 500 produced a positive return in the quarter. Consumer discretionary and materials rose the highest, with returns of 15.1% and 13.3% respectively. Energy was by far the worst-performing sector, falling 19.7%, as investors braced for the impact on demand from a growing second pandemic wave.



Source: Bloomberg Finance L.P., as at September 30, 2020. Index Total Returns.



Source: Bloomberg Finance L.P., as at September 30, 2020. Index Total Returns.

Fixed Income

With the improving appetite for risk over the past quarter, fixed income experienced a tightening of credit spreads which supported price improvements. I am pleased to finally report that reset preferred shares had a solid quarter with many floor feature reset preferreds trading back to, or at par value.

The downside to credit spreads narrowing is that I do not believe the investor is currently being appropriately rewarded for the increased risk within non-investment grade issuers.

Another recent development is that issuers are capitalizing on this low interest rate window of opportunity by redeeming and swapping high interest rate debt with lower rates and longer maturities. This is creating a consternation for investors and Advisors as we search for quality fixed income securities for reinvestment.

Return to Office Update

We are expecting to finally be able to access our offices on a more consistent basis beginning early November. TD Wealth will be divided into two separate cohorts and rotate into the office bi-weekly. Our team will be split such that Jay and I are in the offices on separate weeks.

Our ability to conduct on-site meetings at our office will be severely restricted for some time to come, and we will be unable to meet at retail branch locations until further notice. We continue to conduct our meetings virtually via Webex or over the phone.

Thank you for your understanding and patience. The continued good health of our team and yours is paramount; as well as family and loved ones within our cohorts.

Stay healthy and take care!

Joshua Borger FCSI® CIM®
Vice President, Portfolio Manager & Investment Advisor
T: 403 299 8997
joshua.borger@td.com

Jay Kolebaba CIM®
Portfolio Manager and Investment Advisor
T: 403 503 4404
jay.kolebaba@td.com

Catherine Edwards B.Comm.
Client Relationship Associate
T: 403 299 8520
catherined.edwards@td.com

Madison Mailey B.Comm.
Client Service Associate
T: 403 503 6528
madison.mailey@td.com

TD Wealth Private Investment Advice
TD Canada Trust Tower
Suite 900, 421 7th Ave SW, Calgary, AB T2P 4K9

Borger
Wealth Advisory Group

TD Wealth

Source: Quarterly Market Review Q3 as at October 2 2020

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