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MARKET COMMENTARY & FORECAST
October 31, 2020

WILL INVESTORS' MEMORIES WITHSTAND ANOTHER LOCKDOWN?

October's end was anticlimactic due to the anticipation of the upcoming Presidential, House of Representatives and Senate Elections. At the time of this writing we know the inevitable result of the first two, and the Senate, with the two runoff elections in Georgia, is drama that exceeds President Trump's Twitter feed drama.

October drummed up an equally volatile month as September, and unfortunately it also had negative returns. Investors continued to be concerned about the economic impact of the massive second wave of the pandemic across the globe and how this will affect small business, government and household balance sheets. Investors' consensus view is to expect some meaningful carnage. Many cities in Europe have curfews in place while the UK has moved into another four-week lockdown for non-essential stores and services in order to stop the country's surging COVID-19 cases, and we have concern about Canada and the US with respects to future lockdowns.

Investors are becoming weary of living in a COVID-19 environment, working from home is resulting in a feeling of the walls closing in and creating serious exhaustion for many individuals. I came across **this interesting article from the BBC,** discussing how lockdown can affect your memory. Perhaps this can help explain why you can't remember what you had for lunch when you're making your dinner. In all seriousness though, should this environment sustain itself, we fear the markets could be subjected to investors becoming sellers of securities.

Market returns (price returns in native currencies):

Index	OCTOBER	YTD RETURNS
MSCI World Index	-3.14%	-2.78%
TSX Composite Index	-3.35	-8.69
S&P 500 Index	-2.77	+1.21
DOW Jones Industrial Average	-4.61	-7.14
Nasdaq Composite	-2.29	+21.61
Hang Seng Index	+2.76	-14.48

The MSCI World Index dropped an additional 3.14% in October and is still down 2.78% for the year, as investors were worried about the uncertainty of both the virus and the US election. US markets were lower with the S&P down 2.77% for the month and +1.21% for the year while the technology-heavy Nasdaq dropped 2.29%, but it is still the best performer YTD with a gain of 21.61%. The Dow Jones continues to lag the other indices due to its heavier weights in industrials/value names and was down 4.61% in October and down 7.14% for the year.

The resource-rich TSX suffered an additional loss of 3.35% for the month, bringing its yearly loss to 8.69%. The information technology sector was the biggest loser suffering a 7.52% loss as investors were concerned about high valuations in technology shares. The heavyweight financials also came in with a loss of 2.36% as investors continue to be concerned about Banks' lower net interest margins and higher loan loss provisions. The resource sectors continue to be a drag on the TSX with energy down 1.57% and golds down 4.21% for the month. There were not many places to hide in Canada except for the health care sector jumping 7.42%, but this sector makes up under 1% weight of the index.

The negative stock market performance was in stark contrast to the rebounding global manufacturing demand in the month of October. Despite rising COVID-19 infections, factories around the world bounced back strongly as manufacturers hired more people and jacked up production of consumer goods in hot demand. Consumers continue to flock to physical assets and large consumer purchases such as real estate, cars, equipment and technology, while shunning services requiring face-to-face contact. The manufacturing number, as measured by the Institute for Supply Management (ISM) index, rose to 59.3 in October from 55.4 in September. Readings above 50 indicate increasing activity while under 50 points to a decline. This was the sixth straight month of expansion. Powerhouses Germany and the US were leading the revival in manufacturing activity. All these numbers are fine but going forward, it comes down to whether the economy can remain open and functioning in the face of rising virus numbers.

The markets have rebounded after month end even though some of the pre-election fears have come true – namely an indecisive victory, a contested election, and lawsuits about the legality of mail-in voting and the vote counting system. Hopes that the Democrats would sweep the White House and the Senate were dashed and the reality of a divided government (Democrat White House with a Republican Senate) would control the size of stimulus plans and tax increases. Fears of higher corporate taxes and greater regulation had driven down large cap companies such as Apple and Amazon, but they have bounced nicely as those fears have been abated. Big Tech has been the most reliable engine of growth during the pandemic but after a flurry of earnings from the heavyweights in the sector (Apple, Amazon, Facebook and Alphabet all reporting on the same day), these companies faltered on the backs of their lofty share prices and pandemic-fueled uncertainty ahead. The health care sector has also bounced post-election as fears of changes in health coverage and pricing have subsided.

The hopeful economic data above, coupled with expectations of a multi-trillion-dollar spending bill if the Democrats were to have swept the election, popped the yield on the US 10-year Treasury to 0.86%. This represents a jump of 15bp for the month, but still down 106bp for the YTD.

Even with the sharp selloff in technology companies, it continues to be a split market with the large cap technology companies benefiting from the work-from-home environment with Facebook, Amazon, Apple and Google all reporting another stellar financial quarter. Traditional non-technology companies continue to lag financially, and their share prices reflected this.

This link from Visual Capitalist discusses 6 Powerful Signals that Reveal the Future Direction of Financial Markets. Interestingly enough, we pay attention to all of them. Number five focuses on market concentration, which is extremely narrow and from our perspective increases volatility and portfolio risk. Monitoring market concentration is relevant data for those investors like Stone who focus on preservation of wealth while also seeking growth. This is a short read, and we hope you enjoy it.

We use our proprietary investment process daily and in volatile market conditions such as these, we seek to ensure that we can manage downside risk and adjust the portfolios accordingly while seeking to achieve our long-term investment goals for our clients.

We remain invested and are committed to companies that provide revenue growth, improving free cash flow and higher earnings per share. We are active portfolio managers with a disciplined investment process including the implementation of various risk management tools to benefit our investors.

Kindest Regards,

STONE ASSET MANAGEMENT LIMITED

Richard G. Stone
Chief Investment Officer

CANADIAN FACTS – DUMP TRUCK: THE QUICK SPILL

Perhaps the greatest time-saver for the modern labourer is—of all things—the good ol' dump truck. Think about it. Instead of needing a group of strong backs to shovel a big load of dirt or gravel or whatever out of the box of a truck, the dump truck just, well, dumps it. Credit for the first one goes to Robert Mawhinney. In 1920, the Saint John New Brunswicker put together a truck equipped with a special dump box in back. The dump box was fitted with a mast, cable, and winch. a simple crank handle was used to operate the winch, which tugged on the cable that lifted the front end of the box high enough to dump its load out the open back. His idea was an instant hit; within a decade the dump truck was mandatory equipment wherever earth was moved. Shovels down, lads.

Adapted from *Ingenious - How Canadian Innovators Made the World Smarter, Smaller, Kinder, Safer, Healthier, Wealthier, and Happier*

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