We hope that all is well and you are enjoying the summer.

It was a tale of divergent markets on both sides of the border in the second quarter. A few companies in the technology and healthcare sectors in the US soared and we saw similar moves in technology and gold in Canada, while most of the other sectors treaded water. This is distorting the performance of the underlying indices as the momentum driven stocks performance and chart patterns are not reflective of the vast majority of equities in the indices, especially on the S&P 500 and the TSX. This divergence seems to have created a trading range which can mean that new highs lead to sell offs, however, we are seeing buyers come in to put a floor under the drops. Going forward it will be constructive to see other sectors like financials and industrials begin to take leadership roles. There have been recent signs that this is beginning to occur.

Most equities are performing as would be expected following the market pullback due to the COVID-19 economic shutdown. Following the March lows, equity values have bounced back but most issues are trading well below the pre-pandemic highs and are somewhat below where they were for the 12 month period. This is to be expected, as economic activity is well below where it was and unemployment remains uncomfortably high as economies attempt to reopen with varying degrees of success. We have recently seen encouraging jobs numbers on both sides of the border, but we still have a long way to go to get back to pre-pandemic levels.

Governments have been providing massive liquidity to support the corporate sector, employees and individuals through the shutdown. This liquidity has buffered the impact on the economy and on equity and bond markets. The government liquidity and bond buying programs have also had the effect of keeping interest rates at extremely low levels which helps businesses and individuals caught with high and rising debt loads. Mortgage and loan deferrals have also been available which could lead to delinquencies if the deferrals run out before economies can fully reopen. That being said, it appears that the initial shock is behind us and the focus is now clearly on re-opening and not shutting down. It is unlikely that we will repeat the complete economic closures of the past. The focus now appears to be on targeting outbreaks and limiting spread without locking down the entire economy. Even as we recover, eventually the debts (Government, corporate and individual) that have been incurred will have to be dealt with, which should moderate long term economic growth.

Canada has been relatively successful in dealing with the pandemic. The Federal Government, the ruling and opposition parties and provinces have pulled together, for the most part. Canada has demonstrated itself to be a far more collectivist country than the US and, as a result, there has been far more consistency and coherence in policy and implementation. Canada is in the process of gradually opening up economies at a measured and cautious pace. We have learned a great deal about the virus in spite of all that we still have yet to learn. Masks, social distancing and hand washing have helped to flatten the curve and slow the spread. The good news in this is that if the public does its part we can continue to recover and move forward until we have a vaccine, which appears more promising.

The US, on the other hand, appears to be without direction or guidance from Washington. Every state and municipality appears to be on their own. This piecemeal approach has led to some states reopening too quickly and, in the case of California, having to close down. This trend will need to be reversed and as has been seen in New York, with the political will and public buy in it can be.

We are still of the belief that well valued dividend paying equities will reward investors over the long run with stable income and long-term capital gains. There are periods when fundamentals seem ignored and dividend paying stocks languish for short periods as investors pile into the next "big thing". This may well be true of the current market environment where the shares of a few companies with little earnings history and or extremely high valuations are bid higher and higher. Eventually this trend will likely repeat past experiences and correct itself.

We believe that extreme stimulus will eventually have to be withdrawn pulling support from the longer end of the bond market, leading to higher interest rates and lower bond valuations. That said, we do not believe interest rates will be going up any time in the immediate future as we continue to recover from this historic event. Dividends once again should fall into favour for investors, especially if there is a correction in the Tech stocks. With the banks offering next to nothing on savings accounts and GICs, a 4-5% yield on a bank stock may appear attractive even if bank earnings will be pressured by loan loss provisions for the next few quarters.

Although some industries may be impacted for years to come (hospitality, cruise lines, casinos, conventions, etc.), we are of the opinion that the broader equity markets should track economies and the return of those economies to a somewhat pre-COVID footing in time. If that is the case, in the next 6-12 months, Canada appears to be relatively well positioned. The United States seems to be languishing at this point. This will have an impact on the November Election as Donald Trumps has touted the economy as his best path to reelection. A Biden win may have a long term economic impact with likely higher corporate taxes and increased environmental protections. His choice of running mate for VP will be a critical indicator as to the priorities of a potential Biden Presidency. That being said, the relative stability of policy and sense of direction may calm markets and reduce volatility bringing back investors who have been sidelined by the erratic nature of the current administration.

Have a great rest of the summer and as always we are just a phone call or e-mail away. We're here to help!

Be well,

Ken, John, Will & Patrick

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