FÉRIQUE
PRIVATE WEALTH

FINANCIAL LETTER

Market Review

By the FÉRIQUE Fund Management Investment team

Third Quarter of 2020

SUMMARY

The third quarter of this atypical year leads us to believe that we have collectively won the first round of this battle against the pandemic. Despite what some critics may say, the measures that have been taken, along with our ability to adapt, have turned the situation around. To convince ourselves, we need only to look at the economic and market data: they are in a much better position now than they were in the second quarter.

	VARIATION Q3-2020	VARIATION YEAR 2020
Indexes (%)		
Canadian equities		
MSCI Canada	4.3	(4.2)
U.S. equities (CA$)		
MSCI USA	7.5	10.5
Global equities (CA$)		
MSCI Asia Pacific (all countries)	6.6	4.9
MSCI Europe	2.6	(5.7)
MSCI World (ex. Canada)	6.0	5.5
MSCI Emerging Markets	7.6	2.1

Source: MSCI

	CLOSING 2020-09-30	VARIATION Q3-2020	VARIATION YEAR 2020
Interest rates (%)			
Canada			
Key rate	0.25	0.00	(1.50)
3 months	0.14	(0.07)	(1.53)
2 years	0.25	(0.05)	(1.42)
5 years	0.36	(0.02)	(1.28)
10 years	0.57	0.03	(1.04)
30 years	1.11	0.09	(0.56)
Commodities (US$)			
Oil (WTI)	$40.05	2.0%	(33.5)%
Gold	$1,886.90	6.7%	33.9%
Currencies			
EUR / CAD	0.64	(2.1)%	(6.7)%
JPY / CAD	79.11	0.0%	(5.4)%
USD / CAD	0.75	2.2%	(2.6)%

Sources: Bank of Canada, Federal Reserve Bank of St. Louis, U.S. Energy Information Administration

However, those who were expecting a return to normality once a vaccine is developed will have to think again. The events we have experienced this year have wrought fundamental changes that will persist long after we overcome COVID-19. These new ways of doing things and of living our lives have created winners and losers in the short term, but will also dictate the criteria for longer-term success.

Politicians have also had to adjust their game plan to new voter priorities. At a time of numerous societal challenges, a highly polarized electorate and constant media coverage, political considerations are vitally important because they can overturn certain investment theses. The end of the third quarter also brought a risk that experts had warned us about: the emergence of a second wave of the virus. We are without a doubt better equipped now to deal with it, but governments' ability to provide support measures is diminishing month by month.

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NET OF FEES RETURNS AS OF SEPTEMBER 30, 2020 (%)						
	Q3-2020	YTD	1 YEAR	3 YEARS	5 YEARS	10 YEARS
FÉRIQUE Portfolios						
Conservative	1.2	2.8	3.1	3.7	n/a	n/a
Moderate	2.0	1.7	2.6	3.9	3.8	4.2
Balanced	3.8	0.8	3.8	4.3	5.2	6.1
Growth	4.5	2.9	7.0	5.3	6.0	n/a
Aggressive Growth	5.5	1.7	6.7	5.3	n/a	n/a
FÉRIQUE Funds						
Short-Term Income	0.1	0.6	1.1	1.4	1.1	1.0
Canadian Bond	0.7	6.7	6.2	5.0	3.5	3.6
Globally Diversified Income	1.7	2.2	2.5	3.1	n/a	n/a
Canadian Dividend Equity	4.4	(15.7)	(13.7)	(2.1)	2.8	4.7
Canadian Equity	6.0	(1.5)	0.9	3.6	5.6	4.8
American Equity	5.7	4.3	10.3	10.4	10.8	13.7
European Equity	3.2	(3.9)	3.9	0.5	2.1	6.0
Asian Equity	8.7	5.4	13.3	5.8	8.7	7.9
Emerging Markets Equity	10.4	4.9	15.2	4.9	n/a	n/a
World Dividend Equity	3.7	(4.0)	1.2	6.9	7.8	10.2

Source: National Bank Trust

THIRD QUARTER HIGHLIGHTS

THE MARKETS IN CONSTANT PROGRESSION

Following the spectacular rebound in the second quarter, the markets were expected to record a more modest performance for the rest of the year. This cautious optimism was based on the positive momentum of economic and health-related data, but also took into account the risk factors associated with the unpredictability of forward-looking business data and uncertainty about the time needed to produce an effective vaccine on a large scale. With the exception of Europe, however, such caution does not seem to have been in order, and most of the world's stock markets experienced a steady growth throughout the period.

Globally, the best-performing sectors were Consumer Discretionary, Materials, Industrials and Information Technology. In contrast, Financials, Real Estate and especially Energy lagged behind.

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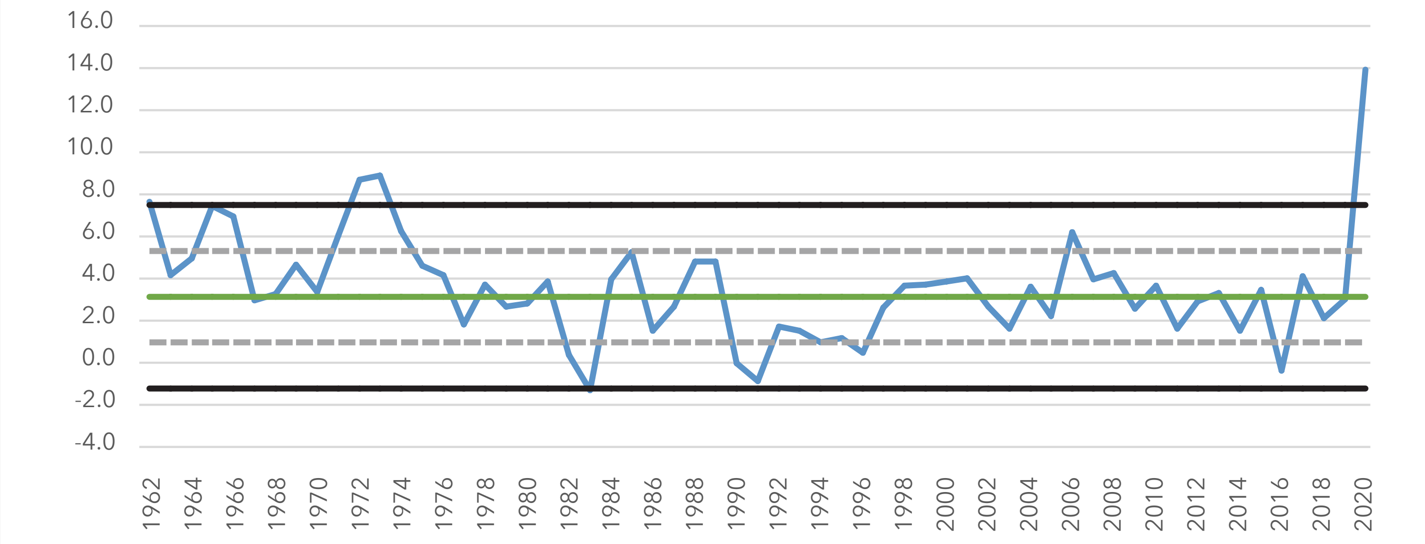
REASSURING ECONOMIC DATA

Initially stimulated solely by the hope of what the unprecedented support measures would bring, the markets were later able to rely on the release of economic data confirming that the transmission mechanisms were working well. One of the indicators that particularly pleased the markets was the record increase in real household disposable income.

REAL HOUSEHOLD DISPOSABLE INCOME (% annual variation)

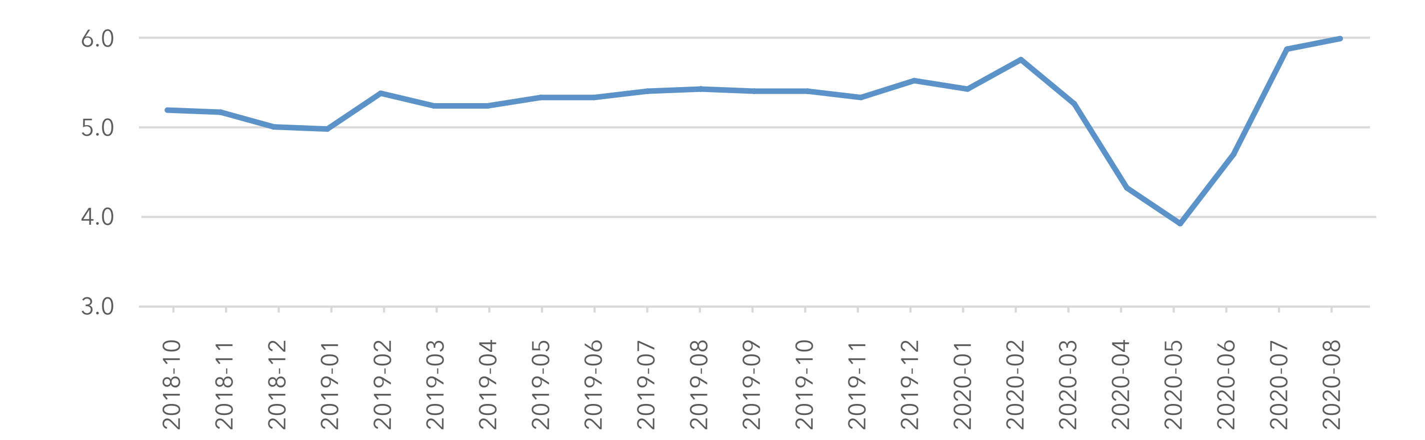


Source: Statistics Canada

In Canada, the combined effect of support income measures and reduced spending during the lockdown pushed this statistic to more than four standard deviations from its 60-year mean.

Beyond the ability of households to spend, several other indicators confirmed that money was being reinvested in the economy. Surprisingly, statistics for retail sales, new and existing home sales, housing starts and durable goods' orders were up sharply, returning to their pre-crisis levels or going even higher.

EXISTING HOME SALES – UNITED STATES (seasonally adjusted, in millions)



Source: Bloomberg

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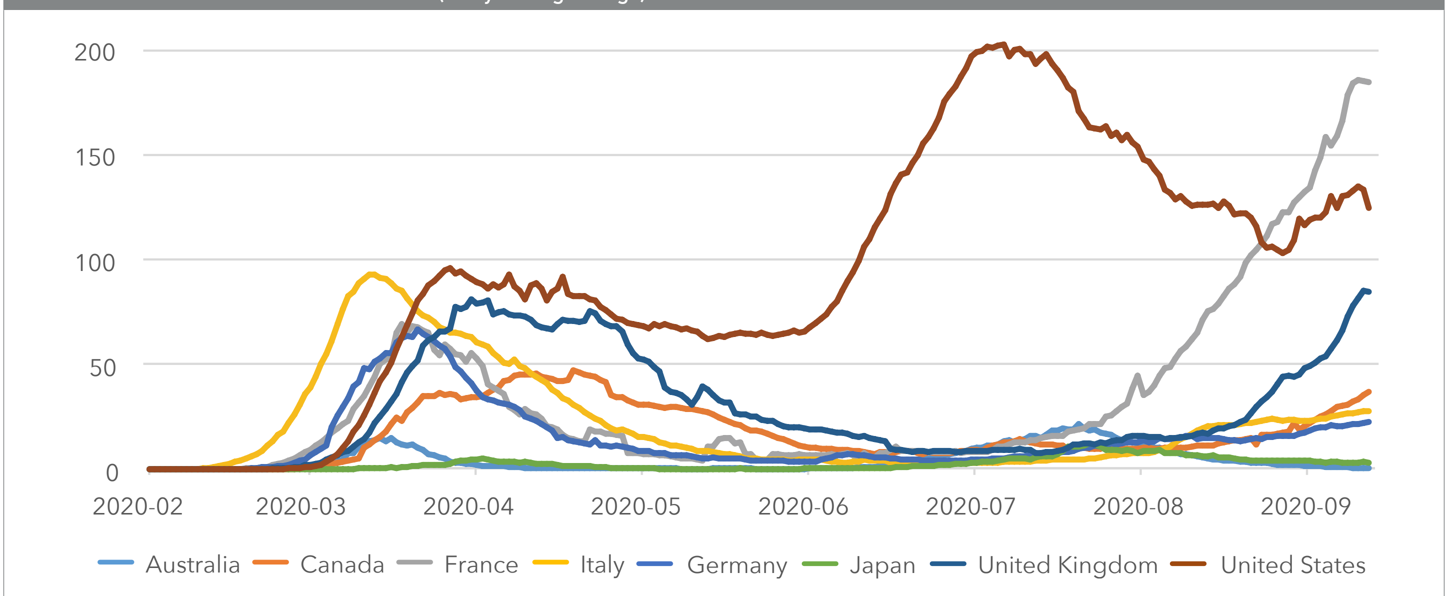
THE START OF THE SECOND WAVE

The third quarter exceeded expectations, but the cloud in the picture was the gradual deterioration of COVID-19 data towards the end of August. Going back to school had already been identified as a challenge to overcome, but there was every indication that other aggravating factors would join the list. Among these was a growing lack of compliance with public health guidelines and directives, due partially to mental fatigue on the part of the population, but more importantly to the stubbornness of a small group of individuals who refuse to believe in the merits of the containment measures. Globally, the new cases can be divided into three groups: countries whose data continue to improve (Australia and Japan); those with deteriorating data (Canada, Italy and Germany); and finally those whose current situation is more serious than it was during the first wave (the United States, France and the United Kingdom).

NEW DAILY CONFIRMED CASES PER MILLION (7-day moving average)



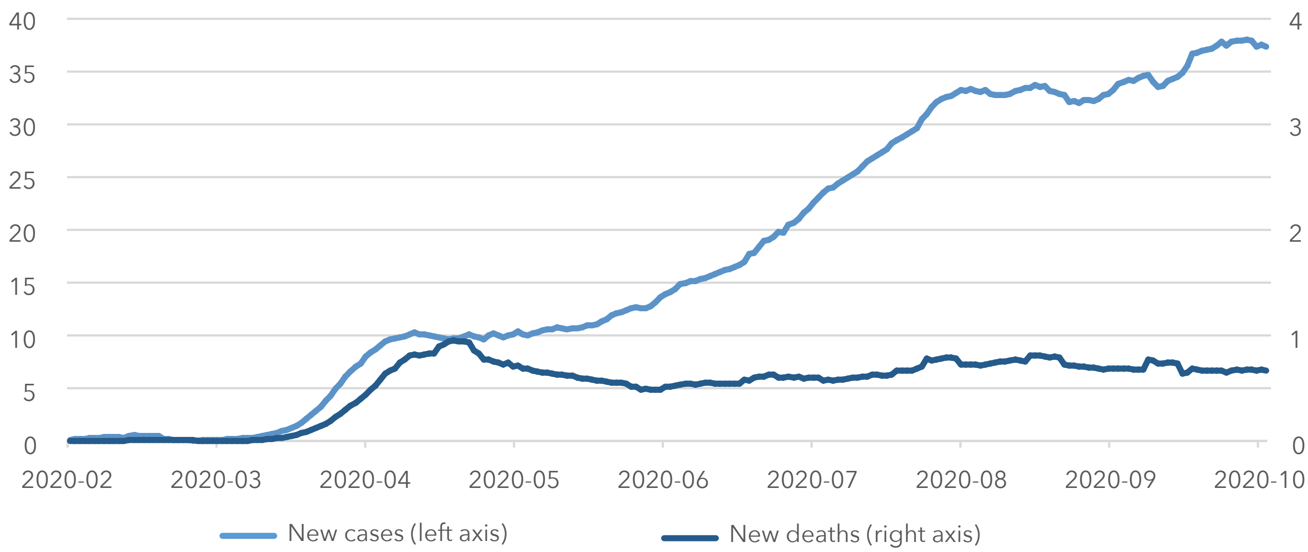
Source: Our World in Data

This turnaround in the progress made since March in most parts of the world weighed on stock market results in September. It also prompted the authorities in some countries—those advocating the limitation of transmission vectors as tools to fight the pandemic—to implement new, more restrictive guidelines and directives.

Despite this undeniable setback, we must not lose sight of a more positive aspect that confirms, among other things, a better understanding of the disease: the number of deaths no longer follows the same upward trend in relation to the number of cases.

THE START OF THE SECOND WAVE (continued)

DAILY WORLD DATA PER MILLION INHABITANTS (7-day moving average)



Source: Our World in Data

This trend indicates an improvement in treatment plans, but it could also be due to mutations that have made the virus more contagious, but less deadly. The wearing of masks also reduces the viral load transmitted and thus gives an infected person's immune system time to mount a defence. The flip side of this encouraging observation is the rising number of cases among younger and healthier people. With this development comes the risk that the health care system could be overwhelmed with prolonged hospital stays and an increase in the number of deaths not directly related to coronavirus infections.[1] The consequences of such an outcome would be equally damaging for the health of people and the health of the economy.

[1] *Source: https://www.lapresse.ca/covid-19/2020-10-07/une-deuxieme-vague-plus-jeune.php*

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AN EVENTFUL END TO THE YEAR

A DECISIVE ELECTION

We are entering the final stage of an event whose outcome could have major repercussions on the markets: the U.S. presidential election! The extreme polarization of the electorate combined with the stance of the current administration—the Republicans view the process as fraught with fraud and have threatened to challenge an outcome unfavorable to them—could plunge the United States into prolonged political chaos in the event of a close vote.

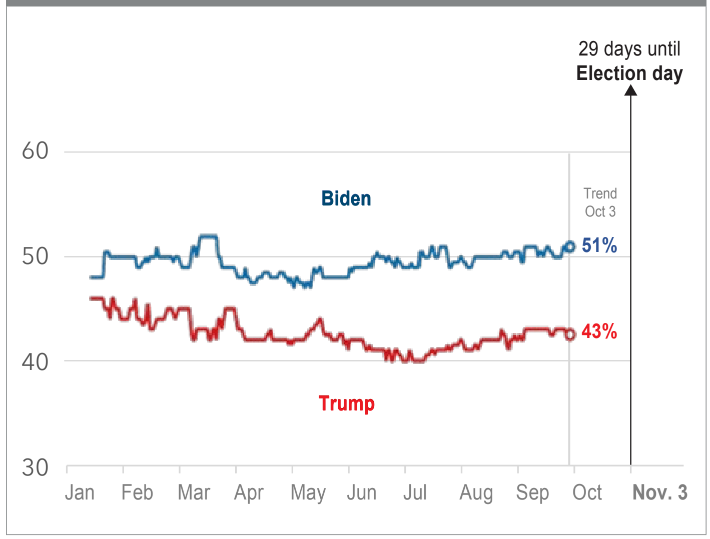
According to Dr. Lawrence Douglas, Professor of Law, Jurisprudence and Social Thought at Amherst College, all the ingredients are now in place to make such a scenario a reality[2]. The 79-day period between the day after the election and the inauguration ceremony on January 20, 2021, is unlikely to end as peacefully as the recount of the election that pitted former President George W. Bush and Democrat Al Gore in 2000.

Given Joe Biden's lead in the polls, it makes sense to look at the potential impacts his presidency could have on different sectors of the market.

Given the known policy initiatives in trade, education, health care and other areas, the majority of sectors would see little impact. However, some sectors would likely benefit from a changing of the guard, while a small number would undoubtedly be penalized.

A second term in office for the Trump administration would not cause such significant changes from a sectoral perspective, but would accelerate existing policies, such as more restrictions on immigration and trade, further tax cuts, more deregulation, as well as infrastructure projects.

TRENDS OF NATIONAL POLLS



Source: BBC

Regardless of the administration in place after the presidential election, the tech behemoths will come under increased pressure from a tax standpoint. These giants have long been criticized for their low taxation rate, and the U.S. government will need significant tax revenues to offset the massive deficit resulting from the crisis.

ADVANTAGED SECTORS	DISADVANTAGED SECTORS
Materials	**Energy**
A less tense trade climate with China will favour agricultural and chemical products.	Reducing or stopping the issuance of new oil and gas operating licenses.
Utilities	**Financials**
Infrastructure programs will support green energy and transport electrification.	Increased regulation and monitoring, increased taxation and capital requirements.

Source: FÉRIQUE Fund Management

[2] *Source: Will He Go? Trump and the Looming Election Meltdown in 2020, Grand Central Publishing, May 19, 2020.*

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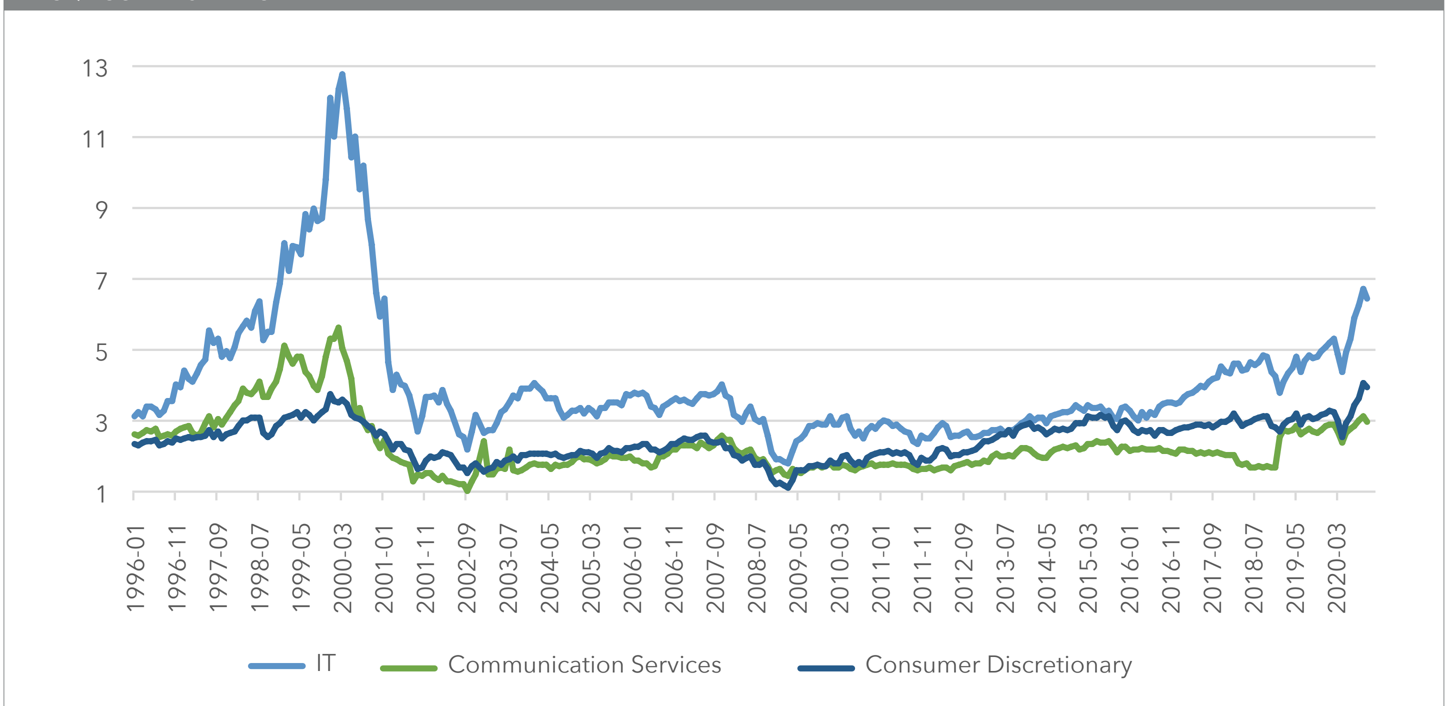
AN ECONOMY IN ADAPTATION MODE

The pandemic has created winners and losers in a sudden and unprecedented way. We are witnessing many such cases: commercial real estate versus suburban residential properties; travel and air transport versus local tourism and recreational vehicles; jobs that require direct contact versus those that can be done remotely. The transformation of several business models is already under way.

As we reconcile ourselves to the longer-term effects of the health crisis, a number of industries will be given new impetus. Many governments around the world will have to increase their investments in the health care sector to bring it up to standard. The biotechnology sector should benefit from this trend. Companies whose business model is based on a competitive advantage derived from one or more technologies will also be in demand. Some will argue that securities of this nature have already risen a great deal. A glance at the historical valuation of the main sectors where we find such businesses shows we are still far from the level reached during the technology bubble of the early 2000s. The following graph shows the price-to-book-value ratio of such sectors within the MSCI World Index. If we look at another common metric, the forward one-year price-to-earnings ratio, we come to the same conclusion.

The supply problems that became apparent at the beginning of the crisis and in some cases still persist will force a return to domestic production. To compensate for the loss of cheaper foreign labour, intensified automation will be required in North America. Capital goods and robotics will benefit from this shift.

PRICE / BOOK VALUE RATIO



Sources: BCA Research and MSCI

POSITIONING YOURSELF FOR YEAR-END

The backdrop for the rest of the year is dominated by increased market volatility in the short term. As investors, we must respond to this environment by continuing to focus on the long term. From that perspective, the outlook for the bond market is less attractive than that of the stock market. One possible strategy may be to increase a portfolio's cash level slightly during periodic rebalancing rather than moving directly into bonds.

When it comes to fixed income, it makes sense to emphasize on securities that offer a credit spread over sovereign bonds. Low interest rates and support mechanisms put in place by central banks justify the search for more attractive risk premiums. This is the approach that FÉRIQUE Fund Management's bond managers are currently taking.

In terms of geographical allocation, we should maintain exposure to Asia, Europe, emerging markets and to a lesser extent the U.S. market. As demonstrated previously, the pandemic is playing out differently in the various regions of the world. While some countries are experiencing a marked increase in the number of new cases (such as France), others are seeing remarkable declines (such as Australia). We must also consider the assistance programs that are available and that help stimulate the markets. They vary from one country to another and are often announced at different times. Such measures are difficult to predict; therefore, it is better to opt for effective geographic allocation. Maintaining sound diversification is still the best strategy, especially in times of greater uncertainty.

CONCLUSION

THE NEW NORMAL

The arrival of a new wave (a second or a third wave depending on the region) and the U.S. election are major risk factors for the markets. From the epidemiological standpoint, however, past experience works in our favor: intervention protocols are well established and several sectors of the economy have already adapted. The economic slowdown that would be caused by a return to tougher containment measures is likely to be perceived as temporary by market players. We must not lose sight of the progress made so far in the development of a vaccine. It is difficult to predict when a vaccine will arrive, but it may come sooner than the usual development timeline would suggest.

The possibility of a few more uncertain months should not be viewed as a road map for the long term. A more comprehensive vision of the situation allows us to foresee the eventual disappearance of the fall risk factors and to focus on the opportunities that the transition of the economy and business models will offer.

As with health measures, good old investment ground rules must be followed! Attempting to predict short-term fluctuations and applying market timing to your portfolio is a recipe for failure. Maintaining discipline is the key to getting through the pitfalls of a year that is forcing us, collectively, to reinvent ourselves.

Wishing everyone a fine end to the year,

The FÉRIQUE Fund Management Investment team

TO JOIN US

To discuss the markets and your investment strategy, contact your Financial Planner and Mutual Fund Representative of FÉRIQUE Investment Services, main distributor of FÉRIQUE Funds.

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