



Wealth Management  
Dominion Securities

# 2020 Q3 commentary



**Jon Mitchell**  
Portfolio Manager &  
Investment Advisor  
[jon.mitchell@rbc.com](mailto:jon.mitchell@rbc.com)  
Phone: 780-944-8851  
Fax: 780-424-7153

## The COVID-19 crossroads: where are we headed?

Jon Mitchell, Portfolio Manager

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All the leaves are brown (all the leaves are brown)  
And the sky is grey (and the sky is grey)  
I've been for a walk (I've been for a walk)  
On a winter's day (on a winter's day)  
I'd be safe and warm (I'd be safe and warm)  
If I was in L.A. (if I was in L.A.)  
California dreamin' (California dreamin')  
On such a winter's day

— Released on December 8, 1965 by the Mamas and Papas

This song has been in my head the last few weeks, as summer turned to fall and thoughts turn to the impending winter season. However, the thought of being in downtown Los Angeles today is not appealing, at least to me, given how severely COVID-19 has hit major cities. I expect a few of us have been wistfully thinking of living in Nova Scotia or Yukon, where there are zero new cases of COVID-19 as of this writing. My beloved Saskatchewan continues to impress me as well with low daily reports.

The last three months have been an improvement in many ways. Speaking to clients, many have enjoyed short-term trips and camping experiences around their home province. Campgrounds were full, recreation dealers had a strong season and just being outdoors around a campfire or hiking is therapeutic. Gardens were flourishing this year and people appreciated seeing their neighbours as they met them on their walks. Most businesses were able to re-open, even recreation facilities and arenas. It was odd to see teenagers dressed in their hockey gear, heading into the rinks for hockey schools this summer, but just being on the ice again was a positive for

the players and parents alike. Yet, despite the appearances of activity, things are still a long way from normal.

Let's roll through an update of the key issues facing us today:

### **Medical: COVID-19**

Despite some optimistic announcements by the White House of a vaccine in late 2020, it appears that most medical vaccines in development are placing the projection of an approved vaccine sometime in 2021, according to the New York Times coronavirus vaccine tracker.

Dr. Supriya Sharma is the chief medical adviser at Health Canada, which has authorized over \$1 billion in contracts for COVID-19 vaccines from AstraZeneca, Moderna, NovaVax, Johnson & Johnson, Pfizer (all in phase 3 trials) and GlaxoSmithKlein and Sanofi (in phase 2). Sharma told Global News that a vaccine needs to be at least 50% effective in preventing COVID-19 before it can be approved. Sharma estimates that approximately 60–70% of Canadians will need immunity to COVID-19 (whether due to a vaccine or having had the virus) to

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truly slow the spread. One of the major medical therapies featured in the news recently was from U.S. drug maker Regeneron, with a treatment that is a combination of two antibodies. As Issam Ahmed explained in a recent Medical Xpress article: “The antibodies attach themselves to different parts of the virus’ “spike protein,” distorting its structure—similar in a way to knocking a key out of shape so it no longer fits its lock.” After a positive COVID-19 test, President Trump was given this antibody cocktail, despite the fact that it only recently started trials.

Despite the success many countries had at “flattening the curve” during the summer, many are dealing with expanding cases and stress on the health care system. As testing has ramped up significantly, cases continue to climb higher, while the daily death rate has been declining, as the medical community researches and tests treatments and drugs to reduce the risk of death. The U.S. daily death rate is less than 50% of the rate it was in early spring, as of this writing, while the Canadian daily death rate is less than 25% of the rate it was in the same time frame.

**Social behaviour**

Once a trend is in motion, it is often difficult to stop or adjust it. Although I have spoken to a few people who have started flying on planes again, the majority of clients remain reluctant to fly. Trips to the grocery store and pharmacy are routine, but visits to a mall, movie theatre or gym are a non-starter, it seems. Many clients are getting takeout from their favourite restaurants, but the willingness to dine inside remains low, even at socially distanced tables.

Travelling to the United States is broadly a non-starter for our clients, even though medical insurance for COVID-19 appears possible from some insurers. With the U.S. border still closed for travel purposes (except for air travel), and many states and provinces with mandatory 14-day quarantine periods, the risks are tilting higher than the rewards for most snowbirds. Recent news stories about jam-packed campgrounds on Vancouver Island for the fall season give you an idea of where retirees will likely be headed this winter.

Schools have generally reopened across North America, but with mixed participation for in-class instructions. One

in six students in Calgary and nearly 30% here in Edmonton have opted for online instruction. Teachers and staff are finding it a stressful year dealing with the added protocols, and a more intense quarterly semester system. Most post-secondary universities and colleges will provide largely online learning for the entire 2020-21 academic year.

It remains to be seen how minor sports like hockey or soccer will fare this winter. I think everyone is on pins and needles in regards to issues around the family and their activities. Large gatherings such as sporting and concert events remain a very low priority at the moment. We are starting to see some fans at NFL and U.S. college football games, but the possibility of standing-room-only stadiums is more of a post-vaccine reality.

Many large employers have pushed their return-to-premises timeframes to early 2021, given the uncertainty of the second wave of COVID-19 cases, along with the issues around returning to school. Some employers have decided to shift to a work-from-home environment on a permanent basis. I, for one, am happy to be able to return to the office setting and actually see my colleagues (mask to mask) at a safe distance. Isolation is not a setting that humans thrive in, as we are social beings. This is one of the factors that the public health officials are up against, as social gatherings resume alongside the uptick in COVID-19 cases.

As we approach winter, I expect a rush to get ahold of cross country skis and snow-shoes, given the outdoors exercise and serenity they provide. Downhill skiing is set to resume this winter under new protocols, and I expect the hills to be busy given the reluctance of people to fly and

then quarantine.

**Financial – personal and societal (government)**

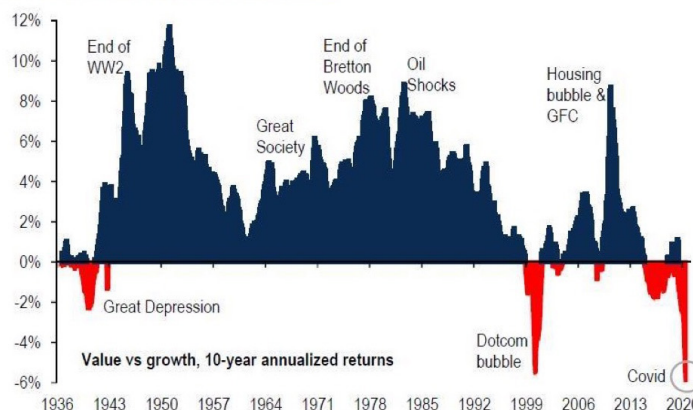
The last three months, financially, were more maintenance for most clients, having adjusted their lives to the realities of living within the pandemic. There remains a major divide between those who have relatively stable jobs who have been able to adapt to the environment and those whose jobs are severely impacted by the virus. For this segment of society, the vaccine cannot come quickly enough. Even with recently announced new government programs, the outlook for survival is bleak for many sectors.

One in five Albertans opted to defer their mortgage payments as of July, according to the Canada Mortgage and Housing Corporation, likely due to layoffs in numerous sectors. Many also deferred their utility bills.

We are in an era now where survival for many businesses and individuals is squarely linked to government support. The Canada Emergency Rent Subsidy, the Canada Emergency Wage Subsidy, the Canada Emergency Business Account and the Canada Recovery Benefit, which equates to a simplified unemployment insurance program, with the same wage allowance as the Canada Employment Replacement Benefit (CERB) at \$500 per week, are just some of the programs that have been introduced in the last few months.

As we expressed in our last commentary, there are many unknowns facing society when these government programs start to wind down, and the enormity of the newly minted debt starts to sink in for all levels

Chart 1: The worst ever returns to value stocks



Source: BofA Research Investment Committee, Fama & French.

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of government. At some point, we will be hearing about how governments intend to pay for this massive debt, with some combination of much higher taxation plans and some degree of spending austerity. Everyone should be bracing for this news, as I expect it will be coming sooner than we expect.

Investment observations

Leadership remained intact in the third quarter, with large cap technology and technology in general outperforming most other sectors (see table at end of commentary). September was the first month since March that the major markets failed to produce a positive return, as the TSX and S&P 500 fell about 2% in the month. Gold bullion fell in both August and September after registering

an all-time high on August 7, at \$US 2,090 an ounce (nearly \$C 2,800 an ounce). Given the slowing economy due to the virus, the focus on growth stocks over value stocks reached its most pronounced level since the Dotcom Bubble in 1999 (see Chart 1 on page 2).

I came across this interesting piece from Visual Capitalist daily email and they graciously gave me permission to share with our clients.

# U.S. money supply vs. precious metal production in the COVID-19 era

By Jenna Ross, Visual Capitalist

Gold and silver have played an important role in money throughout history. Unlike modern currencies, they can't be created out of thin air and derive value from their scarcity.

In the COVID-19 era, this difference has become more prominent as countries print vast amounts of currency to support their suffering economies. This graphic from Texas Precious Metals highlights how the value of U.S. precious metal coin production compares to U.S.

money creation. We have calculated the value of money supply added as well as bullion minted, and divided it by the U.S. population to get total production per person. Here's how the January-September 2020 data breaks down:

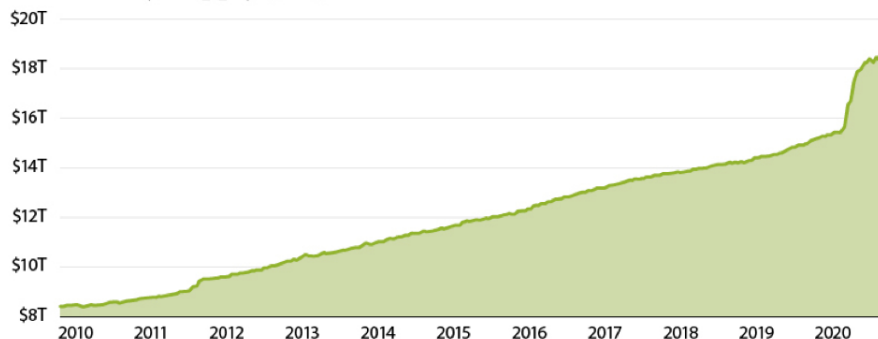
	Total (Ounces)	Dollar Value	Dollar Value Per Person
U.S. Gold Ounces	826,000	\$1.6B	\$4.79
U.S. Silver Ounces	22,261,500	\$544M	\$1.65
U.S. Money Supply		\$3.4T	\$10,250.16
U.S. Debt		\$3.8T	\$11,578.36

Gold and silver dollar values based on Oct 5, 2020 spot prices of \$1,915.93 and \$24.47 respectively.

The value of new U.S. money supply was more than **2,100 times** higher than the value of new gold minted. Compared to minted silver, the value of new U.S. money supply was over **6,000 times** higher." Over the last nine months, the U.S. has already added **400%** more dollars to its money supply than it did in the entirety of 2019—and there's still three months left to go in the year.

Of course, current economic conditions have been a catalyst for the ballooning money supply. In response to the COVID-19 pandemic, the U.S. government has issued over \$3 trillion in fiscal stimulus. In turn, the U.S. Federal Reserve has increased the money supply by **\$3.4 trillion** from January to September 2020.

## U.S. Money Supply (M2) Over Time



Source: Federal Reserve Bank of St. Louis, Oct 2020

Put another way, for every ounce of gold created in 2020 there has been **\$4 million** U.S. dollars added to the money supply. The question for those looking for safe haven investments is: which of these will ultimately hold their value better?

**Notable quotes:**

**“We are not even thinking about thinking about raising interest rates.”**

– Jay Powell, Chair of the Federal Reserve Board

**“What gets us into trouble is not what we don’t know. It’s what we know for sure that just ain’t so.”**

– Mark Twain

Here is one that relates to the surge in Apple and Tesla shares in August, after they announced their proposed stock splits:

**“You better cut the pizza in four pieces, because I’m not hungry enough to eat six.”**

– Yogi Berra

On speculation throughout the ages:

**“Avarice, or desire of gain, is a universal passion which operates at all times, in all places, and upon all persons.”**

– David Hume, 18th century English historian

**Team updates**

- Tina and Jon have returned to the Southside office. The office is at about 50% capacity and is subject to approved protocols for return to premises.
- We continue to use Webex for our client meetings, which is a secure system run by Cisco. If you are interested in meeting with Jon over Webex, please let one of us know.
- Pauline had a successful knee surgery in September and is recovering well at her home. She hopes to be back at work sometime in November.
- Tina broke her arm hiking this summer, but has recently gotten the cast off and is doing well again. She misses her choirs, which are only functioning online at this point.
- Jon wound up his travels to Unity, SK at the end of September. It was a successful harvest for the area farmers this year, as the weather cooperated nicely. Jon hosted several

outdoor movie nights in different locations in the area, and one of his friends did a fireworks show during the harvest.

- As always, we are open to speaking to any of your friends that may benefit from a second opinion on their investments.
- Finally, we would recommend that you circle back to our website from time to time, as we are using that as one of our points of contact to post salient articles on our firm’s views, along with details of the government programs and announcements. You can access it here: [ca.rbcwealthmanagement.com/jon.mitchell/](http://ca.rbcwealthmanagement.com/jon.mitchell/)

Again, stay safe and take care. We have a lot to be thankful for living in Canada. Enjoy each day and please support your local businesses whenever you can.

Set out below is a table of the performance of various sectors of the market in the third quarter of 2020 and for the 2020 results / 3-year rolling periods.

Investment index	Q3 2020 return	2020 YTD return	3-year compound return
S&P/ TSX composite index	4.7 %	-3.1 %	4.3 %
S&P 500 (C\$)	6.9 %	8.3 %	14.8 %
NASDAQ comp (C\$)	8.9 %	27.7 %	22.4 %
Short-term comp bond index	0.7 %	4.8 %	3.4 %
iShares U.S. High Yield Bond Index ETF (XHY, C\$ Hedged)	1.4 %	-7.4 %	-3.5 %
US\$ / C\$	-1.9 %	2.6 %	2.2 %
Gold bullion (C\$)	3.3 %	27.6 %	16.4 %
Global gold mining index (XGD – C\$)	5.4 %	39.5 %	22.9 %



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