



End of May Thoughts from Home

As the month of May winds down, the Covid-19 pandemic is still upon us but the focus of the investment world is now firmly on global economic recovery. Here's our current view of the world:

- 1) May has been a consolidation month but the number of stocks participating in the market rally is not as broad as we hoped. The top 5 companies by market capitalization, all technology names, represent 20 percent of the S&P 500 Index. The combined values of these companies equals the value of the bottom 350 companies combined, up from 282 in July 2018. The broader the overall recovery, the healthier it is for the market and the economy as a whole.
- 2) Oil's price recovery to the low \$30 range has been a pleasant surprise but we are still at least \$20 per barrel away from industry profitability. So far, 17 US oil and gas companies have gone bankrupt and estimates have the total rising to 170 by the end of next year if the oil price does not improve.
- 3) The Canadian banks report earnings this week and they are expected to have a terrible quarter. It is estimated they will report \$8.9 billion in loan loss reserves. These are not cash losses but we believe the market has anticipated these reserves and current share prices already reflect this news.

4) Political tension with China will be an item to watch as media focus moves away from Covid-19. We are particularly watching for more tariffs or anything that might affect technology companies, particularly Apple.

In response, we have taken the following steps:

- 1) Rebalancing portfolios and writing covered calls on new positions where possible to take advantage of short term volatility and possibly reduce our technology positions as market conditions dictate.
- 2) Minimized oil exposure with the exception of pipeline names for dividend income.
- 3) Maintaining our underweight position in the Canadian banks but may add to positions if valuations become even better.
- 4) Our only meaningful exposure to China is through Apple, which has so far managed to rise above global politics. Should the situation change, we will act accordingly.

As always, if you have any thoughts, questions or concerns, please let us know.

Stay healthy and well!

Yours truly,

Trevor, Walter and the Cooper Wealth team



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