CRUNCH TIME

Def: an extremely important moment or period of time when a decision must be made or action taken.

Nine days until the US Presidential election - the ***decision*** of voters may well have long reaching effects not only on America, but the world at large. And while the number of Covid cases explode to new record highs all over the world, will officials be forced ***to act*** and re-impose lockdowns or implement even more severe restrictions?

I hazard a guess that for most of us these two separate, yet in many ways linked, situations will be our focus for the next few weeks. For investors, last week there was one more - would the US House of Representatives pass an economic stimulus package? That seems to be the overriding factor as markets rallied or fell depending on the yes or no rumor of the day.

As for the financial markets, all in all, much like last week - a mixed bag, with gains and losses generally in a 2% range or less. About half the major global equity markets, sectors, currencies and commodities were positive and the other half down for the week. In North America, the S&P500, Dow Jones, Nasdaq and our own TSX were all in the red. Many of the weekly winners could be seen as potential "Biden Beneficiaries", including Mexico, India and Hong Kong equity markets, most major currencies and copper (better China relations). As I commented a week or so back, expect lots of volatility over the next few weeks, but after that financial markets will be driven by how the economy in 2021 performs and how much of those 2021 numbers are already "built in" to many companies' share prices.

Last, if you are really bored while socially distancing, may I suggest a little math exercise. First 'Google' up on the difference between nominal yield or return of a bond versus the real yield or return. <u>With governments globally spending billions trying to lessen the financial impact of the pandemic, they are of course financing it by unprecedented amounts of debt</u>. The last thing they want is the added burden of rising interests rates. Yet both our Central Bank and the US Fed have said they would like inflation to move higher over the next few years with a target annual rate of around 2% . That seems a clear dichotomy to me, while Central Banks can control short-term (under a year) rates, longer terms are subject to market forces.

Say a buyer invests $10,000 today in a current Canada 10-year bond yielding about 0.6% a year, but if inflation is 2% a year, not to mention taxes, what do you think the buying power of the total investment is after 10 years?
(hint- not good)