VACCINE VS VIRUS – ROUND 2

Following on last week's "bout", where Vaccine was a clear winner, round 2 was more of a draw with the Dow Jones, S&P500 and our TSX all dropping just under 1%. The big weekly loss was the NASDAQ, down 1.3%, as technology slumped again, this time led by semiconductors and dissappointing earnings guidance. As it has been technology leading the gains since the bottom in March, proft taking on any news was not unexpected. I would not be surprised to see more of the same, as other major technology companies report earnings in the weeks ahead.

Also dragging on markets were **rising China-U.S. tensions**, as China closed a US embassy in retaliation for similar Amercian action the week before, and lack of progress on another fiscal stimulus bill, as the current one ends soon. The continuing increase in Covid cases not only in the USA, but also in countries where things were supposedly under control (e.g Spain) did not help with investor sentiment either.

There was good news ex-North America: the European Union reached a deal on a huge recovery package. The pandemic deal establishes a €750 Billion recovery fund, €390 Billion will be offered as non-repayable grants and the rest in repayable loans. Leaders also agreed to an EU budget of over €1 Trillion that will run from next year to 2027. Not surprisingly, the Euro hit a four-month high of $1.1470 vs. the greenback. Also in the news was the latest European purchasing managers index which provides a guide to future manufacturing activity. The 55 number was way above the 51 expected by economists (higher being better, of course). I continue to believe, as we approach the US elections, more funds will flow out of North America to international markets and thus a strong possibility those stock markets will outperform US ones over the next year or so.

While uncertainty has led individual and institutional investors to seek the safety of the bond market – more evidence that safety means minimal returns: roughly 86 per cent of the $60 trillion dollar global bond market has yields no higher than 2 per cent, and more than 60 per cent of the market yields less than 1 percent . To put that in perspective, in the late 1990s, nearly 75 per cent of all bonds traded with yields above 5 per cent, while sub-2 per cent yields comprised under 10 per cent of the market.

Last but not least, gold was up almost 5%, flirting with its all-time highs. Many reasons for this, and if you are a believer of technical price chart patterns as I am, a move to new highs potentially means a double or more in the gold price in the years ahead. For reference, the last time gold charts exhibited this big "saucer" shaped pattern was the mid-nineties to 2005 and following that price move above the previous high price, gold surged higher for 5 years. If it follows a similar pattern this time *(and note that is a big IF)* the eventual price target over 5 years could be as much as $5,300 an oz.