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Second Quarter 2020

That was some quarter. The worst global pandemic in 100 years, the worst global depression in 85 years and, for U.S. stocks at least, the best quarter in over 20 years. Mind you a good second quarter has only brought portfolios back to close to even for the year to date and, only because of a few tech stocks.

There are a number of reasons for the seeming incongruity of booming stock prices and fearful health and economic news.

1) There is optimism about the unprecedented scientific effort to develop a vaccine. A good example of that has been from Johnson and Johnson which has expedited its efforts and expects to have 1,000 people enrolled in a Phase One vaccine trial by later this month and has engaged contract manufacturers to make 1 billion doses by the end of 2021. The team of analysts at RBC Capital Markets, including Brian Abrahams, M.D. and Kenner Mackay, PhD., are now tracking some 40 vaccine development programs (and many dozens of clinical treatments). As Dr. Anthony Fauci says, when it comes to vaccines, we'll have many shots on goal. I first came to know of Dr. Fauci during the AIDS epidemic in the early 1980s. Then there was hope for an AIDS vaccine, yet to date, all these years later, there still isn't one. Covid-19 is a novel virus, nobody knows what will happen.

2) There has been a surge in day trading by retail investors. RBC's Lori Calvasina reports (June 15) there has been a surge of "active brokerage accounts" at discount brokerages, whether encouraged by zero commissions or stay-at-home orders. Day traders may have contributed to the outperformance of technology stocks on the NASDAQ.

3) @home, or work from home (WFH) stocks have become an investment theme. How permanent the lifestyle changes brought on by Covid are not known but clearly many more people have experienced WFH and some, like me, are coming to like it. Companies like Microsoft, with its suite of software productivity tools, or Amazon, have been obvious beneficiaries.

4) The overwhelming factor behind the gains in the S&P500 in the second quarter must be the $1.6 trillion stimulus package from the Federal Reserve and Congress. In both Canada and the U.S., 5-year government bonds yield around one third of a percent, 10-year bonds not much more. Effectively there is next to no yield advantage in government bonds over cash, except cash provides the optionality of being able to do something else and bonds provide the risk of price declines if interest rates go up. Currently there is no expectation that the Federal Reserve or the Bank of Canada will raise interest rates before the end of 2021 and, there is little expectation of negative interest rates either.

One measure of the uncertainty investors now face is that more than 1 in 3 S&P 500 companies have withdrawn their earnings guidance for 2020, (Factset, May 22). Faced with that uncertainty, reliable sources of income remain our focus for new investments. My understanding of where to find reliable income is evolving. For example, I never would have expected Walt Disney to be among the companies that have 'suspended' their dividends this year.

I am very pleased to announce that Elena Venneri has joined Team Stedman. Elena is a veteran Associate Advisor. She has worked in the branch with me for more years than either of us want to admit. Elena and I know each other very well and she has been working with Alexa and Margarita these last few weeks to start to know your files.

I am also very pleased to announce that Margarita Martinez Elizondo, CIM, is expecting a baby, anytime now actually. Margarita has worked for me for 10 years. Her enthusiasm and attention to detail has brought our practice to record after record, until this year. The fact that she started in 2010, after the financial crisis of 2008-2009, which was down to her good timing, helped. Happily, her mind will not be focused on clients and their investments for the next 12 months.

Please give your best wishes to Margarita, a welcoming hello to Elena and encouragement to Alexa.

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