

Highlights



Rising COVID-19 infection counts continue to stifle economic recovery across North America and Europe.



Bond yields rose sharply early in the month, only to land back roughly where they started.



Equity markets and investor sentiment weakened as U.S. election uncertainty loomed throughout the month.

Most equity markets weakened in October as U.S. election news and rising COVID-19 counts blanketed the airwaves alongside the season's first snowfall blanketing lawns. In contrast, cannabis stocks were up. Yeah, I know... sometimes markets really do make sense!

Investor sentiment moves from sanguine to somber to Halloween scary

On cue with the turning autumn leaves, investor sentiment shifted from 'optimism in the face of concern' to a risk-off 'time to consolidate gains and batten down the hatches' view of the markets.

Early in October, equity markets were lifted by easy monetary policy and the promise of more fiscal stimulus. Investors seemingly ignored the elevated risks and uncertainties of extended stock valuations and worrisome health pandemic trends – a view commonly known as 'climbing a wall of worry'. Then President Trump got infected and hospitalized with the COVID-19 virus. Despite recovering in time for a surprisingly civilized presidential debate, U.S. election uncertainty and fears of the economic impact from the global pandemic weighed heavily on investors throughout the remainder of October.

Finally, toward month's end, the golden tech sector lost some of its luster. After months of rip-roaring returns driving broad market gains, companies like Apple disappointed on new sales. Most of the big mega tech names also failed to give the markets the optimistic enough forward-looking guidance they wanted with their third-quarter results. In the end, it sparked a meaningful selloff with North American benchmarks falling ~5% in the final week of the month.

Market Summary

Canadian Fixed Income ¹	Month	YTD
FTSE Canada Universe Bond Index	-0.8%	7.2%
FTSE Canada All Corporate Bond Index	-0.6%	6.2%

Canadian Equities ²	Month	YTD
S&P/TSX Composite	-3.4%	-8.7%

	Month		YTD	
	Local	CAD	Local	CAD
Global Equities ²				
S&P 500	-2.8%	-2.6%	1.2%	4.0%
MSCI EAFE	-4.0%	-3.9%	-14.8%	-10.2%
MSCI Emerging Markets	1.4%	2.2%	2.3%	1.7%

Currencies and Commodities (in USD)	Level	Month	YTD
CDN \$	\$0.751	0.0%	-2.5%
Oil (West Texas)	\$35.79	-11.0%	-41.4%
Gold	\$1,879.73	-1.0%	23.4%
Reuters/Jeffries CRB Index	\$144.73	-2.5%	-22.1%

Canadian Sector Performance ²	Month	YTD
Energy	-4.7%	-41.7%
Materials	-2.1%	21.9%
Industrials	-3.4%	4.3%
Cons. Disc.	-0.3%	-5.3%
Info Tech	-8.7%	53.0%
Health Care	7.3%	-36.9%
Financials	-2.4%	-17.9%
Cons. Staples	-7.5%	1.0%
Comm. Services	-3.1%	-13.2%
Utilities	-1.3%	4.4%
Real Estate	-0.9%	-20.5%

Local currency unless otherwise stated.

¹Total return ²Price only return

Source: Bloomberg

Other risk assets, such as oil, also suffered in October. Oil was down substantially on the month (West Texas - 11%) due to continued concerns over excess global supply and already fragile demand forecasts. On-again, off-again rumours and posturing around further fiscal stimulus from the U.S. government added to volatility, without any progress heading into the election. Markets likely still need (and certainly want) additional stimulus. Eventually, there will likely be something. In the interim, markets are left to continue to oscillate over rhetoric around the type, size and timing of any further fiscal relief as daily virus case-counts continue to set records and hospitalizations rise.

Other than the month's blow-by-blow tale of events, the overall capital market picture in October reflected an acceptance that some downward re-rating of growth expectations and recovery assumptions is necessary in light of renewed virus concerns – especially given the situation in Europe and other regions where restrictions are being increased.

More like a bounce than a high

All Canadian equity sectors booked negative results in October, with the noted exception of the Health Care sector, which reported a very strong +7% monthly return. Why this sector when all others weakened under the weight of uncertainty and worry? The answer is cannabis (this is not a product endorsement – just a comment on markets). This highly volatile sub-sector, which makes up ~39% of Canada's Health Care sector weight, got 'lit' in October. It rebounded from an almost equal decline in September (not that the rest of the year has been much better: YTD Total Return S&P/TSX Cannabis Index is -50%). So, while the story would be more fun to report if a sudden surge in consumer demand was due to the never-ending onslaught of political and COVID related news, the industry's October results were more about the market bounce than the high.

Bank of Canada tapers bond purchases

On October 28, the Bank of Canada kept the overnight rate steady at 0.25% and stated they expect no changes until at least 2023. They did, however, announce an adjustment to their quantitative easing program. They will taper their weekly purchases to \$4 billion (still over \$200 billion per year), but the buying will be more heavily

concentrated on longer-term bonds. This news was expected to result in lower bond yields, but instead, bond yields rose to test their highest levels in four months before coming back down to close the month where they began. Canadian fixed-income markets got through the month with only slight negative returns, chipping away at what remains strong year-to-date results.

U.S. Election – the count goes on

At the time of writing, U.S. Election day has passed but the uncertainty around who will occupy the Oval Office in 2021 remains. What we do know at this time:

- There is no Biden Blue Wave (i.e., an overwhelming sweep of Democrats into power across the House, Senate and Oval Office).
- Counting all the votes and the resulting legal wrangling will likely take days or weeks to sort out.

Capital markets' early reaction is a rebound from late October's swoon as the uncertainty of the event itself has passed. Even the worst fears of a contested election, while still lingering, are viewed as manageable. In the days and weeks ahead, we expect a return of some market volatility as the dust settles and asset prices adjust to unfolding events. For now, markets like the prospect of continued political gridlock in Washington D.C. – something they have traditionally welcomed. There is a caveat: the path to further fiscal stimulus is one area where gridlock is likely to become a hurdle, one that could be put on hold while the transition of power gets sorted out.

Beyond the near term, the market response becomes more nuanced. Longer-term issues are likely to focus on the winning party's approach to issues like U.S. trade relations – something that plays a particularly significant role in our Canadian economy. Eventually, investors will turn back to market fundamentals to drive longer-term return expectations. To that end, we see the global economy's ability to overcome the challenges presented by the health pandemic to far outweigh the political stripes of the next U.S. President.

For more on what this U.S. election outcome might mean for capital markets – including a special section on the complicated process of a contested U.S. election, check out [GLC's latest insight piece by Brent Joyce, GLC's Chief Investment Strategist](#).



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