HAC Quarterly Commentary

Q3, 2020

Market Review

The S&P 500 started Q3 2020 on a strong note as investors anticipated companies reporting strong Q2 2020 earnings starting in mid-July. At the same time, the economy was opening up faster than expected, creating investor optimism. The companies and sectors of the stock market that provided work-from-home products and services continued to outperform other parts of the stock market. Investors were adjusting to the new reality that the work-from-home trend was not going to go away after the COVID-19 pandemic. At the beginning of Q3 2020, investors were mainly attracted to large-cap growth stocks. Towards the end of Q3 2020, investors started to show a growing interest in cyclical value stocks as the economy continued to show signs of growing.

The Canadian stock market, the S&P/TSX 60 Index, started Q3 2020 on a strong note in July 2020, and continued to perform well into August 2020. Although the Canadian stock market was positive in August 2020, it lagged the S&P 500 by a large margin. Investors were focused on the large-cap growth stocks, which carry a greater weight in the U.S. stock market. In September 2020, the S&P/TSX 60 Index was negative but managed to outperform the S&P 500 despite the energy sector — which has a larger weight in the Canadian stock market compared to the U.S. stock market — performing poorly. The main catalyst for the Canadian stock market producing less of a loss compared to the S&P 500 was that large-cap technology stocks in the U.S. underperformed the S&P 500. The U.S. stock market has a larger weighting of large-cap technology stocks.

Quarter in Review

At the beginning of Q3 2020, HAC had major positions in gold, gold miners, consumer staples, U.S. government bonds and Canadian bonds. HAC also held a position in the broad U.S. stock market with the objective of benefitting through stocks that were seasonally trending higher into the Q2 2020 earnings season. HAC exited its broad U.S. stock market position as the earnings season was getting underway in July 2020. Mid-way through the third quarter, HAC exited its position in the gold miners and increased its position in gold bullion.

Historically, the fourth quarter of the year tends to be a strong quarter in the stock market. Although the economy has been improving, the stock market has been advancing at a faster rate. At the end of Q3 2020, the stock market was at a higher level than when the COVID-19 pandemic started, but the economy is still substantially below February 2020's level, before the stock market started to turn down. Aggressive action by the U.S. Federal Reserve and assistance from the government has helped to support consumers and promote higher stock market prices.

Outlook and Positioning

The U.S. presidential election in Q4 2020 is expected to provide increased volatility in the markets. Historically, over the long-term, the S&P 500 has, on average, performed well after the election, into the end of the year. The fourth quarter, on average, has provided a variety of sector opportunities in the stock market. The cyclical sectors of the stock market tend to perform well in this quarter. Later in the fourth quarter, the financials sector and small cap sector tend to start their seasonal period of strength. The technology sector starts its period of seasonal strength early in the quarter, but can turn lower in early December. Canadian banks start their seasonal period of strength early in Q4 2020, but can start to turn lower as they report their full-year earnings in late November 2020.

The potential of a second wave of COVID-19 in Q4 2020 could dampen economic growth as some communities will probably choose to shut down to control the virus. Investors continue to grapple with the apparent disconnect between the economy, which is still below its February 2020 levels, and the stock market, which is close to its all-time highs. If economic data starts to lose momentum and the economy grows slower than expected, the stock market's performance in Q4 2020 could be tempered.