Canaccord Genuity Wealth Management

theBasran Wealth Management Group

Wow, 2020 what a year it has been. From March's historic sell-off to April's historic rally and to an unprecedented presidential election, we have continued to deal with the several uncertainties this year has thrown at us. The pandemic, the economic contraction, the oil price collapse, Fed/government response, U.S.-China tensions, and protests are some of unprecedented themes we have and continue to navigate through. Despite the issues above, stocks prices have reached what looks like a permanently high plateau.

It was a mediocre week for stock market, with a day and a half off for Christmas, and trading volume very, very low. The S&P 500 index finished off 0.2%, at 3703.06, the Nasdaq Composite rose 0.4%, to 12,804.73, and the Dow Jones Industrial Average split the difference, finishing the week up 20.82 points, or 0.1%, at 30,199.87. Congress passed a roughly $900 billion coronavirus aid package, only to see President Donald Trump release a video criticizing the package and not saying whether he planned to sign it into law. However, President Donald Trump ended up signing the coronavirus relief and government funding package into law Sunday, days after he sent Washington into a panic by suggesting he could veto the bill. He refused to approve the legislation for days after receiving it, blowing past a Saturday deadline to prevent an estimated 14 million people from temporarily losing unemployment insurance. The measure extends the expanded jobless benefits into March, but millions of people are expected to lose a week of benefits due to Trump's delay in signing the bill.

The S&P 500 has surged almost 65% since its March low and is on track to finish the year up nearly 14%. The economy's growing recovery gets much of the credit for the market's gains, as does a federal stimulus package, massive amounts of liquidity from the Federal Reserve and Bank of Canada, and the rapid development of multiple Covid-19 vaccines. 2020's stock market defied expectations with the S&P 500 up more than strategists forecasted this time last year (they called for an increase of about 5%), and it's even having a better year than its historical average (about 10%). This is all despite a 34% drop in the spring from its February peak.

The S&P 500 experienced its fastest-ever bear market, clocking in at just 33 days before its third fastest recovery to a breakeven level in about five months. The S&P 500 fell 9.6% in a three-week span in September-nearly qualifying as a market correction-before once again rallying into the end of the year. Even with the U.S. elections looming in November and the more recent surge in Covid-19 cases, stock prices have climbed, and the market has reached new all-time highs.

Relating back to our email communication with clients in March, this has been the first decline in global equity markets originating from a disease since SARS in 2003. Attached below is a table showing the 6 major epidemics and fast-moving viruses since 1900, the worst being the Spanish Influenza. All 6 caused sharp declines in global equity markets, much like what we saw in the spring, however, Wall Street's reaction has proven to be short lived just like the past.

Epidemic	Year	Dow Jones Calendar Return
Spanish Influenza	1918	+10.5%
Asian Flu Pandemic	1957	-12.8%
Hong Kong Influenza	1968	+4.3%
Swine Flu	1976	+17.9%
Avian Flu	1997	+22.6%
SARS	2003	+25.3%
Average		+11.3%

A big takeaway from what happened this year is that market performance is not always tied to economic performance. The market was willing to look at this as a one-time event rather than something fundamentally wrong with the economy. The stock market rebounded so quickly because investors including ourselves were encouraged that the pandemic wouldn't trigger a more severe financial crisis. And that assurance came from the Federal Reserve, which took swift and wide-ranging action to stabilize markets. In addition to slashing a key interest rate to near-zero by mid-March, the Fed unveiled plenty of programs to stabilize markets. Those included new quantitative easing (QE) measures and backing loans to keep businesses afloat.

Meanwhile, in late March, Congress passed a $2.2 trillion stimulus package to put money into the pockets of Americans and offer relief to business owners. And for all the unease about the outcome of the presidential election and the makeup of Congress causing market volatility, politics didn't end up mattering as much this year as did positive news related to Covid-19 vaccines.

Before the onset of the coronavirus came to surface, we defensively positioned our portfolios with healthy cash positions as we saw the markets being priced for perfection at the beginning of the year. After extremely strong returns from virtually all assets classes in 2019, global markets were currently pricing risk assets at their highs, risk premiums at their most expensive and interest rates near their lows. I was most concerned that asset price levels have priced in the market consensus of positive outcomes. This means the expectation for mostly positive outcomes was already priced in the market earlier this year. Therefore, any outcome that would be less favourable than this expectation, would lead to increased volatility and should see the market risk sell off. Then came Covid-19 and with the healthy cash positions raised, we deployed capital as the global financial markets digested the economic impacts of Covid-19.

The timing of being able to utilize the dry powder on the sidelines in one of the greatest buying opportunities that I've come across in my experience managing money was next to none. By not going down with the markets in the spring, when the markets rebounded, clients participated in far more superior returns in comparison to the major North American index counterparts.

Following up from our weekly commentary several weeks back, the widespread embrace of risk might seem surprising, but unlike those pleasant days before the crash, policy makers have the benefit of history. The Federal Reserve's monetary policy is designed to support banks, inflate stock prices, and suppress options volatility. Hence, we can assert with confidence that stocks will almost always go higher and higher for the foreseeable future. Should monetary policy have its limits because, say, interest rates are near zero, Congress will help stocks. The government's fiscal policy, especially when faced with the Covid-19 pandemic weakness, might be designed to stimulate the economy, but it really helps stock prices the most.

The markets are once again pricing for perfection in the near term and are likely ahead of themselves in the term. Sadly, the Covid-19 case numbers in the U.S. and other parts of the world due to relaxing restrictions over the holidays, will get much worse in the next few months ahead. As such, I do plan to trim profits early in the new year to ensure there is cash on hand to deploy during the expected near-term volatility. As we prepare to usher in a new year filled with positivity, lest we not forget the tragic loss of life in this pandemic stricken 2020! We count our blessings and pray for the families affected by the pandemic globally.

From our family to yours we wish you a healthy, happy and prosperous 2021!

Regards,

Jerry S. Basran, BBA, CSWP, CIWM, FCSI
Senior Vice President, Investment Advisor
604.643.7346
jbasran@cgf.com
www.basranwealthmanagement.com

Navin Basran | Investment Associate | T. 604-643-7081 | E: nbasran@cgf.com
Rachel Carr | Investment Advisor Assistant | T. 604-643-7348 | E:rcarr@cgf.com
Cole Mattila | Business Development Associate | T. 604-643-7568 | E: cmattila@cgf.com