

Issue 2

WHAT A WEEK

Since mid-April, it has been one week up and one week down for stocks. This past week was up big with all North American benchmarks finishing up around 3%. The Dow Jones Industrial Average gained 779.74 points, or 3.3% to end the week at 24,465.16, while the S&P 500 index rose 3.2% to 2955.45, and the Nasdaq Composite climbed 3.4% to 9324.59. It was the Dow's biggest gain since the week ended April 9. The week offered plenty of reasons for optimism with results from Moderna's Covid-19 vaccine trial to more states and provinces reopening.

Sometimes large weekly gains can be deceiving-and despite the rise, the S&P 500 hasn't really gone very far since its April peak of 2939.51. From April 29 through May 22, the index has gained just 0.5% less than its daily average move of 1.2% in either direction since then. The S&P 500 is stuck between two competing forces. On the one hand, there's the \$6 trillion of central-bank asset purchases globally that have created a bid for the market. On the other hand, there is the offer, keyed to what could be a 50% drop in global earnings in 2020. If history is a guide, the next move is almost certainly lower. This has been the 30th time since 1928 that the S&P 500 has remained between the two moving averages for at least 20 days. Of the 29 previous times, the S&P 500 broke lower through the 50-day 21 times and traded higher through the 200-day just eight times, suggesting there's a 72% chance that the next move is in the near term lower.

The market recovery has been propelled by the monetary and fiscal stimulus globally. It all began during the first week of March when the Fed turned on Quantitative Easing infinity, with an \$83B addition to its balance sheet. Four weeks later this number had gone up to \$586B. Since March, the Fed has expanded its balance sheet by \$2.8T for a total outstanding balance of \$6.93T as at last week. Then came April 9, with the Fed announcing primary and secondary corporate credit facilities, that is, the purchase of corporate bonds along with the highest quality tranche of the high-yield market. With the U.S. already having the largest federal budget deficit since World War II it doesn't stop there. Donald Trump on Friday reiterating Federal Reserve Chairman Jerome Powell's comments from last Sunday regarding how much more stimulus can be provided with a tweet. "One more nice shot at stimulus. It's coming sooner rather than later," he said. However, this is very consistent with what has unfolded in previous major crises ie: the tech crash, 9/11, the financial crisis of 2008-09, and the 2011 European recession.

What makes today different than the market's all-time peak on February 19th, is that the risks are now known, only the outcomes are unclear. The U.S. and China relationship could be a growing issue for the markets. So far, the strained relationship-including a war of words between the U.S. and China over blame for the coronavirus, the U.S. crackdown on Huawei and now Chinese companies listing on the U.S. exchanges - has not had a major impact on the U.S stock market.



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MARKET SUMMARIES

(at Friday's close)

S&P/TSX Composite **up 0.19%** at 14,913.64 (**down 12.60% ytd**)

S&P/TSX Venture **up 0.96%** at 536.94 (**down 7.03% ytd**)

S&P 500 **up 0.24%** to 2,955.45 (**down 8.52% ytd**)

Dow Jones Industrial Avg. **down 0.04%** at 24,465.16 (**down 14.27% ytd**)

Nasdaq Composite **up 0.43%** at 9,324.59 (**up 3.92% ytd**)

Metals

Gold: \$1734.20

Silver: \$17.64

Copper \$2.39

Energy

Brent Crude Oil: \$35.16

WTI Crude Oil: \$33.32

Natural Gas: \$1.89



Elsewhere, the reopening of Canadian economy continues. Governor Stephen Poloz has remained optimistic that Canada will survive the Covid-19 pandemic and undergo a healthy economic recovery this year. As the head of the BoC, Stephen Poloz will appear before the Senate Committee Tuesday which will be his last function.

IN THE WEEK AHEAD

Canada will release Q1's GDP on Friday with the consensus for March being (8.9%) slightly higher than the advance reading for Statcan and the Q1 forecast is (10%). In the US, we await durable goods orders, PCE inflation, and new home sales.

There will almost certainly be a second wave of Covid-19 in the fall. The recession will be the deepest since the Great Depression and tensions between the U.S. and China are almost certainly going to be a permanent part of the landscape. It is clear that the market is looking for hope, hope for a vaccine, hope for a return to normal, and hope for an economic recovery. We witnessed this past week how far that hope can carry from Moderna's news of positive Covid-19 vaccine trial results, unfortunately hope will not be enough. The challenges faced today in turning on the economy look to Starbucks, McDonalds, Home Depot, and the like to start finding firmer footing with respect to earnings guidance.

The global financial markets will grapple with these challenges in the weeks and months ahead and will only find firmer ground once these global businesses are able to provide the economy guidance in the quarters to come.

Our quote of the week is brought to you by Ex-Berkshire Manger Lou Simpson.

"In many ways, the stock market is like the weather in that if you don't like the current conditions all you have to do is wait awhile."



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