MATCO
FINANCIAL

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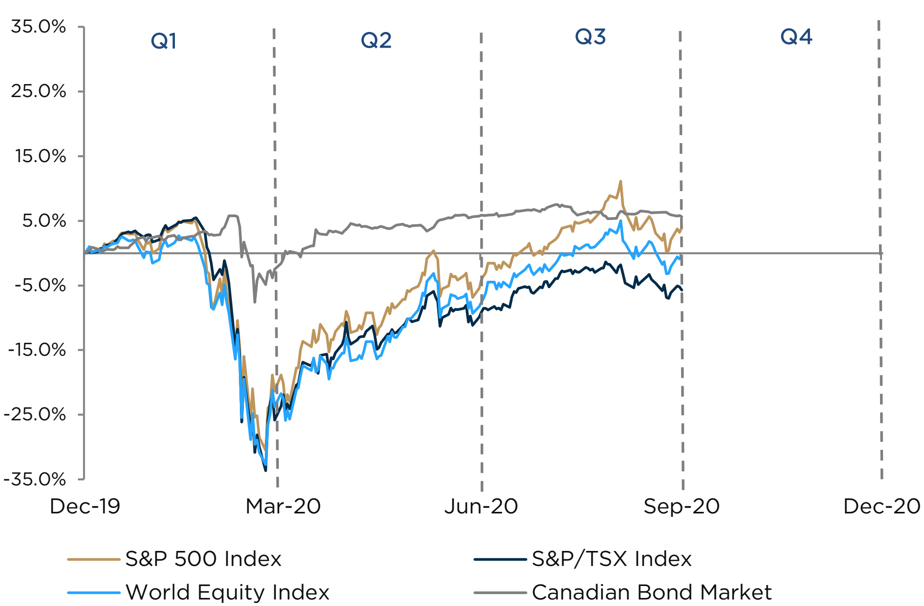
QUARTERLY NEWSLETTER

MATCO FINANCIAL INC
350, 440- 2nd Avenue SW Calgary, AB T2P 5E9
P.403.539.5740 www.matcofinancialinc.com

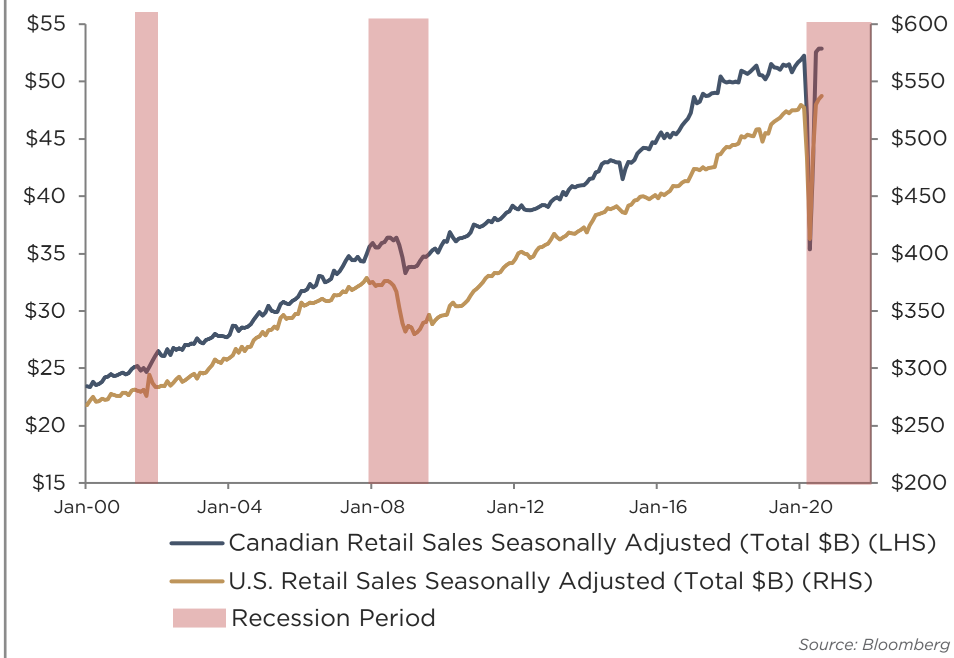
It is hard to imagine that we are now three quarters of the way through 2020. In one breath, it feels like just yesterday that society and the global economy were being forced into lockdown. At the same time, it seems as though a decade's worth of developments have come to pass this year. Perhaps if society can work through 2020, we can weather any storm thrown our way. Continuing this theme of resilience, the economy has proven to be just that. The labor market, industrial production, consumption, and retail activity all came under significant pressure as the COVID-19 pandemic rattled the economy. However, substantial economic stimulus from global central banks and governments provided the necessary stability through the heart of the storm and has allowed the economic clouds to begin to part. Notably, North American retail sales have rebounded more than 25% since April of this year, housing sales in both the U.S. and Canada have staged a remarkable recovery thanks to ultra-low interest rates and the labor market has begun to mend its job layoff and furlough wounds. Without a doubt, consumer behavior has been impacted, causing economic growth to shift, allowing some sectors to benefit more than others. Nonetheless, the third quarter has shown that consumers continue to spend, and that remains a critical take-away at this stage of the recovery.

Global Capital Markets - 2020



Source: Bloomberg

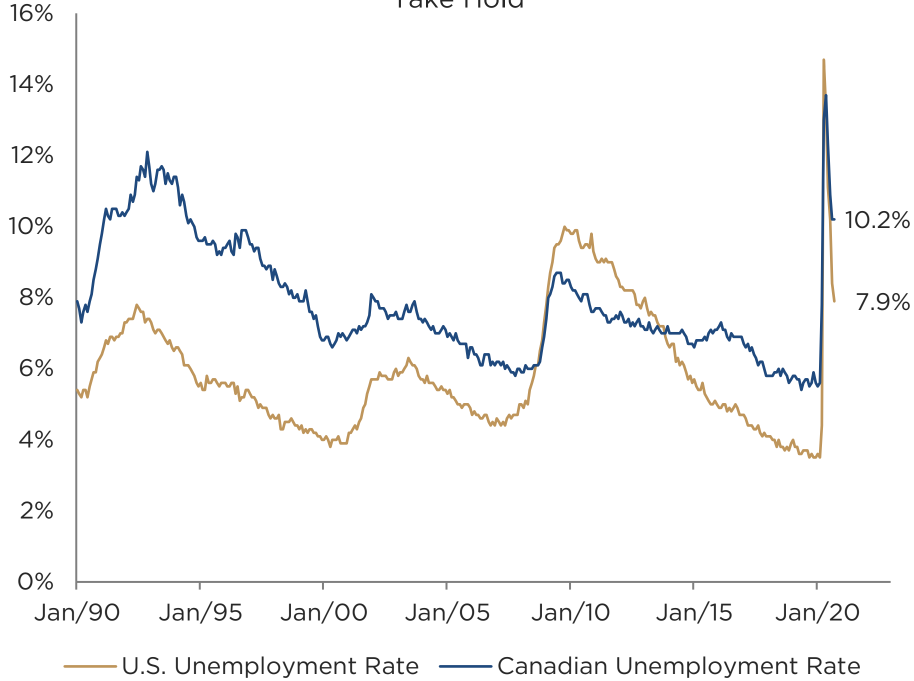
Canadian and U.S. Retail Sales



Source: Bloomberg

Overall, the third quarter was fruitful for capital markets. The Canadian equity market was up approximately 5% in the third quarter, trailing global equity markets which posted gains closer to 6%. This is a continuation of the miraculous recovery we have seen in equity markets since the pandemic began. So how far have we come? Since the lows seen in March, stock markets have increased over 40%, recovering virtually all the losses from earlier in the year. In Canada, the technology and materials sectors have led the way. In the U.S., technology, communication services and financials have led the pack. The shift in both consumption and workplace behavior is driving not only the gains in the technology sector, but the increased amount of investor interest and corporate activity as well. Strong stock market performance typically means softer bond market performance; however, the bond market has performed very well, up approximately 8% year-to-date. The Bank of Canada and the U.S. Federal Reserve have communicated intentions to leave their respective overnight interest rates low for the foreseeable future. This has helped keep longer term interest rates low, allowing bonds to continue their strong performance while simultaneously fueling the recovery in equity markets.

Canada and U.S. Unemployment – Recovery Begins to Take Hold



Source: Bloomberg

Will the recovery and stability continue? Over the short-term, this is a difficult question to answer. The U.S. election this November poses a moderate threat to the recovery, as a Democratic victory would be viewed as a net negative for both the economy and markets. Over recent months, the Democrats have taken a lead in the polls. More importantly, history would suggest that a recession occurring lends to a lower probability of the current administration winning a second term in office. That said, considering the current circumstances and the global pandemic, it is likely the Democrats would hold back on some of their platform initiatives that would have otherwise dampened the economy. Secondly, the uncertainty surrounding a resurgence of the COVID-19 virus also poses a threat over the short-term. It would not be a stretch for new cases to rise as schools re-open and downtown workplaces attempt to return to some form of normalcy.

Over the long term however, we do feel strongly that the economy will continue to recover. North American labor markets now have substantial room for improvement, corporations have already begun to grow their earnings on a quarterly basis and a vaccine for the virus is likely to emerge over the medium term. Big picture, the runway for positive returns in an investor's portfolio looks more promising now than it did 12 months ago. We have begun a new economic and investment cycle, which governments and central banks are determined to support going forward. As always, it is important for investors to remain disciplined and take a diversified approach within their portfolio. Our focus on behalf of our clients is to continue utilizing a diversified asset mix to manage risk while capitalizing on opportunities in the marketplace. We do so through the discipline of our security selection process, the M-Factor, which focuses on key investment factors with the intent to produce robust returns while avoiding unnecessary risk.

S&P/TSX - Sector Return Year To Date (Sept. 30)