Seymour Investment Management

October 19th, 2020

Stock markets around the world continued to recover from March lows, with the S&P/TSX Composite Total Return Index (TSX) up 4.7% in the third quarter, the S&P 500 Total Return Index up 8.9% and the MSCI World Index Total Return in USD up 8.1%. The global economy continues to edge forward despite grim pandemic milestones being reached.

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In July, GDP grew by 3% bringing Canada's economy in August just shy of 70% of the pre-pandemic economic output. Jobs data for September came in well above expectations with unemployment falling to 9%, an improvement from 13.7% in May. The proportion of Canadians receiving CERB, CESB or EI payments fell from 16.1% to 13.5% between August and September.

There continues to be uncertainty regarding the spread of COVID-19 as well as concerns about the US election and rising fiscal imbalances. However, it is important that investors maintain a long term investment horizon and recognize that trying to time the market a fruitless, frustrating, and impossible task.

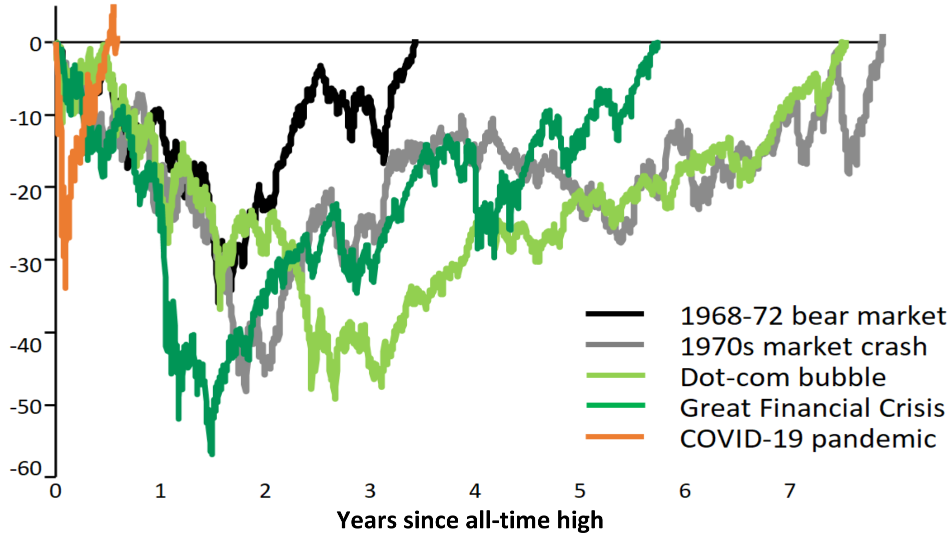
Headlines have a way of gravitating towards significant and captivating world events and concerns. Despite dominating the headlines, often these significant world events have remarkably less impact on the market than the less exciting and often underreported economic factors. Interest rates and inflation levels are two major factors which impact the economy and financial markets. Last we checked, it seems unlikely they are getting as much airtime as the U.S. Presidential Election.

2020 has seen the fastest bear market decline and recovery in recent history

Volatility and a Long Term Investment Approach

For an investor watching their portfolio monthly or even weekly over the past nine months, you would have experienced a volatile ride to say the least. Volatility was at levels not seen since the 2008 Financial Crisis, and resulted in the fastest bear market decline in recent history. Just as fast as the market slipped into bear market territory it bounced out of it. The graph below compares the past eight months to the previous four bear markets.

Exhibit 1: The Covid-19 Bear Market Recovered at a Record Pace



Source: Desjardins Capital Markets and Economic Studies, Bloomberg, Refinitiv

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Volatility, although particularly extreme this year, is a normal function of investing. Equity markets are continually striving to look ahead typically six to nine months to predict what will happen; in a world awash with uncertainty these predictions are constantly evolving. As a leading indicator of the underlying economic fundamentals, the market and its constituents, jump onto the latest headlines and data points, extrapolating them out into a hazy crystal ball. Add in a dose of market and investor emotions, attention grabbing headlines, and a tendency for short-term decision making and we end up with the short-term volatility many investors find unsettling.

As demonstrated in the graph below, the notable constant was that each year saw some level of market decline. Despite reaching an annual return of just shy of 9% over the past forty years, every year saw some degree of market decline. This decline amounted to an on average drop of 13.8% each year.

Exhibit 2: Every Year has Experienced Market Decline

Intra-year Declines vs. Calendar Year Returns of the S&P 500 from 1980 to 2020

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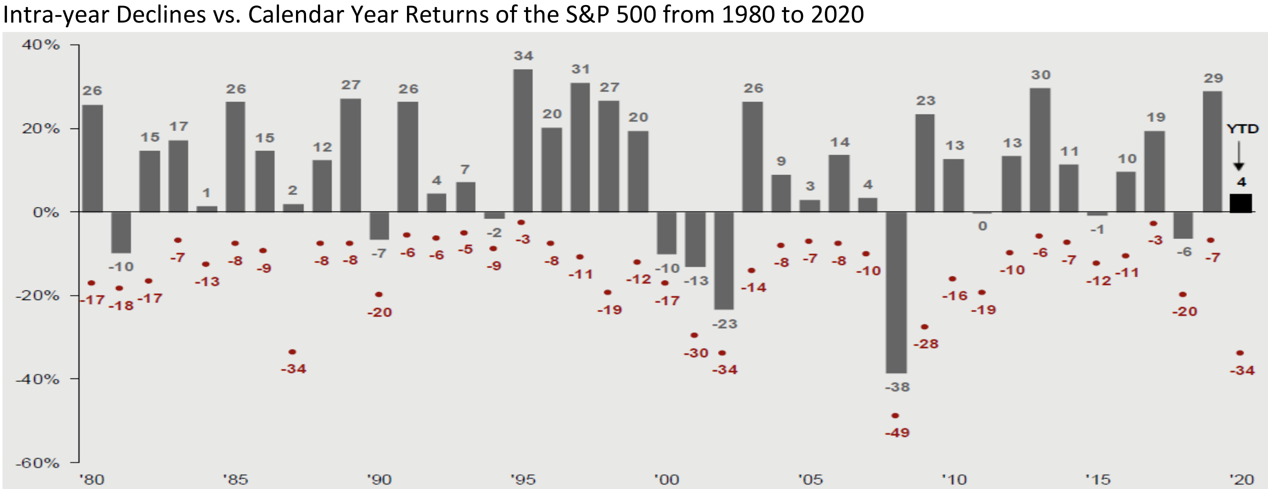

Source: J.P. Morgan Asset Management, FactSet, Standard & Poor's

As always, the best antidote to short term volatility is a steadfast, long-term investment strategy. By having a long term view, the short term swings fade away into meaningful, positive long term averages. The article by Norman Rothery, PhD, CFA for the Globe and Mail recently echoed data points for the TSX we have long since affirmed:

Since January 1964:
Odds of a positive monthly return = 62%.
Odds of a positive yearly return = 73%.
Odds of a positive return over two-year periods = 83%.
Odds of a positive return over five-year periods = 98%.

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Although the short-term is and always will be unpredictable, over the long term results become remarkably more meaningful and reliable.

We are confident that over the long-term horizon of investing, recessions will come, interest rates will eventually rise, market corrections will occur, and inflation will normalize. As with all economic tailwinds and headwinds, and throughout the various macroeconomic events and global developments, we remain focused on investing in world-class organizations that are well-positioned to survive the downturn, and emerge as stronger organizations.

Looking ahead, low and stable interest rates, huge government stimulus and an economic recovery provide a favourable backdrop for equities. Nevertheless, we remind investors that through any periods of volatility that may lie ahead in the coming months, years and decades, we believe the best defense is holding a diversified portfolio of high-quality companies over a long term time horizon.

We hope you and your family are staying safe and healthy.

Sincerely,

The Seymour Team