

The Market in Review

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This week's articles and insights

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“Thanksgiving is an emotional time. People travel thousands of miles to be with people they see only once a year. And then discover once a year is way too often.”

- Johnny Carson

Your Index Report

	Current	Last Week	Year-to-Date
Dow Jones Ind. Avg.	29,872	+ 1.32%	+ 4.67%
S&P 500	3,630	+ 1.33%	+12.35%
TSX	17,351	+ 2.61%	+ 1.69%

The Hallmark Effect

It is Thanksgiving in the US this week. While the event is a single day on the calendar, its effects start as much as a week beforehand. Financial markets began to slow by Tuesday and Black Friday sales started a week ago. Christmas decorations appeared in every store even before that. Family gatherings will be much smaller this year, which has led to all sorts of supply-chain problems, such as too few small turkeys. In most years, large turkeys are needed to feed tables of 8-12 people. This year, small birds are in demand because groups are limited to four in many states. The poor turkey farmers are just one more industry group that didn't expect sweeping national lockdowns when they made their plans earlier this year.

Canada's Thanksgiving actually dates back 40 years earlier than the U.S. version, when Martin Frobisher and his English crew shared a meal and communion of thanks in 1578 in what would later be named Frobisher Bay. We celebrated ours in October but, nonetheless, we wish our American cousins a pleasant long weekend with family.

There is a sense of optimism in the air today, and it all started around November 1st. It was as if certainty had returned to the world, all wrongs would be righted, and all the bad things that happened would be fixed in short order.

Are we talking about the election? That may be a part of it, but no.

Are we referring to the first successful vaccine? The first was announced two weeks ago, followed by a second and now a third. Again, these are part of the improved mood, but no - that is not what is lifting the world's spirits right now.

We are referring to an annual tradition more and more people are viewing: the Hallmark Christmas movies which started airing on November 1st.



Known for their superficial and inoffensive greeting cards, the Hallmark company branched out into cable movies years ago. It now has over 136 Christmas movies in its library with such luminary titles as “Never Kiss a Man In A Christmas Sweater” and “Fir Crazy”. The Hallmark films “are designed to not challenge or upset their viewers, who suspend disbelief to enter a reality where tragedies only happen in the past and the emotional balance is always maintained in favor of romance and holiday cheer.” (source: Screenrant).

The movies cost under \$2 million each to film and follow one of 12 distinct plots. And, they always end with a kiss. Hallmark has filmed 40 new ones this year alone and airs them daily, one after the other.

To detractors, they are predictable and superficial. To devotees, they are happy, mindless, and optimistic entertainment. And they are very big business among women and men alike. Hallmark dominates the Nielson cable ratings every November and December, with close to 80 million cumulative viewers. There are now games, hot chocolate mugs, blankets, and conventions centred around these movies.

That’s a lot of Christmas.

They are surprisingly popular, especially during this year's pandemic. With seniors shut in their homes and children stressed out from missing their friends, even more have tuned in this year. Almost every cable TV channel has suffered large declines as people flocked to Netflix and Amazon Prime, yet Hallmark Christmas movies have seen a 7% increase in viewers.

"If there has ever been a time where I have just wanted Hallmark, and only Hallmark, it's 2020, and I think most people can relate,"

- Jen Lilley, one of Hallmark's lead actresses.

Victoria was host to its own Hallmark set a few months ago when *Christmas She Wrote* was filmed downtown. B.C.'s capital city has been renamed Pineberry, California temporarily, and the movie airs December 6th.

Mark your calendars.

Giving Thanks - Markets This Month

Whether it is because of the U.S. election, three successful vaccines, or the start of the Hallmark Christmas movie season, we give thanks to the amazing market results this month:

- The Dow Jones Industrial Average rose 13%, passing the 30,000 mark, making it the best month for the Dow Jones since 1987. The Dow first crossed 10,000 in April 1999 and these hats were all the rage. Now, they are collector's items.



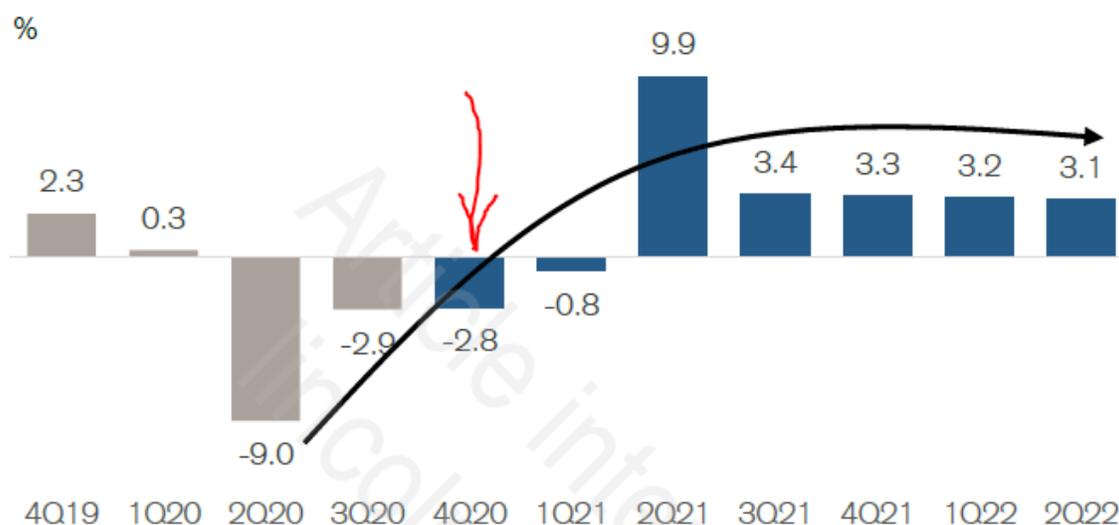
- The Russell 2000 Index is up 20%, for its best month ever
- The S&P energy sector was up 37%, for its best month ever
- The S&P financial sector was up 19%, for its best month since 2009
- The S&P industrial sector was up 18%, for its best month ever.

The graph below gives us an idea of where we are in the economic cycle as the U.S. economy returns to normal.

After the huge -9.0% plunge from April through June, conditions have become “less worse” with each passing month. Last weekend saw the most passenger air travel since March, for example, despite ongoing airport restrictions.

The red arrow shows where we are and the expected recovery expected early next year.

Figure 3: Real GDP YoY with Consensus Estimates



Source: BEA, the BLOOMBERG PROFESSIONAL™ service, Credit Suisse

Bumps Ahead

Viral pandemics follow certain patterns, and this one is no different. There are typically three waves, with the first or second being the most deadly as the most vulnerable are affected. The third is the least deadly but often the most widespread, which is what the world is experiencing now.

Two weeks ago, we compared today to 1944 in WW2 – victory is in sight but there are still many battles to go. As the third wave crests in Europe, German Chancellor Angela Merkel is calling on Europe's ski resorts to close this winter while Disney (**NYSE DIS**) was forced to close its theme parks for a second time. Gasoline demand fell last week to the lowest since June.

As a result, new stimulus and support packages are being prepared. Canada is rolling out a rent-relief program for businesses and the U.S. is debating the size of a second stimulus bill.

January could also see the most expensive election ever. There are two U.S. Senate re-run elections to be held in Georgia in January. The outcome should determine the size of the next stimulus bill. If Republicans win one of those seats, stimulus will likely be \$1-\$1.5 trillion. If Democrats win both, it could be as

much as \$3 trillion. This means that the January 5th election in Georgia could determine as much as \$2 trillion in federal spending.

Like the pandemic wave, however, the new “spending waves” will be smaller than those six months ago. They have to be – governments cannot do this forever. We spent trillions just to get back to where we were a year ago.

“We were just here! What was the point of that?”

- Jerry Seinfeld on how horses feel at the end of a race

Canada is already the highest spender per capita in the developed world through its rent and wage subsidies. These extra cheques, reduced spending, and a widespread jump in panic saving has resulted in Canadians holding close to \$90 billion in extra cash. Add in cash held in corporations and the savings rise to over \$170 billion in sidelined cash (source: CIBC).

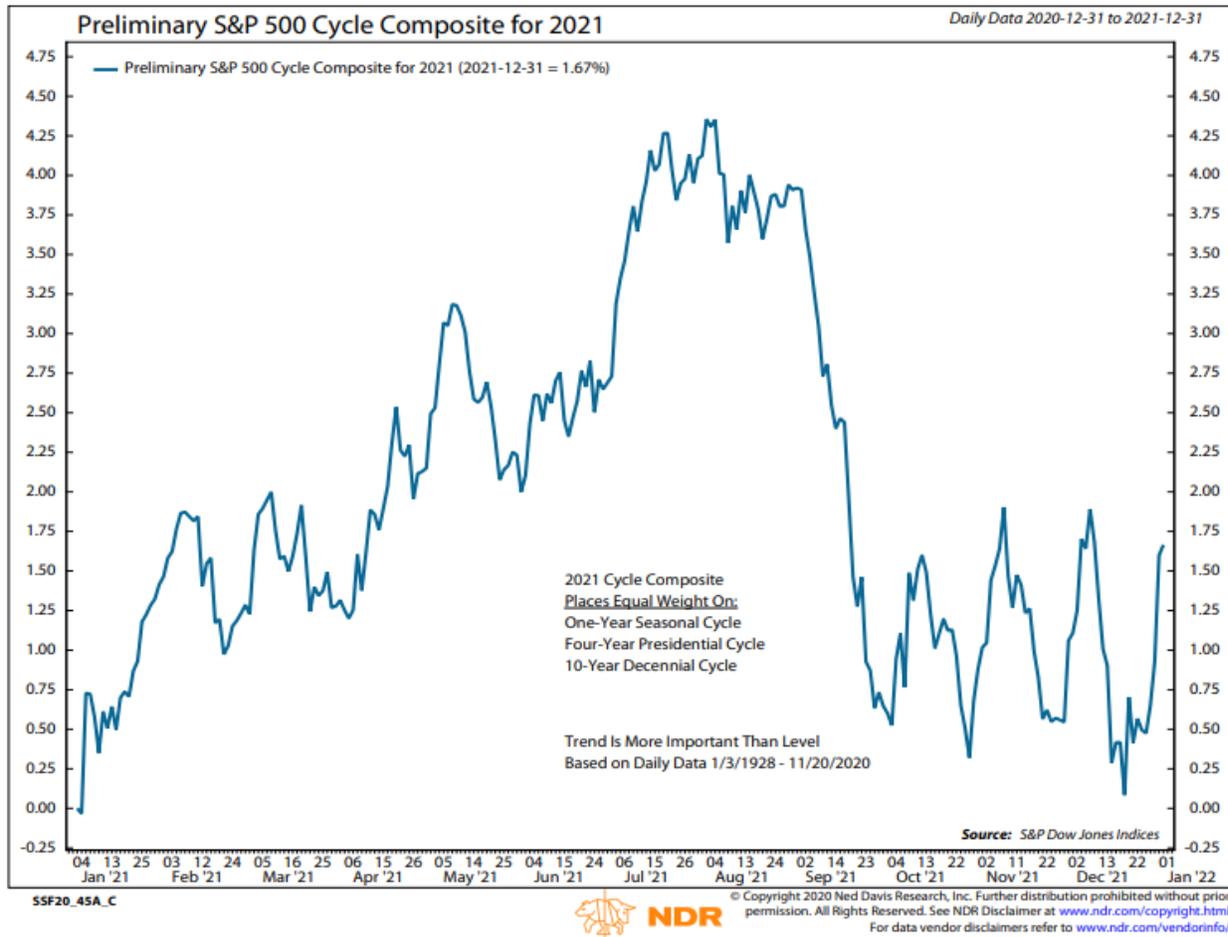
Markets today are exuberant and stretched, leading many strategists to expect some sort of correction between now and Christmas. Any decline is likely to be limited, however, because much of that cash wants and needs to be invested.

What could go wrong? Well, like in 1944, both the Battle of the Bulge and Operation Market Garden were serious setbacks for the Allies as Germany rallied. We could see problems in the delivery or manufacture of the new vaccines, or side effects that have not appeared yet. Business confidence could take a turn for the worse between now and spring, and a large bankruptcy somewhere is not out of the question.

That said, 2021 should see clearer skies. Vaccines will arrive, Britain’s Brexit deal will conclude, and there is likely to be a reduction in U.S.-China trade tensions as the new administration takes power.

Ned Davis Research looks at all past patterns of markets in post-election years dating back to 1928 and combines this data with other recession-recovery years. They suggest 2021 could follow this pattern:

History's take on 2021



- a strong start to the year
- a spring correction
- a summer rally
- an autumn decline
- a weak year-end rally

The first year of a presidential term is often the “Honeymoon Year” when government spending is higher than normal. If that is even possible after this year.

“I believe that in the second half of 2021, when we start to see the light, you will see a very aggressive utilization of this cash because there is so much pent-up demand.”

- Benjamin Tal, CIBC strategist

Where to Invest?

This is always a tough question – especially this year. Much also depends on where you are in life – and who you are - as an individual investor.

For example, interest rates are at century lows. This means the Canadian 10-year government bond pays you a whopping 0.69% per year until 2030. That's \$6.90 in interest (before taxes) on a \$1,000 investment. No one can live on that. For income investors, the traditional utility, telephone company, and pipeline stocks that yield 4-5% are very appealing right now. They may not be exciting, but their steady yields have to be considered as bond replacements.

How about those wanting gains? Traditionally, it has paid to have a blend of value (cheap and unloved) stocks alongside growth (expensive but growing) stocks. In many periods, they tend to do about the same as each other, as we saw from 2008-2015 (growth is red, value is blue):



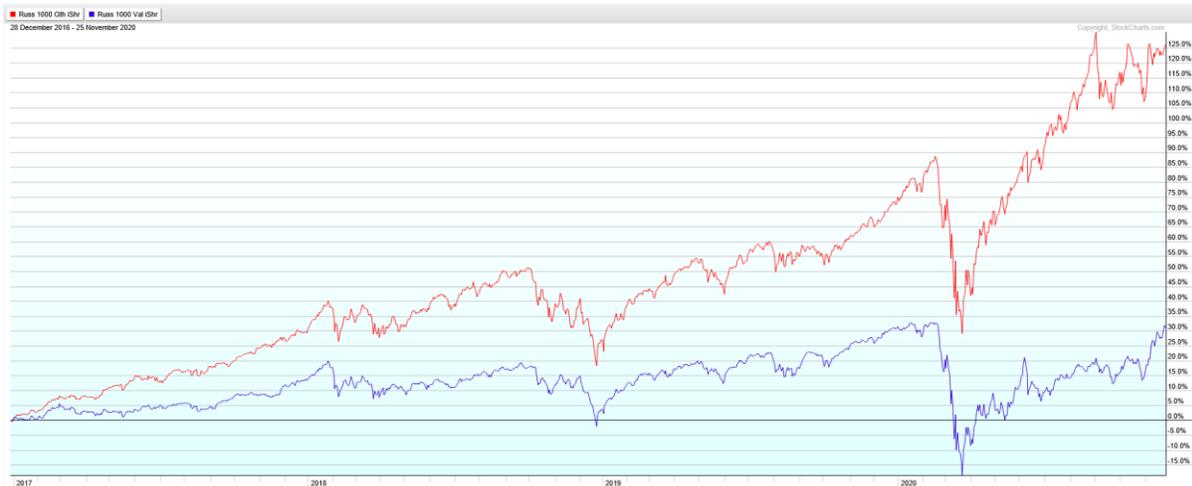
However, there are periods when one outshines the other.

After the Tech Bubble of the late 1990s, value stocks were extremely cheap and growth stocks extremely expensive. This was the period when China was in its highest-growth phase and consumed all the copper, oil, and wood the world had

to offer. This led to value outperforming growth by almost 100% over the next eight years.

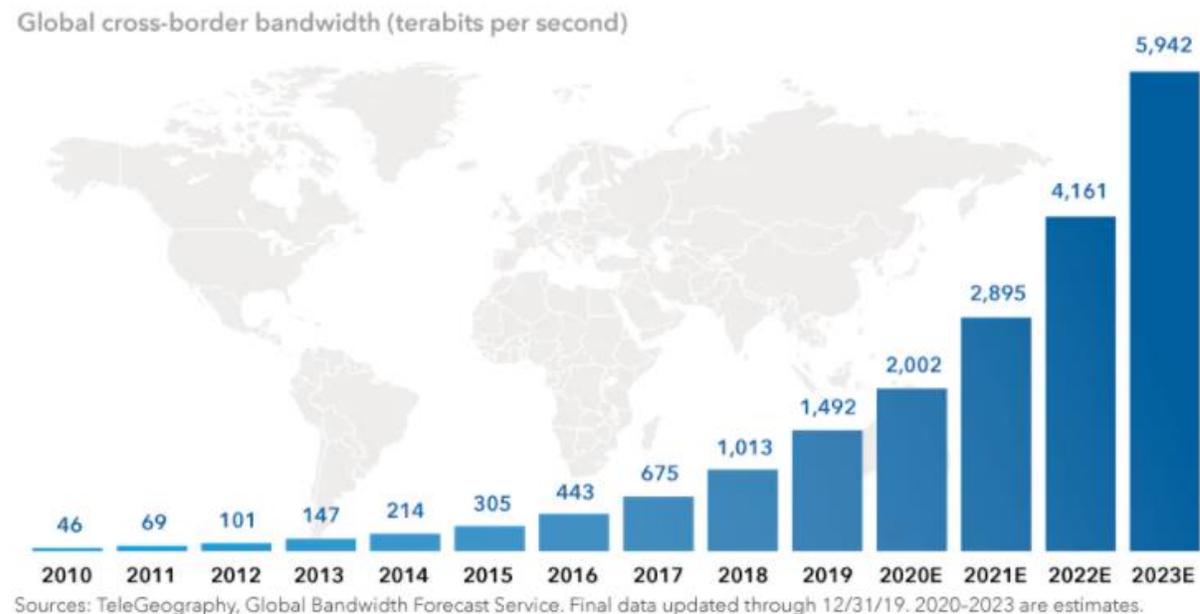


Today, growth stocks – internet, cloud, electric vehicles, biotech – have outperformed since 2012, with a widening gap since the pandemic began. We are back to almost the same 100% outperformance gap that we saw a decade ago, except this time it is growth over value.



It is always important to have both growth and value in your portfolio. There will always be areas of huge growth that can't be ignored, such as the rise in digital data traffic (source: Capital Group). This is a trend that won't end anytime soon.

Data traffic is rapidly rising as digital trade grows



However, growth is now very expensive and value very cheap. The two cheapest sectors are finance (banks) and energy, which are now heavily favoured in most value funds.

Investors should consider holding both growth and value in their portfolios in the years ahead.

Oxygen and Living Longer

There is a tremendous amount of research happening today on life extension. Everything from planarian worms, which can regenerate forever, to salamanders, which can regenerate lost limbs, are being studied closely to find out if their DNA tricks can be applied to humans. Two of the biggest problems as we age are that our cells stop dividing and our bloodstream gets clogged up with old and useless “senescent” cells.

Our cells have a built in division-limitation system. There is a marker called a telomere that shortens with age until our cells can no longer divide. Cancer cells get around this with unlimited growth, but that has its own set of problems. Scientists seek something in the middle.

A team of scientists in Israel recently performed a study where a group of people over the age of 64 were placed in a pressurized chamber and given pure oxygen for 90 minutes a day, five days a week for three months. What happened was sort of amazing.

Their telomeres lengthened and their senescent cells decreased, such that their “cellular age” decreased by about 25 years.

Now, we don’t know if this is permanent or temporary. Nor do we know if these changes will actually result in less disease, better healing, and longer lives for these first test subjects. And it was a small sample size. Much more work needs to be done, but you can bet hundreds of labs around the world will be doing just that.

There is going to be a boom in oxygen chambers after this study.

Here is the link:

<https://www.jpost.com/health-science/israeli-scientists-say-they-found-a-way-to-reverse-the-human-aging-process-649798>

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Prices shown as of November 26th, 2020

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