

The Market in Review

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November 13th, 2020

This week's articles and insights

1. *The Beginning of the End*
2. *Markets This Week*
3. *Impact of the Election*
4. *Who Benefits?*
5. *“Green” Gas*
6. *The Strange Roots of Grapefruits*

“Now this is not the end. It is not even the beginning of the end. But it is, perhaps, the end of the beginning.”

- Winston Churchill, 1942

Your Index Report

	Current	Last Week	Year-to-Date
Dow Jones Ind. Avg.	28,902	+ 2.92%	+ 1.85%
S&P 500	3,519	+ 0.94%	+ 9.54%
TSX	16,533	+ 1.91%	- 2.90%

The Beginning of the End

It is 1944 today in the Covid pandemic war.

In the last six months, scientists have discovered many ways to lower the risks for patients with Covid-19. We have repurposed antiviral drugs that slow its progression and anti-inflammatories to stop the way it makes our bodies react. We have isolated antibodies that kick start our immune systems. Together, these are formidable tools, but they do not give us the victory we all want.

By 1943 in WW2, the Allies had invaded Sicily and chased Rommel out of Africa. The Russians liberated Stalingrad. Germany was being pushed back everywhere, yet we could only dream of a final victory.

It was 1944 when the tide truly changed in Europe. The Allies landed on the beaches of France in June and were in Paris by August and Brussels by September. Victory was no longer a dream but a timeline.

On Monday of this week, Pfizer (**NYSE PFE**) announced that it and its partner BioNTech had achieved a 90% effectiveness rate with its experimental vaccine. This result was far better than had been expected. This is likely to be the first vaccine approved, possibly later this month, with a second vaccine from AstraZeneca (**NYSE AZN**) possibly approved in December. There may be even more.

Messenger RNA, or mRNA, is the novel method being used to create this new vaccine. It is fast, safe, and can potentially be used against any virus in the future like a Lego building block. Just pop a new virus template in and you have a new vaccine in months.

Renowned virologist Larry Corey of the Vaccine and Infectious Disease Division at the Fred Hutchinson Cancer Research Center has spent the last three decades leading the search for a vaccine against the virus that causes AIDS. He's never seen an inoculation developed for a new bug in under five years, let alone one. "It's never happened before, never, not even close," he says. "It's just an amazing accomplishment of science."

- Wired Magazine

But it is still 1944, remember. The war did not end until 1945.

A massive German offensive named the Battle of the Bulge in December put the allies back on their heels for a month with thousands of casualties. There were other furious battles throughout Europe and on the border of Poland against the Russians as Germany retreated. This is where we are now. Daily new cases now

far exceed those seen in March in both Canada and the US, although deaths are lower thanks to new treatments and methods. Lockdowns slowed the advance, but a virus is very hard to stop in an open society. As incoming president Biden says, there are still dark months ahead.

This new vaccine, when it is approved, requires -70C freezing to store and ship it. Very few companies make freezers which maintain such low temperatures, so they will have to be built by the thousands, and quickly. Hotter and poorer countries may have to wait for one of the 60 other vaccines now in development. Most of these are made using older technologies, like dead virus particles, but they can be freeze-died and shipped at room temperature.

The good news is that the end is in sight. Finally.

Markets This Week

Markets surged this week on the impact of the U.S. election (more on that below) and the vaccine news. Our call of *Better Weather Ahead* in our last letter on October 29th was one of our more timely ones. Sentiment had reached very low levels, as fears of a contested election and a Blue Wave of democratic tax hikes was imminent. We didn't buy it, and said instead that better times were ahead.

Indeed they were. The "back to normal" stocks soared:

CVS Pharmacy +25.6%
Suncor Energy +29.15%
Molson Coors +28.22%

While the "pandemic forever" stocks suffered:

UPS +2.08%
Amazon - 5.48%
Zoom -23.21%

Impact of the Election

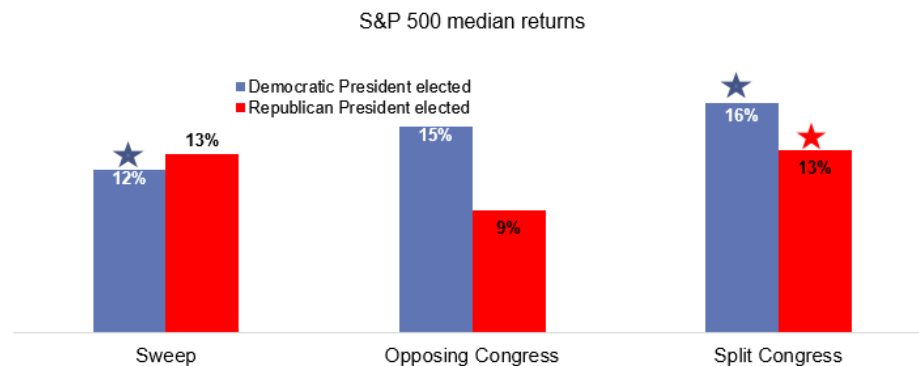
While the victor of the U.S. election has not yet been officially declared, it is probably safe to say that President Biden is in and President Trump is out. Markets breathed a sigh of relief that the term of this century's most unpredictable president is over, and are looking forward to a calmer period.

However, the Blue Wave of Democratic triumph did not appear, and that was an equally big concern to markets. The end result will likely be a Democratic presidency with a barely-Republican Senate and a barely-Democratic House of Representatives. This means the threat of large tax hikes is off the table, as are suggestions of new statehood for Puerto Rico and D.C., and the extreme elements of the Green New Deal.

The reality is that the United States is a centrist nation and this election resulted in the most centrist of results.

In our October 22nd webinar, we highlighted that the best market returns came during the 2-year periods with a Democratic president and a split house. This is exactly what occurred and may help explain the market's jubilation.

Returns based on government control



Source: RBC GAM, Bloomberg, S&P 500 return (USD) November 6, 1928 to October 6, 2020. Returns attributed to governments immediately after election and accounts for changes in government control following mid-term elections. Sweep accounts for period where president's party controls congress. Opposing Congress accounts for period where the opposing party of the president controls congress. Split congress accounts for periods where Democrats and Republicans each have control of one of the House of Representatives or the Senate.

Who Benefits?

Both allies and enemies of the U.S. benefit from the election result. Allies - Canada and Europe – can look forward to less insults and fewer spurious tariffs. Enemies, such as China, can look forward to actual negotiations over issues that haven't gone away with President Trump, but can perhaps be dealt with through a calmer tone.

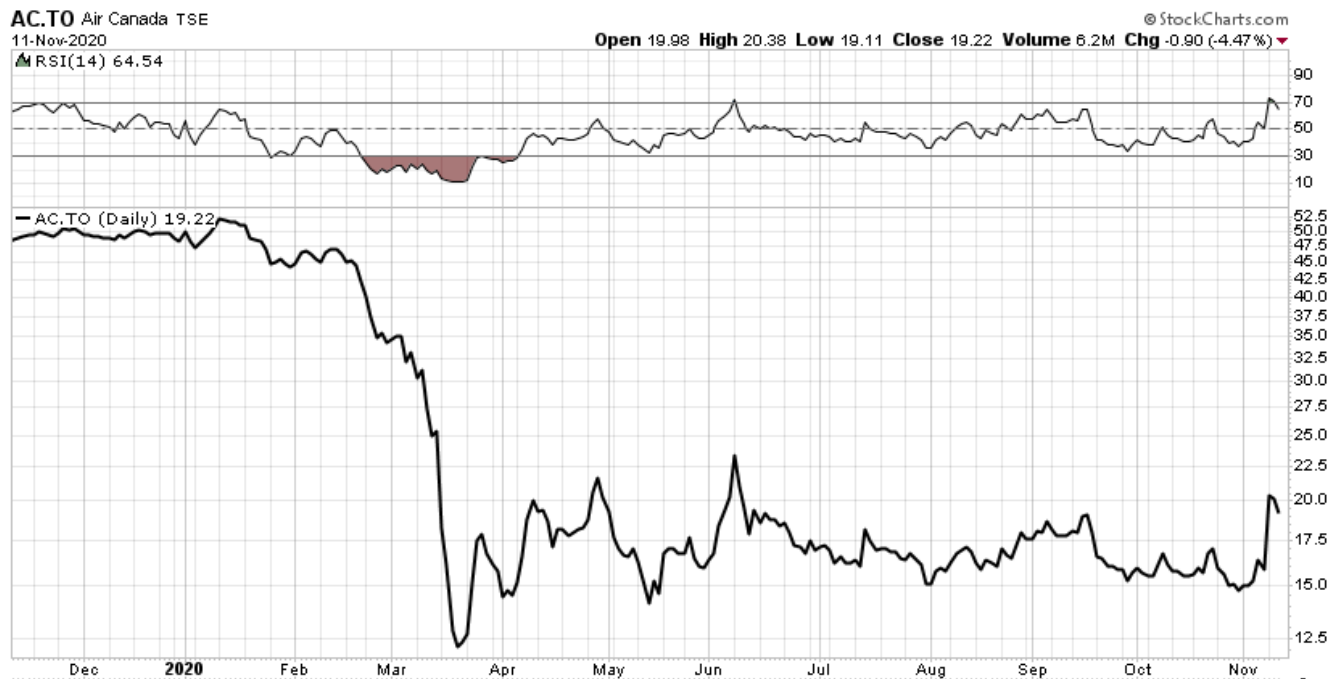
For example, China may allow more global financial companies, such as Visa (**NYSE V**), MasterCard (**NYSE MA**), and the global banks, into its local economy,

something that has been mostly prohibited in the past. Could we see less propaganda against companies such as Nike (**NYSE NKE**) and Apple (**NASDAQ AAPL**), and maybe even a large order of Boeing (**NYSE BA**) jets? All of these would be seen as olive branches to restart a healthier trading relationship.

We believe that 2021 will be the Year of the Vaccine and all the companies that will benefit from a reopening of the economy. Many of these stocks took a big step forward on Monday, when the successful data from the vaccine was announced, but they could have a lot further to go.

For example, Air Canada (**TSX AC**). This is not a recommendation to buy the shares of any airline (Warren Buffett once famously quipped that the entire industry had lost money since the Wright Brothers took their first flight), but as an example of a company very levered to a normalized economy. Air Canada shares stopped falling months ago even as news worsened. This is often a “tell” that the worst is behind us.

Even after a 30% rise this month, the shares are still 60% below their peak in January.



“Green” Gas

When people today mention green vehicles, they probably think of Tesla's electric cars (**NASDAQ TSLA**). Tesla is the world leader in battery-driven cars, making Elon Musk one of the wealthiest people on Earth.

However, batteries can only hold so much power, and they take hours for a full charge. This means some jobs – like long-haul trucking – are not cost-competitive for electric vehicles yet.

An old-but-new technology is the fuel cell, which uses hydrogen as its fuel source. Hydrogen reacts with oxygen in the air and, in the process, energy and water are the result. This makes hydrogen one of the cleanest fuels in existence. You can store it like natural gas in a canister, meaning everything from trucks to forklifts can burn a tankful for days.

Canada was a leader in fuel cell technology way back in 2000, when a company called Ballard Power (**NASDAQ BLDP**) was the Tesla of its day. Fuel cells never lived up to their hype, however, and the \$100 stock fell below \$2.

Today, however, thanks to a renewed push for lower carbon emissions, the hydrogen economy has come roaring back. Like batteries, however, hydrogen faces some tricky challenges. For example, to make it, you have use energy to “crack” water in half to oxygen and hydrogen, or to break up a molecule of natural gas into hydrogen. Most energy to make hydrogen today comes from coal and natural gas – not the cleanest way to make clean fuel. The ideal way to create hydrogen would be to use a nuclear reactor to crack water into oxygen and hydrogen.

Thanks to abundant supplies of natural gas and plentiful hydroelectric power, Canada is one of the lowest-cost producers in the world of hydrogen today. TC Energy (**TSX TC** – the old TransCanada Pipelines) and Enbridge (**TSX ENB**) both have hydrogen facilities on the go, in addition to their wind projects. They see this as a path to lowering their own carbon emissions in the future. BP (**NYSE BP**) is another conventional energy company with hydrogen dreams. They plan to convert an old oil refinery to a hydrogen plant using wind energy.

<https://uk.reuters.com/article/uk-bp-orsted-hydrogen/bp-orsted-launch-green-hydrogen-project-at-german-oil-refinery-idUKKBN27Q0S6>

For now, good old gasoline is still the cheapest vehicle fuel source, once you add in the costs of making it, shipping it, and storing it. Hydrogen is not yet competitive, but the environmental advantages will likely push more energy consumption in this direction in the years ahead.

When you think green, it isn't just electric anymore.

The Strange Roots of Grapefruits

As we age, we take more medications. And as we age, we also change our diets to include more fruits and vegetables. One fruit some of you may have noticed mentioned on drug labels is grapefruit because of the way it interacts with anti-seizure and blood pressure medications, for example.

It turns out, grapefruit is a unique fruit with very unique properties. There are hundreds of medications it may affect simply because of what it does to enzymes in our stomachs.

If you like grapefruit and a good read, have a look at this Atlas Obscura article. We thought grapefruit was just the red-headed stepchild of the citrus family, but it may be the most interesting of the bunch.

<https://www.atlasobscura.com/articles/grapefruit-history-and-drug-interactions>

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