The Market in Review

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This week's articles and insights

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The September Effect is a worldwide market anomaly. Since 1950, the Dow Jones Industrial Average (DJIA) has averaged a decline of 0.8% during the month of September.

This negative market effect may be attributable to seasonal behavioral bias as investors make portfolio changes to cash in at summer's end.

- The Stock Trader's Almanac

Your Index Report

	Current	Last Week	Year-to-Date
Dow Jones Ind. Avg.	26,815	- 3.89%	- 6.04%
S&P 500	3,247	- 3.29%	+0.49%
TSX	15,912	- 2.06%	- 6.75%

Autumnal Equinox

September 22nd was the first day of fall this year, or the Autumnal equinox as scientists call it. It is one of two points in the year when day equals night at approximately twelve hours each.

For the record, the shortest day up here in southern Canada is about 8 hours on December 21st and the longest being 12 hours on June 21st.

Both the Spring and Autumnal equinox occur when the Sun is exactly above the Equator and day and night are of equal length. The fall solstice is a day late this year because 2020 is a leap year and an extra day is added to the calendar.

In pagan mythology, the equinox is called Mabon, or Second Harvest. This was when the ancient Celts gave thanks for the summer and paid tribute to the coming darkness. Christians designated Michaelmas – the Feast of the Archangels - on September 29th, most likely to divert people away from the heathen rituals happening at the same time. More wars are ended at this time of year because this is harvest time, and you can’t fight if you can’t eat.

The Autumnal equinox is all about balance. Balance of light, and balance of time. Summer, with its abundance of heat and fruit and fun, is a heady time when passions get ahead of us.

It is often this way in the investment markets, as well, and these imbalances tend to get corrected in the fall.

History has a number of examples of a “readjustments” that seem to happen more in September:

1720 - South Sea Bubble bursts, with stocks down 75%

1869 - Wall Street’s first Black Friday occurred when Jay Gould and Jim Fisk tried to corner the gold market. They were wiped out when gold collapsed.

1873 - The NYSE closed for 10 days when the trading firm Jay Cooke & Co. closed its doors. This was due to overbuilding in the railway sector.

1998 – Stocks plunged when hedge fund Long-Term Capital Management’s massive 45:1 leveraged bets on currencies, bonds, and stocks went sour. Financial markets tumbled until LTCM was bailed out.

Once we get through October, the correction should pass. Interest rates are likely stay close to zero through the end of 2023 with central banks continuing to stimulate in a myriad of ways.

Two steps forward, one step back. This will be how the pandemic ends. 2020 saw the fastest-ever bear market and fastest-ever recovery, so we were bound to take a pause.

Meanwhile, many areas – from home building to freight shipments (which were much better in July as were expected) - are getting better. 64% of firms expect stronger conditions in the next six months.

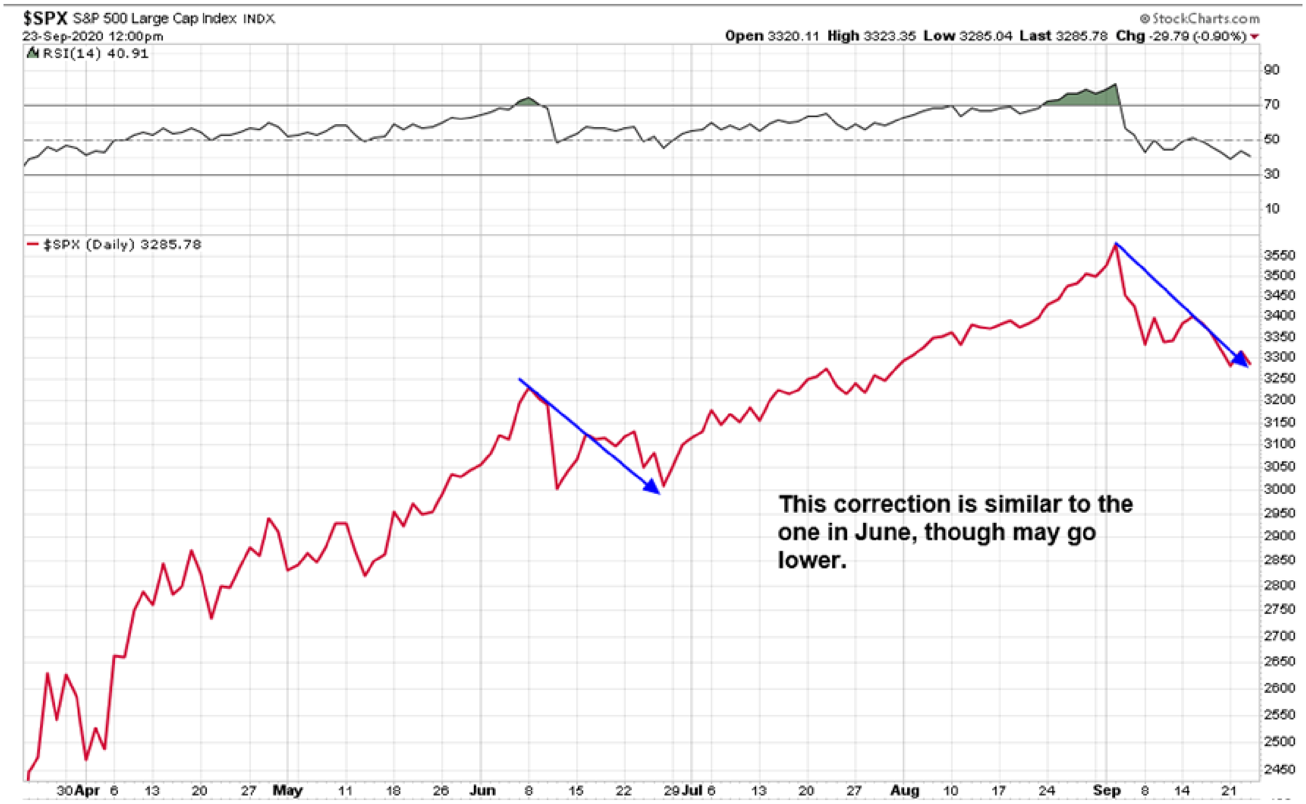
“All signs point to an improving economy, and goods movement is getting better every month.”

- Cass Freight Index reports

Markets This Week

As mentioned, the autumn months – September and October – can be rough ones. Markets have been soft all month, culminating in an 800-point drop on Monday. The S&P 500 is now down 8.4% from its September 2nd high.

Ouch.



The US economy is growing, but in a back-and-forth manner.

For example, the recent IHS Markit U.S. Services Business Activity Index came in at 54.6, which was down from 55.0 in August, touching a 2-month low. Services are things like haircuts and take-out meals. Anything over 50.0 is still growth, so services are improving, but not as fast as they were.

The IHS Markit U.S. Manufacturing Output Index rose to 53.3 from 52.7 in August, a 10-month high. Demand is rising quickly for cars and houses and machines. Just maybe not as fast as people (and politicians facing an election) are hoping for.

Corrections are normal things. Painful, but normal. We often see declines of 10%-20% during bull markets. This is no different – and there may be more to come.

What else caused it? Several things at once, as it turns out.

1. The U.S. election is heating up. The passing of Supreme Court Justice Ginsburg threw gas into the election bonfire when the Republicans promised to fill the empty seat immediately.

2. Fears of a second wave of the virus rose in Europe, with the UK and several other nations enacting partial lockdowns once again.

3. Bank records showing a potential $2 trillion in criminal laundering taking place at leading banks such as Deutschebank, HSBC, and JPMorgan. Canadian banks were not mentioned, but they were not spared, either.

Any setback for re-opening sends investors back to those companies that benefit from lockdowns, such as Zoom (**NASDAQ ZM**) and Amazon (**NASDAQ AMZN**). This is exactly what happened.

Sometimes, stocks need to correct. And they will find a reason.

The bank laundering scandal, for example. The report was based on 2,100 suspicious activity reports (SARs), from 1999 through 2017. These were filed by the banks and other financial firms with the US Department of Treasury's Financial Crimes Enforcement Network (FinCen). Many were never acted on (because they were legal transactions), some were allowed to proceed (so authorities could track the money), and others were flagged and the banks fined.

These happened ***between 3 and 21 years ago***. Fines were paid and compliance measures tightened up. But, it made for a great hit piece on a group – global banks - already suffering.

Similarly, there was always going to be a rise in Covid-19 positive tests when school started and businesses brought employees back. Deaths are far lower than in April and hospitals are coping.

Where the Puck is Going

People are understandably nervous because markets have gone up while the economy has fallen. However, markets are often six months ahead of events.

For example, stocks markets bottomed on March 23rd with a decline of 34% from the high in February.

Earnings this year? They are forecast to fall -26% - very much in line with what stocks “predicted” six months ago.

Now, what happens in 2021? Earnings will go up. The election will be decided. There will be more stimulus – less than before, but still more. A vaccination, or several of them, will be delivered. Johnson & Johnson’s (**NYSE JNJ**) vaccine candidate, which could be available in January, does not need to be frozen and may require just one shot instead of two.

This is where we have to start thinking like contrarians.

Wayne Gretzky was famous for saying you have to skate to where the puck is going, not where it has been. For most of 2020, the puck has been on the sticks of new economy technology stocks. These companies have benefited from stay-at-home lockdowns while most other companies have suffered greatly.

At some point in the next year, many of the “old” industries – airlines, hotels, banks, oil companies – could see a giant snapback. Anecdotally, we have spoken to many people who want to travel the minute they can, or go to a concert, a bar, or a basketball game. Others just want to get back to the office.

As an aside, Warren Buffett recently began buying the five largest Japanese trading houses. These are conglomerates full of manufacturing and commodity businesses – the ultimate old economy value stocks. Several trade for less than they are worth. They will benefit if the global economy reignites and inflation returns.

Buffett’s largest position is still Apple (**NASDAQ AAPL**), so he is not abandoning technology. But old Warren knows the rotation from growth stocks to value stocks is long overdue. It could finally come to pass in a very big way once a vaccine is in sight.

The Sunshine Vitamin

Even though more people are testing positive for Covid-19, far fewer people are dying from it. Now, there is growing evidence that people can increase their defense against the virus through a very inexpensive and readily available supplement: Vitamin D.

In over 40 publications around the world, researchers are finding those patients with Vitamin D deficiency had a 50% higher chance of catching the virus, and far fewer people became critically ill if they had sufficient levels of this common vitamin in their systems.

The Journal of the American Medical Association examined the health data of 489 individuals who received a COVID test as well as vitamin D levels tested in the previous year. The result? 19% of the vitamin-D deficient individuals tested positive for COVID, while only 12% per cent of patients who had sufficient levels tested positive.

Vitamin D is a known immune system enhancer, with a deficiency linked to play a role in respiratory infections, pneumonia, tuberculosis and bronchiolitis (source: World Health Organization).

The Lancet, the eminent UK-based medical journal wrote this recently:

"There are good reasons to postulate that vitamin D favourably modulates host responses to severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2), both in the early and later phases of COVID-19…where vitamin D deficiency is prevalent; there is nothing to lose from their implementation, and potentially much to gain."

At the risk of this being disproved in the months ahead, we thought it was worthwhile to pass along. Many Canadian have low levels of Vitamin D in the winter, as our bodies struggle to produce enough in the weak winter sunlight.

This winter will be a La Nina one, which is associated with colder weather than normal. As the Lancet says, there is nothing to lose from supplementing Vitamin D in the winter.

Especially <u>this</u> winter.

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