RCTG

MONTHLY REPORT

AUGUST 2020 EDITION

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ROTMAN COMMERCE
TRADING GROUP

RCTG MARKET RESEARCH

GLOBAL MARKETS INSIGHTS

ALL DATA WITHIN THIS REPORT IS MEANT FOR EDUCATIONAL PURPOSES AND IS SUBJECT TO CHANGE

IN THIS ISSUE

- **Global Macro Commentary –** A potential vaccine produced in Russia for the Covid-19 virus has created hope that the end of the pandemic is soon approaching. However, despite the end of the global lock-down and potential vaccines, there is continued uncertainty. The debt incurred by governments in order to provide the healthcare, financial support, and other necessities for their citizens has become a point of concern for those looking forward to the post pandemic world.

- **Fixed Income Markets –** The Federal Reserve is doubling down on their 2% inflation target while the record-long balance sheet expansion is coming to a halt for central banks worldwide. On August 27th, Fed Chair Powell mentioned that he expects short-term interest rates to remain low for the next few quarters and expects inflation to increase in the medium-term.

- **Commodity Markets –** The commodities market did not perform well in August, reflecting the poor economic conditions brought on by the COVID-19 pandemic and the U.S.-China trade war. The S&P GSCI index was down by more than 4%, and the Bloomberg Commodity Index lost more than 2%.

- **Equity Markets –** Globally, the equity markets have seen significant growth over the course of August. In North America, the S&P500, Dow Jones, and Russell 3000 have experienced growth of over 7%, with the NASDAQ leading at 9%. Japan and China's markets also experienced positive growth, yet not to the same level of the United States. Although the equity markets show signs of recovery as a whole, the tech sector has been the leading factor behind the positive growth rates. Market fluctuations have also risen towards the end of the month with the volatility index entering into the high 20s.

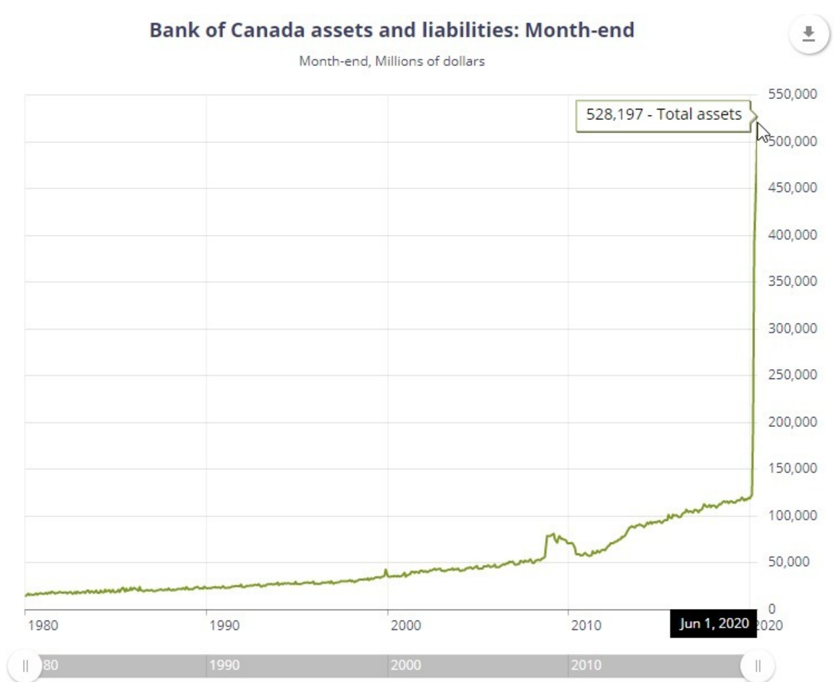
Data recorded as of 9/15/20.

GLOBAL MACRO COMMENTARY

Throughout August, the disparities between the markets' performances and the global economic circumstances grew substantially. North American economies saw an overall increase in employment with the United States adding 1.37 million positions, pushing the unemployment rate to a national year-low of 8.4%. Compared to 2008, this recovery in employment 5 months after the March 2020 market crash is still higher than the peak unemployment rate of 7.2% during the 2008 financial crisis. The main disparity between these two recessions can be attributed to the performance of equities as the S&P 500 and other major indices experienced gains of 7% or higher over the course of the month. This rally has been attributed in-part to the strong performance of the technology sector. However, many critics have begun to adopt the belief that the technology market segment will continue to act as an asset class on its own, separate from the rest of the market and in contrast to previous historical trends seen in the market.

While a stagnant economy has created a poor environment for corporations, resulting in layoffs, low sales, and lost profits, equity markets continue to perform well. Experts suggest that the root cause of this disparity is due to the elevated levels of monetary stimulus being provided by governments to both businesses and individuals. Markets remain bullish due to the lack of the dreaded 'cash crunch' that normally occurs during times of recession. In fact, many bank balance sheets clearly outline this trend of liquidity. The diagram displays the values on the Bank of Canada's balance sheet, which saw an increase of over 500%. Despite this value being less than that of their American counterparts, the BoC continues to hold the overnight rate at a higher level of 0.25% while the US Federal Reserve set their rate at 0.13%.

The EU and Asia experienced different economic environments from that of the Americans. Many French, English, and German stock indices all plunged lower through the month of August while Asia's equity markets in mainland China, Australia, and Hong Kong saw some small growth yet remained largely unchanged overall. The Japanese Nikkei 225 was the only index in Asia to see substantial growth of roughly 5%, which was similar to that of the US market. The Taiwan Capitalization Weighted Stock Index ended the month with negative returns of around 1%.



In the fixed income space, the US Federal Reserve has shifted its focus to inflation targeting. According to RBC Capital Markets, inflation expectations of maintaining an average of 2% and higher economic growth as the markers head into recovery should be the main driver of moderate continued yield curve steepening. There is a great deal of uncertainty in global markets that is primarily driven by the COVID-19 pandemic. The current market valuations in the corporate credit space make for attractive investing in terms of higher risk compensation.

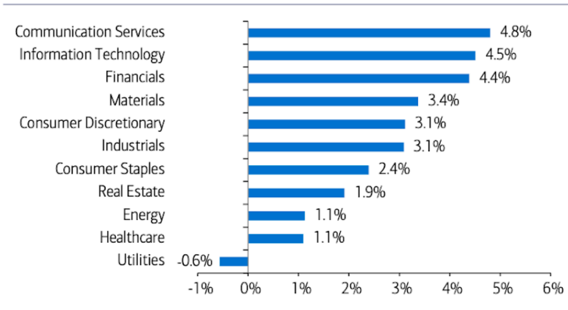
In contrast with the equity markets, August was not a good month for most commodities with benchmark iron-ore prices experiencing the greatest losses, dropping approximately 27%. The overall commodities market ended with their second straight monthly loss, as uncertainty surrounding the U.S. - China trade war increased expectations of a global economic slowdown and a decrease in demand for raw materials. In the agricultural market segment, grains saw substantial decreases in demand, with corn leading the losses in the sector. Many farmers planted corn late in the season instead of soybeans, with the decision primarily being influenced by the trade war with China, which is the largest U.S. buyer of soybeans.

Uncertainty is at an all-time high, which has been validated by high volatility and varied opinions regarding the future of the global economy. The primary indicator that demonstrates this is the price of gold, which has recently surpassed the key $2,000/oz price level. Gold as a commodity has historically been treated as a "safe-haven" asset that investors flock to in times of uncertainty. Despite the fear in the market, the equities have continued to set new highs and perpetuate the aforementioned disconnect between valuations and profits. Everyone from large asset owners to central banks and all those in between are navigating uncharted waters in today's economic environment.

Equities

		Total Return in USD (%)		
	Current	WTD	MTD	YTD
DJIA	28,653.87	2.6	8.7	2.0
NASDAQ	11,695.63	3.4	9.0	31.2
S&P 500	3,508.01	3.3	7.4	10.0
S&P 400 Mid Cap	1,946.51	1.9	4.6	-4.6
Russell 2000	1,578.34	1.7	6.7	-4.5
MSCI World	2,456.86	2.7	6.7	5.4
MSCI EAFE	1,910.82	1.7	5.2	-4.6
MSCI Emerging Markets	1,121.60	2.8	4.1	2.3

S&P 500 Sector Returns



Fixed Income[1]

		Total Return in USD (%)		
	Current	WTD	MTD	YTD
Corporate & Government	1.14	-0.7	-1.5	7.7
Agencies	0.55	-0.2	-0.4	5.1
Municipals	1.31	-0.3	-0.5	3.3
U.S. Investment Grade Credit	1.18	-0.5	-1.0	6.6
International	1.99	-0.9	-1.8	6.5
High Yield	5.35	0.8	0.9	1.6
	Current	Prior Week End	Prior Month End	2019 Year End
90 Day Yield	0.09	0.09	0.08	1.54
2 Year Yield	0.13	0.14	0.11	1.57
10 Year Yield	0.72	0.63	0.53	1.92
30 Year Yield	1.50	1.34	1.19	2.39

Commodities & Currencies

		Total Return in USD (%)		
Commodities	Current	WTD	MTD	YTD
Bloomberg Commodity	156.08	2.3	6.5	-9.3
WTI Crude $/Barrel[2]	42.97	1.5	6.7	-29.6
Gold Spot $/Ounce[2]	1,964.83	1.3	-0.6	29.5
Currencies	Current	Prior Week End	Prior Month End	2019 Year End
EUR/USD	1.19	1.18	1.18	1.12
USD/JPY	105.37	105.80	105.83	108.61
USD/CNH	6.86	6.92	6.99	6.96

Sources: Bloomberg, Factset. Total Returns from the period of 08/24/2020 to 08/28/2020. Bloomberg Barclays Indices.1 Spot price returns.2 All data as of the 08/28/2020 close.
Past performance is no guarantee of future results.

FIXED INCOME MARKETS

Month in Review

Although spreads between corporate bonds and government bonds have tightened since the peak of the COVID-19 pandemic in early May, the bond market is still far from a full recovery. The Fed's unprecedented balance sheet expansion policy response to the economic downturn has resulted in a record surge in asset purchases and money supply as liquidity was injected into the financial system.

There seems to be escalating inflation expectations as a result of the sharp increase in money supply growth in the United States, Canada, and every other country around the world. Having driven up sovereign bond yields and increasing shorter-term bond yields, this non-stop flow of liquidity is now targeting longer dated (10-yr and higher) credit bond supply. This is happening now over concerns regarding future consumer health, both literally and in terms of the level of consumption in proportion to consumer debt.

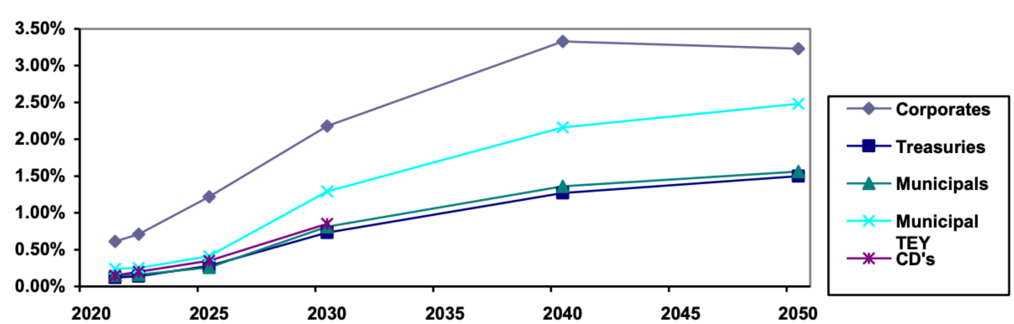
Regardless, government bond yields are expected to remain low until at least 2021. However, these same bonds will continue to provide modest yield premiums to compensate for increased risk associated with exceptionally lower cash rates. Even so, the decline in the US interest rates has weakened support for the US dollar and created an environment for investors to pursue safer assets like gold over interest-bearing government bonds.

In July, 10-year interest rates reached record lows even when considering inflation. The same trend has continued into August, which suggests a weakened growth outlook for the global economy as we approach 2021. Furthermore, as the growth outlook for 2020-2021 remains uncertain, the extended central bank quantitative easing initiatives have helped to make longer-term investment premiums look more attractive. This attempts to compensate investors with longer-term horizons to make them more tolerant as we progress into recovery.

RBC Wealth Management, a division of RBC Capital Markets, LLC, Member NYSE/FINRA/SIPC.

Indicated Yields for Selected Securities
All Indications are for Round Lots

As of August 31, 2020



Rates

Market volatility as a result of COVID-19 has offered the highest yields on bonds available the past five years. However, in the first week of August, rates went to historic lows along the front end of the curve: yields set daily closing records at the 2-yr, 5-yr and 10-yr points. Bonds have been helped by fiscal policy implemented by central banks.

The Federal Open Market Committee (FOMC) which is the branch of the Federal Reserve that determines the direction of monetary policy specifically by directing open market operations is not scheduled to meet again until September. Yet, in keeping with global trends, they are continuing to hold quantitative easing measures in place and increase their holdings in treasuries as well as mortgage-backed securities.

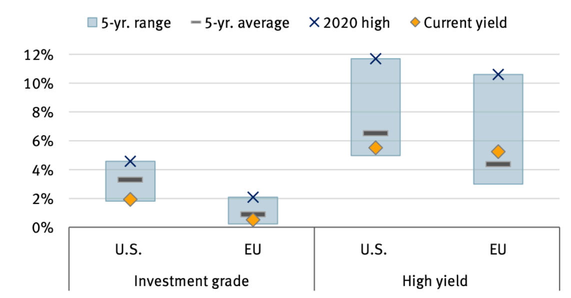
With the Treasury market moving its issuance out the curve to the longer dated maturities, certain treasury purchases would help close-out any unsavoury long-term yields. And while fiscal stimulus has so far been able to provide a lifeline to consumers, there is a limit (at least in a political sense) to how long government support can keep up for and how generous it will be going forward.

Credit

In all markets, corporate credit has been outperforming government debt, so there is a positive outlook in the future for high-yield bonds compared to investment-grade debt. This is because investment-grade debt is beginning to offer less and less compensation in the form of yield when compared to government bonds.

This relentless march toward continuously lower rates, accompanied by a meaningful decline in spreads, has left financing for the issuance of corporate credit bonds to look more favourable. In essence, this type of opportunity has liquidity levels and debt reprofiling (restructuring in the repayment of government liabilities for an extended maturity) which creates a positive space for investing in corporate bonds. This event has not done much for GDP at the moment in the US. On the other hand, demand for corporates is what is pushing the brakes on the economy at the moment, not the lack of funding in the corporate bond space.

2020 has seen it all as credit yields fall back to near-record lows



Source - RBC Wealth Management, Bloomberg; data through 8/24/20

Municipals

As August wrapped up, municipal (muni) bond rates went slightly higher on a week-to-week basis as the market priced in the new issue calendar that, while dense, consisted of 40% taxable issuance according to RBC Capital Markets. In the shorter term end of the curve (below the 10-yr point), muni/treasury ratios decreased moderately but increased more modestly in the longer end of the curve (10-yr to 30-yr range).

The August issuance, while smaller compared to June and July, was still the most significant historically since as far back as August 2016 in the muni bond market. Volume this August in muni bond issuance totalled $41.3 million, making it the fifth month of 2020 to have exceeded the 10-year average when it comes to issuances.

Muni bond issuances have been outpacing both the corporate and Treasury bond market this summer, with current low yields appearing to be the driver for future increased issuance.

COMMODITY MARKETS

Month in Review

The commodities market reflected the poor economic conditions and uncertainty brought on by the pandemic and heightened tensions surrounding the U.S.-China trade war. With many nations continuing to maintain strict border controls and minimal international affairs, the United States Federal reserves expectations for a global economic slowdown and a decrease in demand for raw materials has become increasingly evident. Benchmark iron-ore prices dropped about 27% in August. Future prices for gasoline lost 18%, corn nearly 10% lower, and ethanol more than 7% down for the month.

The S&P GSCI index tracks 24 commodities across five sectors with energy as its largest weighting. The index was down by more than 4% this month while it only fell 0.7% in July. The Bloomberg Commodity Index tracks 23 commodities with gold the heaviest-weighted. This index lost more than 2% in August. According to Chris Gaffney, the president of world markets at TIAA Bank, "The slowdown in global growth along with the escalating trade war caused the poor performance."

Grains took a hit in August, with corn leading the losses in the sector. "Corn prices fell after a June report from the U.S. Department of Agriculture showed higher estimates for planted acreage," according to Sal Gilbertie, president at Teucrium Trading. Many farmers planted corn late in the season instead of soybeans, with the decision "undoubtedly influenced" by the trade war with China, which is the largest U.S. buyer of soybeans. Still, he expects the world to use more corn this year than it produces for the second year in a row.

The outlook for the medium term of the market segment remains substandard. "We expect commodities to remain under pressure until we see either a de-escalation in trade hostilities or a pickup in global growth expectations," TIAA Bank's Gaffney says.

Iron Ore

"Iron ore has been among the most volatile of all commodities this year," says Joseph Innace, S&P Global Platts' news director for Metals Americas. The Platts IODEX rose 75% to a July peak of $126.35 per dry metric ton, from $72.35 in January. However, the prices have dropped 32% from that peak to $85.85. Iron-ore supply, however, has gradually returned, says Innace. That comes at a time when China's northern steel mills may reduce inventories due to the speculation of possible pollution-control-related production cuts in September.

Oil

The trade war has been the common factor among commodities in general. "The back and forth escalation of U.S.-China trade tariff is weighing on prices of cyclical commodities," says Rob Haworth, senior investment strategist at U.S. Bank Wealth Management. These cyclical commodities include oil, gasoline, and copper. Industrial metals will probably continue to bear the brunt of the declines, reflecting the dent that tariffs are likely to make in China's economic output, he says. In August so far, U.S. oil futures fell by nearly 6% and copper lost about 4%.

Ethanol

Ethanol futures saw an August decline after the U.S. Environmental Protection Agency granted 31 small-refinery exemptions for the 2018 compliance year, says Brian Milne, product manager at DNT, an agriculture and energy analysis provider. A percentage of petroleum-based road-transportation fuel will be offset with a qualified renewable fuel, and the exemptions led to reduced demand for ethanol, he says. This is because alternative resources are becoming more and more available. Several producers plan to shut production plants due to COVID-19, which will "boost ethanol prices in the future," says Milne.

Corn

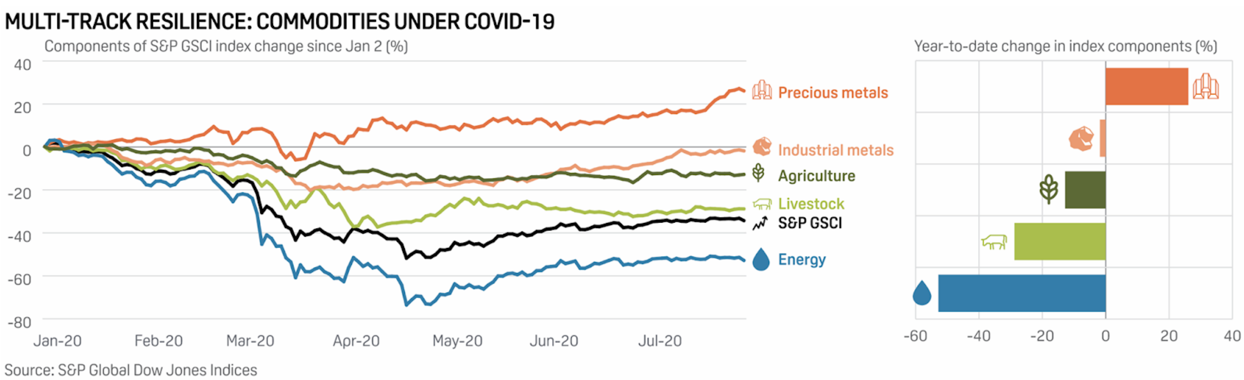
The USDA released their August report. The trade was expecting U.S. corn yields of 180 bushels per acre. This would equate to a 15-billion-bushel corn crop. The July yield estimate was 178.5 bushels per acre. In fact, the USDA pegged the U.S. corn crop at 181.3 bushels per acre this month. This would bring U.S. production to 15.27 billion bushels, up 278 million bushels from July. Demand has increased by 150 million tonnes from what was reported in July. The net result of the production less demand is that the 2020/2021 carryout is expected to be 2.756 billion bushels.

Soybeans

The U.S. and China trade was anticipating U.S. soybean yield numbers of 51 bushels per acre, which would bring soybean production to 4 billion bushels for the 2020-2021 crop year. The USDA tallied 53.3 bushels per acre, well above trade estimates and the 49.8 bushel per acre amount estimated in July. With the new USDA yield estimate, production was expected to reach 4.42 billion bushels, a rise of 290 million bushels from last month. The USDA increased export demand by a combined total of 95 million bushels. Ending stocks are approximated to be 610 million bushels, up 185 million bushels from the USDA report in July.

Wheat

With an estimated 90% of the French wheat harvested, the soft wheat crop looks to be one of the smallest in recent history. The USDA forecasts France's soft wheat crop to be 29.5 to 29.7 million tonnes. Total wheat production is anticipated to be 31 million tonnes, down 25% from 2019.



Commodities (USD)	Price	1 month	YTD	12 month
Gold (spot $/oz)	1,975.86	10.9%	30.2%	39.8%
Silver (spot $/oz)	24.39	34.0%	36.6%	50.0%
Copper ($/metric ton)	6,486.50	7.0%	4.4%	8.8%
Uranium ($/lb)	20.90	-0.5%	-12.6%	-7.7%
Oil (WTI spot/bbl)	40.27	2.5%	-34.0%	-31.3%
Oil (Brent spot/bbl)	43.30	5.2%	-34.4%	-33.6%
Natural Gas ($/mmBtu)	1.80	2.7%	-17.8%	-19.4%
Agriculture Index	273.20	1.4%	-10.1%	-3.5%

Gold, silver, and copper posted strong gains on mixed economic data that signaled the economic rebound could be stalling.

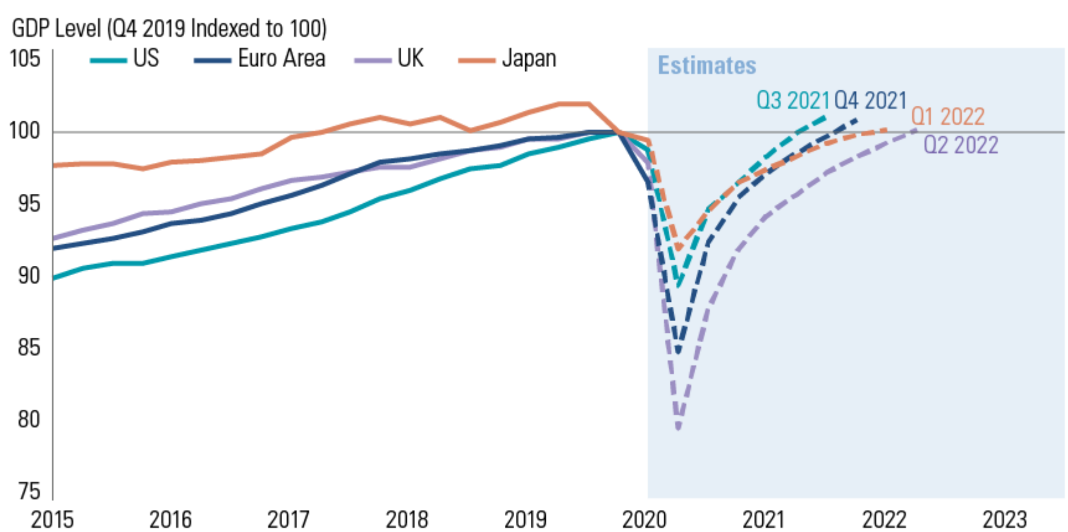
EQUITY MARKETS

Month in Review

The month of August marks the beginning of a new stage for the equity markets and for the global economy. The recession and the COVID-19 pandemic have shifted the main focus of investors and businesses from damage control to recovery. The creation of a preliminary vaccine in Russia coupled with a decline (on average) in the infection rate of the virus has generated greater confidence in the recovery of the markets.

Following the growth trends seen previously in June and July, the major US indices, the S&P 500, NASDAQ, Dow Jones, Russell 3000, all experienced gains of approximately 7.0%, 9.6%, 7.6%, and 7.1%, respectively. Although this growth is not equally representative of all companies listed in these indices, it nonetheless demonstrates that the equities market as a whole is recovering.

Despite the shift in sentiment towards the certainty of economic recovery, markets are continuing to experience higher than average volatility. The volatility index (VIX), which normally maintains a position between 10% to 15%, consistently remained at levels around 23% through the entire month of August. This is significant since despite the values of indices continuing to recover, the market lacks confidence in its progression. Similar to prior months, the technology industry is seeing a disproportionate amount of growth in comparison to other industries in the equity markets. This is primarily attributed to the market sector's limited exposure to the negative effects of the pandemic. Individual investors are known to play a key role in much of the market volatility and the price inflation of certain equities. In fear of missing out on an opportunity to purchase stocks at a discounted value, these retail investors have been purchasing shares of many high-interest companies such as Apple (AAPL) and Tesla (TSLA). This has created significant imbalances in price valuations and is a substantial factor behind the current market volatility.



US

For the first time since February 2020, the S&P 500 has continuously maintained a position above its pre-pandemic levels. The index rose from roughly US $3270 to US $3500 over the course of this month. The Dow Jones and Russell 3000 likewise saw similar growth percentages in their values over the same time period. The NASDAQ saw the highest performance out of all the primary US equity indices as it primarily puts a heavy allocation towards high performing technology, consumer service, healthcare, and financial service companies.

Asia

As many countries have seen drawbacks in trade due to limitations brought on by the pandemic, the position of the US dollar as a global currency has begun to weaken. This has provided several opportunities for competitors in the east to make significant progress in markets such as technology, healthcare, and consumer services. Alibaba Group surpassed its expected performance and saw the value of its stock grow 15% from HK $246 to HK $283. However, this success is not universal, and it is evident when comparing the performances of US indices to those of China and Australia's major indices. The Shanghai SE Composite Index (+2.36%), Hang Seng Index (+2.56%), and S&P/ASX 200 (+2.19%), saw roughly half the rate of growth experienced in US markets. Also, Japan's equity markets have seen similar growth trends to the S&P 500 with both the Nikkei 225 and Nikkei 300 rising by approximately 6.6%.

Emerging Global Markets

An interesting trend is taking place in emerging markets as businesses begin to recover their accrued losses following the initial economic halt in March. Within the United States and internationally, large-cap corporations have generally experienced less difficulty in climbing back to their pre-pandemic levels in comparison to other medium and small-cap businesses. Even though large-cap corporations contribute more overall to the economy, the disparity between large and small-cap corporations' ability to recover from the pandemic is concerning for total economic recovery and policy decisions. As depicted in the "Size and Style Returns" diagram, larger businesses have not only seen significantly more gain in comparison to smaller businesses, but they are also less susceptible to accruing losses.

US Equity Size & Style Returns

MONTH-TO-DATE				YEAR-TO-DATE		
-0.40%	-2.31%	-3.99%	Large	-9.71%	7.88%	25.26%
0.06%	-1.42%	-4.09%	Medium	-10.77%	-1.83%	10.82%
0.27%	-1.69%	-3.52%	Small	-17.49%	-7.13%	2.42%
Value	Core	Growth		Value	Core	Growth

MSCI World Size & Style Returns

MONTH-TO-DATE				YEAR-TO-DATE		
-0.90%	-2.31%	-3.48%	Large	-12.19%	4.09%	21.61%
-0.50%	-1.92%	-3.39%	Medium	-14.92%	-2.61%	7.22%
-0.83%	-2.05%	-3.21%	Small	-16.65%	-6.26%	4.07%
Value	Core	Growth		Value	Core	Growth

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