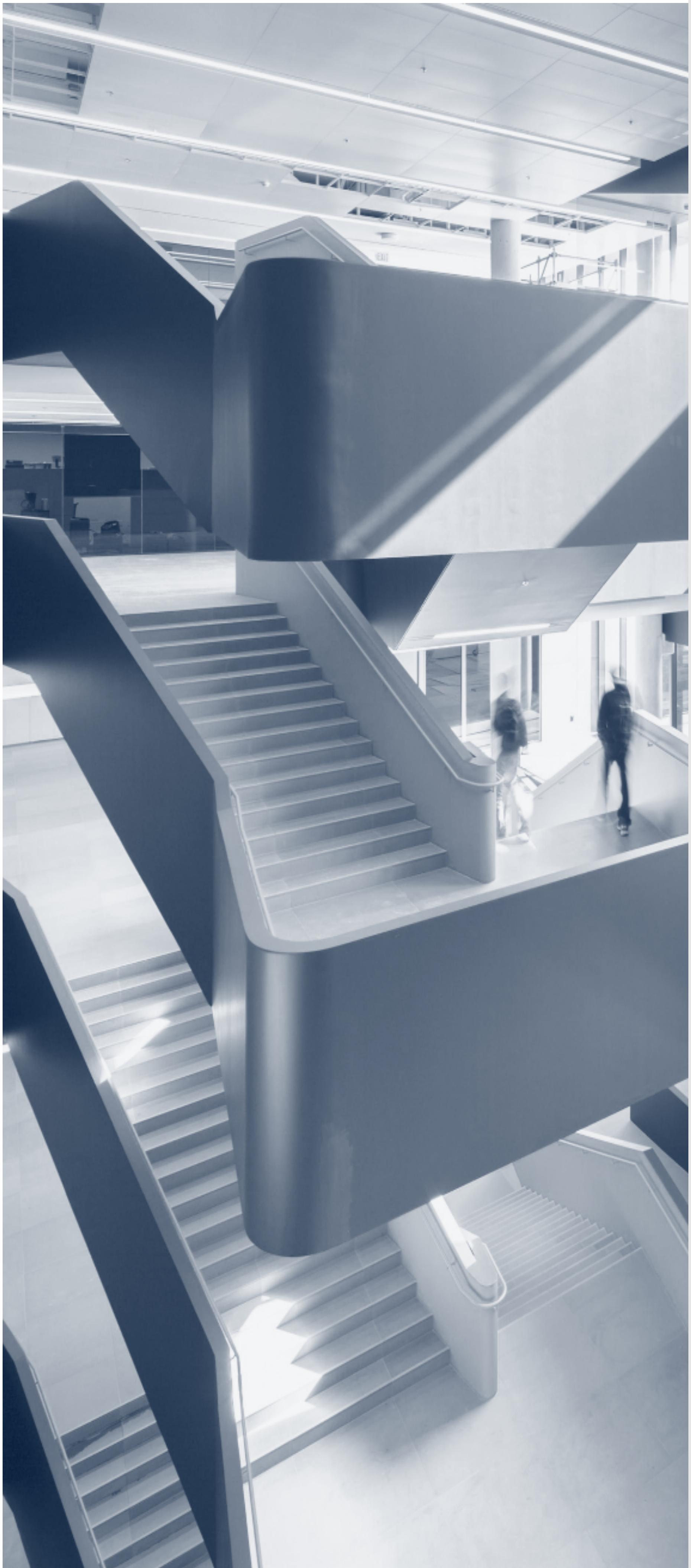
RCTG

MONTHLY REPORT

SEPTEMBER 2020 EDITION



CONTENTS

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 –** The increase in the growth rate and infection numbers of COVID-19, heightening trade tensions between the United States and China, and the up-coming USA 2020 elections, have driven market volatility and uncertainty to an all time high. With the prolonged global shutdown, governments are being left with fewer options as their subsidies and benefit programs continue to increase the national debts.

- **Fixed Income Markets –** With the Fed shifting its focus towards inflation targeting, it seems likely that we will remain in a low interest rate environment for even longer than previously expected. We saw the Bank of Canada also leave interest rates unchanged along with continued balance sheet expansion as per the September 9th meeting.

- **Commodity Markets –** The Thomson Reuters/Core Commodity CRB Index rose on higher metal and energy prices in September. There is potential for pullbacks in the commodity market in the coming weeks, but the overall trend remains positive due to the weaker dollar and supply disruptions.

- **Equity Markets –** The Equity Markets saw a net loss with all major indices taking losses in September. The tech sector had its first negative month since March of 2020 with investors re-evaluating the inflated values of the market segments' leaders. Signs of a resurging second wave of covid-19 cases has led to most investors taking a bear position for the short to medium term.

Data recorded as of 10/8/20.

GLOBAL MACRO COMMENTARY

The original expectation of a swift economic recovery, which was followed by a short-lived rebound in the markets back in February, has been replaced with a much more uncertain long-term outlook. Despite the optimism of August with the discovery of an early-stage vaccine, countries and their leaders continue to prepare for the worst as September saw large increases in the number of new COVID-19 cases.

Government subsidies and emergency aid programs set in place to limit the ripple effect of the economic downturn have started to fail. The pandemic has drastically changed the way people interact in their daily lives. It marks a pivotal point in social and economic growth trends, with both consumers and producers changing the structure of their businesses.

Managing businesses in the global pandemic has emphasized the need for adaptability and efficiency. Investors have placed a higher priority on the technology industry, backing corporations focused on providing innovative means of conducting business. Employers have provided more flexibility in work-structures for employees, and businesses have focused more heavily on expanding their operations in the technological space.

Sectors such as the technology industry continue to be a safe haven for investors since they have been experiencing positive growth in contrast to the decline taking place of the general markets. Industries with heavy reliance on international trade, high fixed-costs, and inflexible business models continue to suffer the greatest losses. In particular, travel and energy companies that lack robust financials have started to face severe distress. For example, Suncor Energy in Canada announced toward the end of September that they would be laying off approximately 15% of their thirteen thousand employees by 2022.

Suncor Energy is not the only company facing the harsh economic reality. Diminishing fiscal support and investor uncertainty left global equity markets struggling through September. The month's end brought positive news on vaccine development. European markets took a dive early in the month due to high expenditures on unemployment support and a lack of economic stimulus in the UK. Across the Atlantic, US markets closed with conservative losses for the month. While tech giants managed to recover by the end of the month, major oil and energy players are heading into October facing an uphill battle. Overall, market volatility rose in September amongst US election anxiety and growing concern over the third wave of coronavirus expected to hit the United States.

FIXED INCOME MARKETS

Month in Review

While the stock market told a more bullish story in August than it did in September, the root cause of this change might be a result of the Federal Reserve's shift in focus. The central bank increased its balance sheet at the lowest rate this month since the market reversal in March. Key decision makers expressed that there is a defined need to ease the use of stimulus before even more irreparable damage is done to the forward going efficiency of markets. Despite this, continued implementation of fiscal stimulus should provide support for maintaining inflation goals of central banks moving forward.

Moreover, the illiquidity and default rates of corporate bonds exemplifies the clear and stark disconnect in the markets. This disconnect is an issue that the Fed has sought to remedy via their direct purchasing of assets. The further increase of equity prices supports the fact that the Fed has too far extended their impact on financial markets, stimulus-wise. This comes as there has been destabilization due to concerns of a 'cash crunch' in equity markets resulting from extensive monetary policy

Investment grade corporate bonds posted similar returns as high yield credit, with spreads for most indexes marginally tighter month-over-month. As indicated by the strong inflows for taxable bond funds, the continued tightening can be accredited to the high levels of sustained demand for high-quality credit investments. High yield bonds saw large outflows towards the end of September, but with the Fed on hold for now and yields being low for the time being, investor demand is expected to stagnate in credit markets.

The Bank of Canada maintained its target interest rate of 0.25% as per the September 9th announcement. The BoC is continuing its quantitative easing (QE) program with a purchase of at least C$5 billion of Canadian government bonds per week, hoping to achieve a 2% inflation target. However, the current policy and QE programs should be able to keep foreign investors' interest in buying sovereign bonds from Canada.

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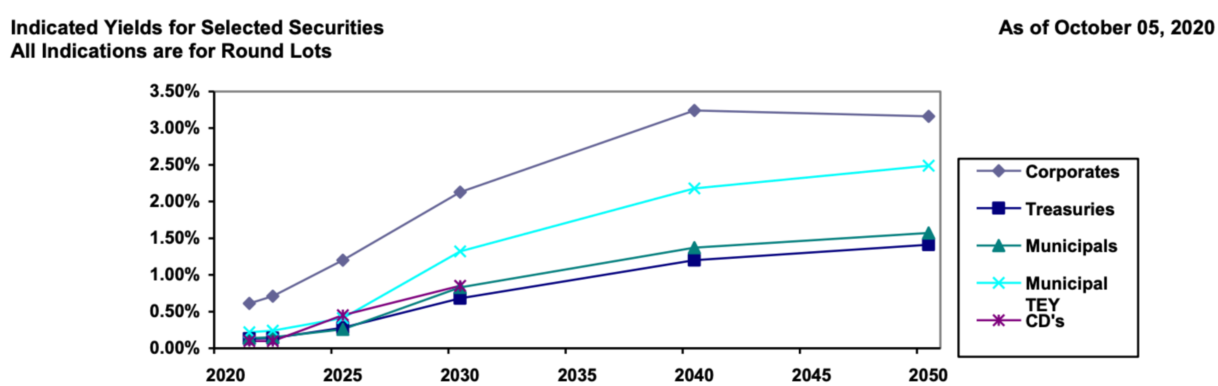
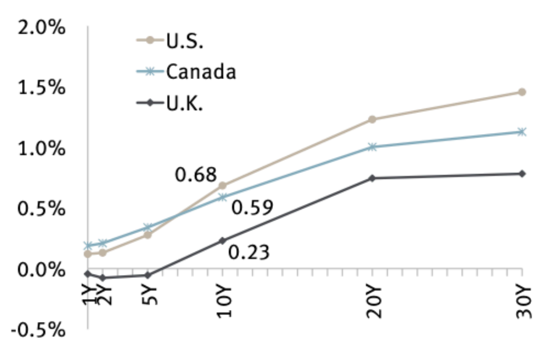


Rates

As per the Fed's meeting earlier this month, their new approach to achieving stability in pricing while allowing inflation to run above 2% will push global government bonds below their already low rates. As the yield curve continued to fall mid-September from the tech stock slide, which gravitated investors to the bond market, the Fed's policy could not have arrived sooner as the demand for cash has been increasing with lower interest rates.

Although housing sales were up due to decreased mortgage rates, it seems unlikely that strong economic data releases will be impacting bond price information in the near future. This could be due to the discussion of future rate hikes alongside the lack of progress on jobless claims (unemployment), which was reported higher than expected.

Sovereign yield curves



Source - Bloomberg; data through 9/30/20

Credit

There continues to be a shift in demand toward higher quality sectors and away from riskier credit products. Investors have become increasingly risk averse as global economies re-visit the idea of returning back to a state of lockdown with weaker rated credit underperforming.

Corporate bond issuance has been active since the pandemic started, and the credit spreads for investment-grade corporate bonds soared compared to the beginning of the year. Volatility climbed as tensions from the impending U.S. election are weighing in on the markets along with the spike in global COVID-19 cases. High yield corporate bonds slid into negative territory, reporting the largest outflow of the quarter. Supply stood heavy, with September's final week record new issuance of $25 billion carrying the month's total close to $50 billion.

As COVID-19 impacted all the sectors and industries, airline companies have had particularly strong demand for new debt and seek to issue bonds to provide additional cash flow and support their balance sheet strengths. For instance, Delta Air Lines is planning a debt offering of $9 billion, which will be the industry's largest debt deal on record.

Municipals

Strong demand from institutional investors helped to soften the negative impact of weakened returns on municipal (muni) bonds in the beginning of September. We saw COVID-19 impacting the ratings of many muni bond issuers this summer and this trend followed through to the end of this month.

Interestingly, the pandemic has begun to take its toll on universities and colleges as they have seen rising costs with less traffic on campus. This all goes hand-in-hand with the challenges of facilitating online classes. As before, as many educational institutions worldwide have gone on a borrowing spree in bond markets amid needing to support international student enrollment which has led to increased need for government grants.

While the municipal bond market halted its continuous positive returns back in August, we are seeing that longer term and investment grade muni bonds have proven to be the most volatile to the Fed's announcement in the month of September. Overall, high-yield muni bonds are still outperforming other debt securities.

Currencies

The marketplace for foreign currency is the most liquid market on the planet. With around 5 trillion dollars exchanging hands each day, the story for September was largely driven by expectations for Q4 based on final reporting for the 2020 Q3 period. In this case, US GDP contraction data was revised in favour of growth and throughout September, the USD index (DXY) saw a gradual rise of 2% before settling higher than 1% since the start of the month.

In real terms, the Greenback gained against most other major currencies; With the Loonie, Euro and Pound all averaging down around 2% to conclude the month. Straying from this trend was the Japanese Yen which experienced one of the most volatile months it has had since the start of the COVID19 pandemic. It finished the month of September at a premium of 0.5% over the US.

Additionally, a forward-looking key to the forex markets will be the fate of LIBOR in 2021. The 'London Interbank Offered-Rate' is slated to be phased out by the end of 2021 and this process, which is still being planned will affect many of the flows of capital between countries as well as the acquisitions and trade that are carried out by business agents of tomorrow; this most definitely will have a direct effect on the amount of demand for any given country's currency.

COMMODITY MARKETS

Month in Review

The Thomson Reuters/Core Commodity CRB Index, which tracks 19 commodities across the energy, agriculture and metals sectors, broke above resistance, and it has been rising on higher metal and energy prices. “Recently, we have changed our base case scenario. We no longer expect a period of market panic/risk-off in the near term. But there could still be waves of modest risk-off”, analysts at ABN AMRO said in their latest commodities outlook. This means investors are unloading their positions in higher-yielding assets and moving their funds in favor of safe-haven currencies. This is consistent with the times of uncertainty and high volatility. “Therefore we are now more constructive on the outlook for commodity prices. This means we no longer expect sharp weakness in prices in the near-term. So we have moved from negative to a more neutral outlook." Over the summer, commodity prices have been trending higher, and the weaker dollar is likely to continue to support markets in the coming weeks and months. There is potential for pullbacks in the commodity market in the coming weeks, but the overall trend remains positive due to the weaker dollar and supply disruptions.

Oil prices rose in September as analysts took the view that renewed lockdown restrictions would have only a limited impact on fuel demand. Brent Crude was up 62 cents, or 1.5%, at $42.06 per barrel. U.S. West Texas Intermediate (WTI) crude rose 58 cents, or 1.5%, to $39.89. Markets remain uncertain as fuel demand in countries such as Britain have significantly decreased after the government enforced work from home and imposed new curbs on bars and restaurants. "As any new restrictions will likely be more localized, the oil demand recovery should continue, although at a slower pace with the easiest demand gains behind us," UBS oil analyst Giovanni Staunovo said. The drop in prices during September was spurred by concerns of an increase in coronavirus cases in major markets. France saw its infection rate rising, Italy introduced more mandatory testing, Spain asked the army for help, and Germany saw the situation as worrying. According to Bank of China International analyst Fu Said, “Governments are unlikely to roll out stimulus at a similar scale seen when the coronavirus first emerged, even if cases soar as they have already used much of the ammunition.”

Oil

Oil prices saw a partial rebound as traders bet on a decline in U.S. crude supplies and expected that demand can survive new lockdowns. However, energy traders struggle “to assess the uncertainty with U.S. production as we approach the last two months of hurricane season and how bad the demand outlook will get following the winter wave of the coronavirus." said Edward Moya, senior market analyst at Oanda. The EIA reported a decline of 4 million barrels in domestic crude supplies, along with a fall of 1.9 million barrels of gasoline inventories and a climb of 1.2 million barrels in distillate stockpiles.
As one of the most important oil producers, Libya's National Oil Company said it expected oil production to rise to 260,000 barrels per day in the next upcoming weeks. Libya produced around 1.2 million BPD - over 1% of global production - before the pandemic. "The path towards a new normal on the oil market has become bumpier, but we still see demand topping supplies on the margin and the surplus slowly disappearing," said Norbert Rucker, an analyst at Swiss bank.

“The return of Libyan oil exports will force OPEC+ to take action to offset this additional supply by making corresponding cuts elsewhere,” Lambrecht wrote. “After all, its objective of rebalancing the market risks being jeopardized by the cooling of oil demand that is feared. So far, the oil market appears convinced that the production cartel is willing and able to act.”

Precious Metals

The metal sector has the biggest relative-value edge in commodities with the rising debt-to-GDP, zero rates, quantitative easing, and decline of the dollar. However, Gold prices fell on September 22nd as the dollar climbed to its highest level in over a month. Still, investors remain doubtful of additional stimulus measures to aid the coronavirus-hit economy ahead of speeches from Federal Reserve officials. U.S. gold futures rose 0.1% to $1,911.60 per ounce. Silver fell 2.2% to $24.19 per ounce, platinum gained 0.3% to $883.85, and palladium fell 0.2% to $2,269.81.

Gold

Gold is one of the top commodities to invest in that has received the most attention in 2020. The price has retreated after its rapid rally to a new all-time high, and recently the weakness in the dollar has not supported the market. However, analysts expect the pullback to precede another move higher above the $2,000 per ounce level given central bank policies.

Platinum

The platinum market has rebounded from the March lows as investment demand for precious metals has outweighed the effect of lower demand for platinum-based catalysts from the automotive industry. The technical setup for the metal suggests it could break out into a fresh rally, in line with a renewed move up in the gold price.

“We had previously expected the global platinum market to flip into a surplus this year as the measures taken to contain the coronavirus weighed on most types of demand for the metal,” said Bethany Beckett, assistant economist at Capital Economics. “However, in light of our recently revised real yields forecast, we now expect the boost to platinum investment demand associated with the ongoing decline in real yields to keep the market in a deficit this year."

Sugar

Oversupply has capped prices for agricultural commodities this summer. However, volatility in sugar prices continues to be driven by the oil and ethanol markets, as they are integral in the production process of the commodity. Lower energy prices have prompted Brazilian sugar mills to increase the production of sugar rather than ethanol. However, there is potential for lower output in Thailand, Russia, and the European Union to offset the higher production in Brazil. This is because the disruptions related to the spread of Covid-19 in Brazil and India are affecting the transport of sugar. Overall, a rise in demand for ethanol or sugar could cause prices to increase.

Wheat

The global wheat production was raised 4.5 million tons to a record high of 770.5 million. World consumption increased by 0.8 million tons to 750.9 million, primarily on higher feed and residual usage for Australia and Canada. The largest import change this month was for China, where imports were raised from 1.0 million tons to 7.0 million.

Commodities (USD)	Price	MTD	YTD	1 yr	2 yr
Gold (spot $/oz)	1,905.62	1.0%	25.6%	28.8%	60.3%
Silver (spot $/oz)	23.78	2.3%	33.2%	37.9%	64.1%
Copper ($/metric ton)	6,668.00	0.0%	8.4%	17.9%	6.5%
Oil (WTI spot/bbl)	38.72	-3.7%	-36.6%	-27.8%	-48.6%
Oil (Brent spot/bbl)	40.85	-0.2%	-38.1%	-30.6%	-51.9%
Natural Gas ($/mmBtu)	2.49	-1.4%	13.8%	9.2%	-19.5%

Single Commodity Indices

Index Name	Ticker	2020									
		Sep	YTD	1-Year	3-Year	5-Year	10-Year	20-Year	30-Year	40-Year	50-Year
Natural Gas	BCOMNGTR	-13.44%	-28.48%	-40.81%	-60.45%	-75.45%	-95.07%	-99.81%			
Low Sulfer Gas Oil	BCOMGOT	-10.75%	-53.04%	-49.52%	-41.67%	-44.99%	-63.86%	-5.29%			
WTI Crude	BCOMCLTR	-6.24%	-58.29%	-52.51%	-48.26%	-61.55%	-83.43%	-73.32%	-39.25%		
Brent Crude	BCOMCOT	-8.17%	-42.69%	-33.41%	-21.16%	-30.35%	-58.66%	21.23%			
ULS Diesel	BCOMHOTR	-7.09%	-50.83%	-46.31%	-41.17%	-45.38%	-64.42%	-28.46%	-1.07%		
Unleaded Gasoline	BCOMRBTR	-0.53%	-42.89%	-35.25%	-32.71%	-40.85%	-44.06%	19.77%	141.04%		
Corn	BCOMCNTR	5.95%	-9.77%	-11.53%	-22.13%	-41.43%	-52.85%	-74.81%	-85.71%	-85.22%	-54.81%
Soybeans	BCOMSYTR	7.35%	3.72%	6.45%	-11.31%	-7.70%	10.86%	242.08%	243.63%	244.20%	3016.45%
Wheat	BCOMWHTR	4.67%	0.79%	13.05%	4.79%	-30.91%	-68.52%	-80.77%	-86.98%	-88.39%	-37.08%
Soybean Oil	BCOMBOTR	0.83%	-9.70%	6.64%	-12.00%	-3.45%	-51.61%	-0.95%	-37.77%	-16.71%	1254.36%
Soybean Meal	BCOMSMT	9.71%	5.29%	4.84%	-7.04%	-9.34%	71.49%	795.02%			
HRW Wheat	BCOMKWT	7.27%	-2.11%	12.96%	-20.14%	-50.64%	-75.19%	-73.17%			
Copper	BCOMHGTR	-0.94%	6.47%	15.52%	0.11%	22.12%	-26.05%	251.76%	515.75%		
Alumnium	BCOMALTR	-2.50%	-7.28%	-2.64%	-20.24%	0.89%	-50.57%	-35.84%			
Zinc	BCOMZSTR	-4.67%	4.41%	0.14%	-14.00%	56.19%	0.36%	51.79%			
Nickel	BCOMNITR	-5.64%	2.24%	-15.79%	37.48%	34.46%	-44.12%	160.11%			
Gold	BCOMGCTR	-4.19%	21.38%	25.43%	41.85%	60.80%	33.27%	494.07%	335.92%	154.20%	
Silver	BCOMSITR	-17.83%	27.43%	33.75%	33.65%	49.04%	-5.82%	282.07%	296.70%	-20.26%	
Sugar	BCOMSBTR	1.03%	-3.55%	2.74%	-21.63%	-21.16%	-63.17%	-38.43%	31.07%	-87.76%	74.85%
Coffee	BCOMKCTR	-14.02%	-19.75%	0.18%	-36.27%	-44.37%	-75.80%	-88.15%	-85.32%	-66.69%	
Cotton	BCOMCTTR	0.98%	-4.92%	5.45%	-5.29%	7.14%	-8.75%	-68.82%	-53.71%	69.65%	1109.31%
Live Cattle	BCOMLCTR	2.38%	-17.58%	-9.94%	-13.66%	-11.07%	-14.51%	-14.08%	29.15%	561.95%	2752.93%
Lean Hogs	BCOMLHTR	19.62%	-37.03%	-46.44%	-51.14%	-61.00%	-71.89%	-91.81%	-93.97%		

EQUITY MARKETS

Month in Review

The month of September ended Q3 of 2020 with major tech players experiencing considerable losses. Globally, equity markets recovered on the news of positive vaccine trial results to close off the month with mild losses. In September, vaccine trials progressed with the fourth Phase 3 clinical trial commencing in the United States, kicking off Q4 on a promising note.

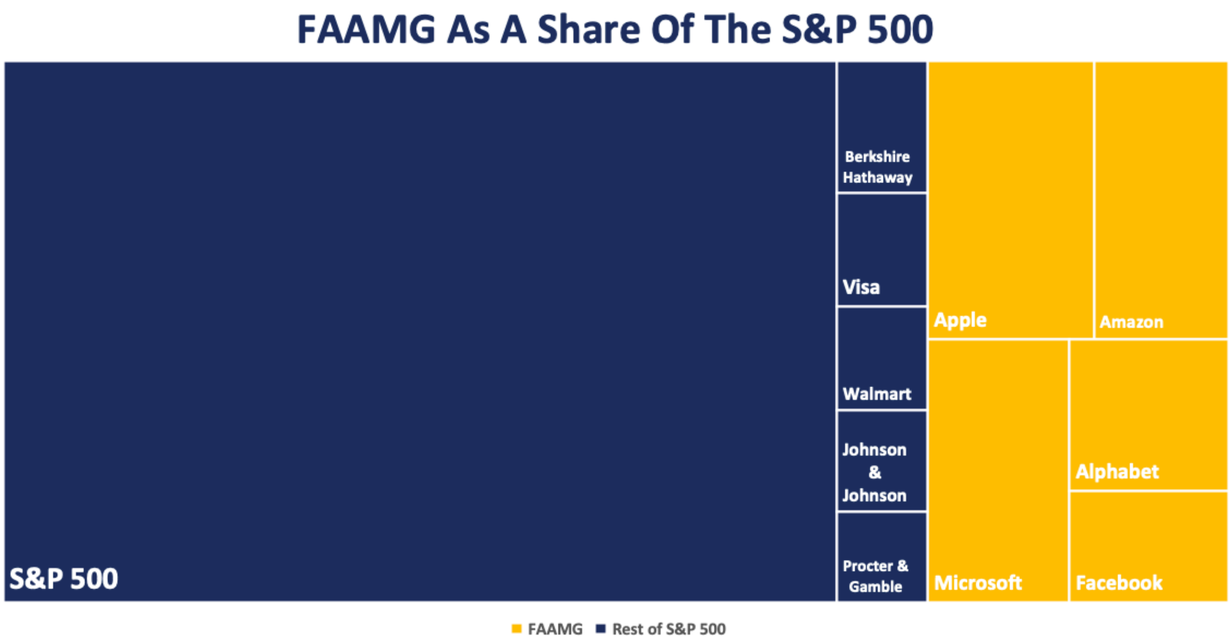
Following a drop from August's recent highs, US markets recovered in the second half of September. The DOW closed only 3.02% down for the month. The S&P 500 and NASDAQ took harsher hits of -4.64% and -6.47%, respectively. Canadian markets also fell, with the S&P/TSX Composite Index ending the month down 3.15%. This tumble can be attributed to the reining in of overvalued stocks that have been fueling market growth since March. Big tech players were among the worst hit with FAANG stocks falling between 5% and 13%.

European markets failed to recover from YTD losses, with the FTSE 100 and Euronext 100 returning 0.07% and -2.27% on the month respectively. This follows a rough performance for the European markets, with the FTSE 100 down 22.91% YTD and Euronext 100 slipping by 17.21%. September's lack of improvement can be attributed to insufficient economic stimulus support in the UK, draining fiscal measures across Europe for furloughed workers, and continuing uncertainty surrounding Brexit.

Equity markets were volatile through September, with the VIX averaging just under 28% for the month. VIX levels approaching 30% signify uncertainty and investor fear in the market. This is an overall improvement in market volatility for 2020, escaping the volatility that plagued the market since March's VIX high of 75%. This improvement in market stability comes with news of vaccine progress and rising consumer spending in the US. However, this doesn't mean investors are out of the woods yet - pre-pandemic markets saw the VIX hovering closer to 13%. The anticipation of the US election and continued concerns of diminishing economic health cause the VIX to remain over twice as high as its normal levels, signifying substantial investor unease.

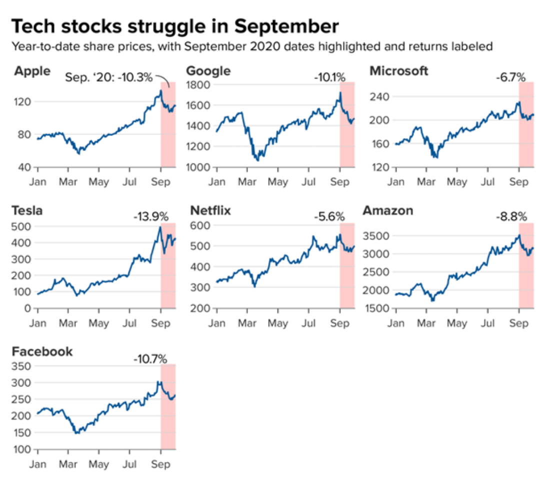
Emerging Global Markets

Some stocks fared better than others in September's market recovery. Apple, Amazon, Microsoft, Alphabet, and Facebook now account for nearly a quarter of the S&P 500's market cap, benefitting from new work-from-home demands that focus heavily on product delivery and online communication platforms. The US market's largest technology names have weathered COVID-19 market conditions with business models based on recurring subscription fees, benefitting from recent large IT infrastructure investments from corporations to support the work from home environment. Faring much worse than tech are the energy and oil sectors, which suffered some of the biggest losses. Giants Schlumberger and Halliburton fell 20% and 30% in September respectively, struggling with the unprecedented decreases in oil consumption and falling crude oil prices.



Technology Sector

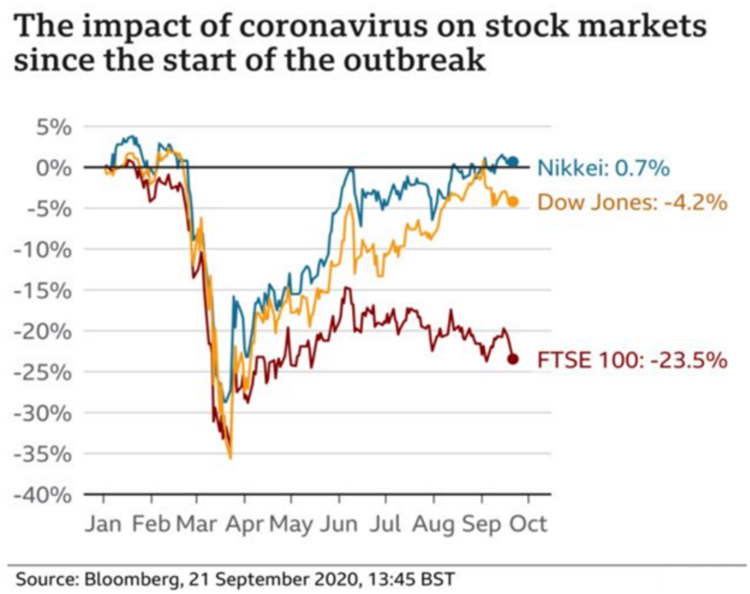
In contrast to the trends seen in previous months, the technology sector declined as investors sold their positions in FAANG shares. This is primarily because many investors decided to liquidate assets and hold cash or invest elsewhere until the economy stabilizes. The large number of investments in major tech firms are a significant contributor to dips in market indices. The same trend can be seen internationally with falling share prices at other major tech firms. Tencent, Alibaba, Samsung, and China Mobile are among the many non-US technology



companies who also experienced losses over the month of September. Aside from the effects of the pandemic, the trade-war and political disputes between the United States and China has contributed to the uncertainty.

Second Wave of COVID-19

Investors are anticipating a second wave of COVID-19 in the 4th fiscal quarter as cases and infection rates increase around the globe. Experts suggest that the rate of infections will rise as temperatures drop, similar to trends seen with the common seasonal flu. This has already been seen in the transition from August to September with the growth rate of the virus surging from 250,000 new cases per day to over 315,000. This increase has led to many investors to take a bearish position in the equity markets, which has been the primary driver of a high volatility index.



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