RCTG

MONTHLY REPORT

JULY 2020 EDITION

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RCTG MARKET RESEARCH

GLOBAL MARKETS INSIGHTS

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IN THIS ISSUE

- **Global Macro Commentary –** Global economic conditions showed improvement throughout July as international concern shifted from crisis response to crisis mitigation and economic repair. With a declining growth rate in the number of COVID-19 cases, nations and their governments have begun to reopen borders and resume international trade. However, uncertainty remains as certain sectors and industries are struggling under greater losses and changing consumer behaviour. As the situations continues to move forward, the disparities between the winning and losing sectors is becoming more apparent. Time will tell what of these changes are structural and what are temporary.
- **Fixed Income Markets –** Following the July 29th meeting, the Fed decided to maintain its target rate range of 0.00%-0.25%. Central banks around the world are continuing quantitative easing (QE) at its current pace, increasing holdings of governments securities. Financial conditions have improved due to policy measures such as QE to stabilize the flow of credit to households to businesses.
- **Commodity Markets –** With the economy recovering and COVID-19 restrictions slowly lifting, we have seen signs of recovery in the commodity market in July. Gold hit a 9-year high and precious metal continue in their bull-market. However, the impact of shutdowns from the previous months has caused an oversupply of agricultural products due to a lack of demand.
- **Equity Markets –** The month of July boasted strong returns in the global equities markets with the S&P 500 gaining nearly 5.7% and other indices seeing similar growth. The Technology and Health Care sectors made up the greatest portion of that growth as investors sought out higher-yield securities consistent with the changes catalyzed by the COVID-19 pandemic.

Global Macro Commentary

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Data recorded as of 8/9/20..

GLOBAL MACRO COMMENTARY

Moving into July, an overall global shift has begun to take place with the primary concerns of governments, businesses, and people shifting from outbreak response to risk management. As the infection and mortality growth rates continue to decline and patient-treatment improves, governments have begun to reopen their nations both domestically and on an international level. Several companies such as Pfizer and BioNTech have shown promising advances towards treatment development and a cure to the Covid-19 virus.

The overall market has seen a significant recovery, despite the lingering effects of the pandemic continuing to be present. The equities markets have returned to pre-pandemic levels, as most major indexes have recovered or exceeded the losses accrued over the previous months. The S&P 500 gained roughly 6% over the course of July, moving into August at $3271. However, large disparities and fluctuations are present between varying market segments as certain industries like technology saw substantial gains while others continue to lag.

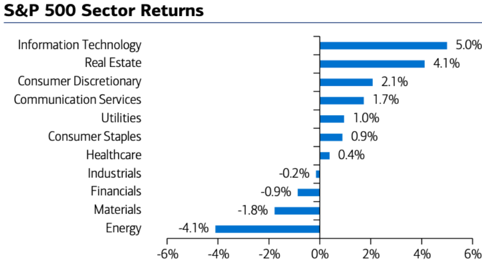
The commodity markets made a strong return in the second quarter as they recovered from their March lows when the initial impact of the Covid-19 lockdowns hit demand. Gold soared to a nine-year high as escalating US-China tensions caused investors to flee to safer assets, while silver followed bullion's rally to hit a near seven-year high on hopes for a recovery in industrial demand. Gold saw significant growth going from $1770 to $1975 USD per ounce. The commodities markets also experienced high volatility with oil prices meeting resistance in increasing past $40/barrel USD.

With the Fed's announcement on July 29th, central banks around the world seem keen on continuing to expand their balance sheets. The Fed stated that they would continue to purchase assets - Treasuries and mortgage-backed securities - to smooth the markets for these securities. This also comes as a method to help continue battling inflation. However, the Fed expects that deflationary pressures will continue for the next few quarters, with more volatile inflation to come in the longer-term.

Equities

		Total Return in USD (%)		
	Current	WTD	MTD	YTD
DJIA	26,428.32	-0.1	2.5	-6.1
NASDAQ	10,745.27	3.7	6.9	20.4
S&P 500	3,271.12	1.8	5.6	2.4
S&P 400 Mid Cap	1,863.91	0.8	4.6	-8.8
Russell 2000	1,480.43	0.9	2.8	-10.6
MSCI World	2,304.98	0.6	4.8	-1.3
MSCI EAFE	1,820.21	-2.1	2.3	-9.3
MSCI Emerging Markets	1,078.92	1.8	8.9	-1.7

S&P 500 Sector Returns



Fixed Income[1]

		Total Return in USD (%)		
	Current	WTD	MTD	YTD
Corporate & Government	1.04	0.3	2.0	9.4
Agencies	0.49	0.2	0.4	5.5
Municipals	1.20	0.4	1.7	3.8
U.S. Investment Grade Credit	1.05	0.3	1.5	7.7
International	1.86	0.2	3.3	8.4
High Yield	5.37	0.8	4.7	0.7
	Current	**Prior Week End**	**Prior Month End**	**2019 Year End**
90 Day Yield	0.09	0.10	0.13	1.54
2 Year Yield	0.11	0.15	0.15	1.57
10 Year Yield	0.53	0.59	0.66	1.92
30 Year Yield	1.19	1.23	1.41	2.39

Commodities & Currencies

		Total Return in USD (%)		
Commodities	Current	WTD	MTD	YTD
Bloomberg Commodity	146.55	0.8	5.7	-14.8
WTI Crude $/Barrel[2]	40.27	-2.5	2.5	-34.0
Gold Spot $/Ounce[2]	1,975.86	3.9	10.9	30.2
Currencies	**Current**	**Prior Week End**	**Prior Month End**	**2019 Year End**
EUR/USD	1.18	1.17	1.12	1.12
USD/JPY	105.83	106.14	107.93	108.61
USD/CNH	6.99	7.02	7.07	6.96

Source: Bloomberg, Factset.Total Returns from the period of 07/27/20 to 07/31/20. Bloomberg Barclays Indices.[1] Spot price returns.[2] All data as of the 07/31/20 close.
Past performance is no guarantee of future results.

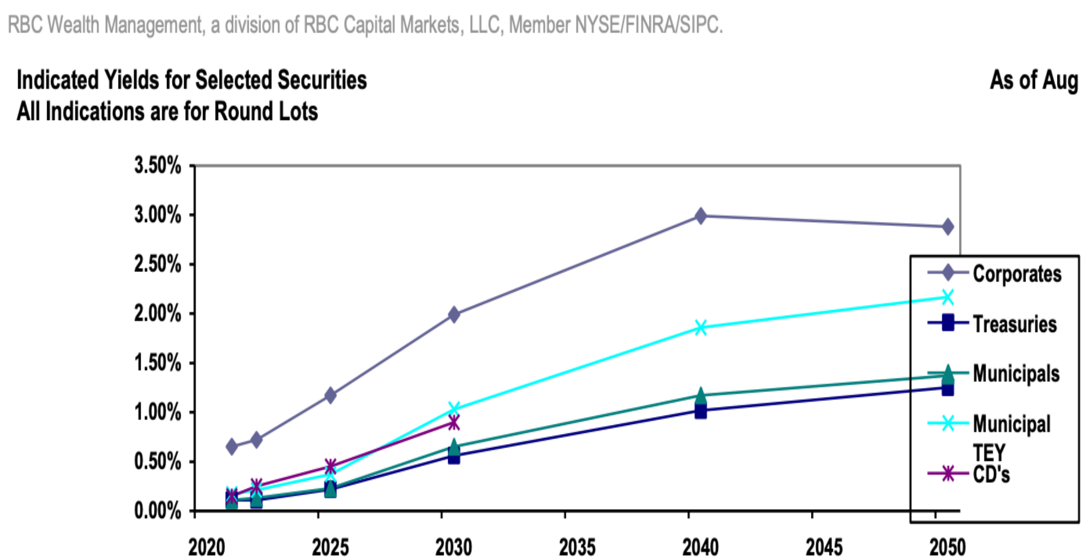
FIXED INCOME MARKETS

Month in Review

The US Federal Reserve's decision to leave the overnight interest rate unchanged at 0.25% on July 29th is unlikely to cause any major yield changes in the bond market. The Bank of Canada also decided to leave their interest rate unchanged at 0.25% on July 12th as well. Both central banks expect rebounds in financial markets and economic activity as Canada and the US progress into easing COVID-19 restrictions, specifically through the reopening of businesses.

The Bank of Canada has noticeably shifted its bond purchases further out the curve into the longer-term range with maturities of more than 10-years. In their most recent monetary policy report released on July 15th, they stated that these purchases consisted mainly of government bonds as opposed to corporate bonds due to robustness in the credit market.

Across the world, central banks are not planning to take their foot off the gas any time soon. While expansionary monetary policies from global central banks are helping to support world economic growth, the tenacity of recovery -- and continued steepening of the yield curve -- will depend on rigid fiscal support in the future. On the bright side, as shown in past business cycle rebounds, we can look to further steepening of the US Treasuries yield curve as a sign of impending recovery.



Rates

US Treasuries rallied in the last week of July with higher prices and lower yields. The benchmark 1-year fell by 5 basis points (bps) to 0.11%, the 10-year fell by 4 bps to 0.55%, and the 30-year fell by 3 bps to 1.20%. The Fed's moves to keep short-term interest rates low to combat inflation and support economic growth has produced modest yield curve steepening. This steepening has been led by increasing yields in the longer end of the curve (as there was a 109 bp increase in spread between 1-year to 30-year government bonds).

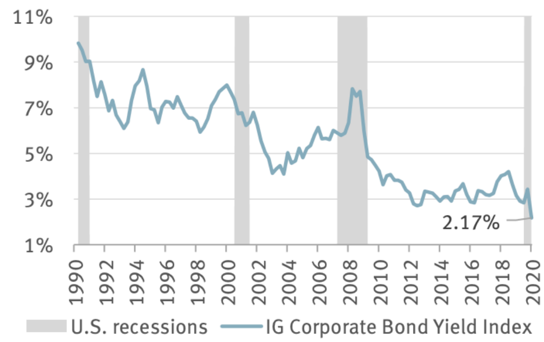
The Fed's dot plot (a visual representation of the individual members' expectations of rate decisions) showed that 15 out of 17 members do not anticipate a rate hike until the end of 2022. This reflects a concern for the ongoing lack of economic activity and weak economic data reports as hiring momentum has slowed and layoffs continue in the US. As a result, Federal Open Market Committee (FOMC) members expect persistently low inflation calling for near zero rates well into 2022 as well.

Credit

The combination of low Treasury yields and diminishing credit fears has driven down the average yield on US investment-grade corporate bonds to a record low of 2.15% at the beginning of July from a peak of 4.58% at the end of March. Ongoing support from the Fed and the European Central Bank (ECB) through emergency asset purchasing programs have helped to tighten credit spreads as July comes to an end.

On July 29th, the Fed announced the extension of lending facilities that expires between September to year-end which will prolong the policy effects in the credit markets.
This has led to a record number of corporate bond issuances this month from companies that have retained liquidity through the pandemic.

Investment-grade yields fall to record low



Source - Bloomberg, RBC Wealth Management

Municipals

Yields on US municipal (munis) bonds are at extremely low levels, even on bonds with longer maturities. Throughout the beginning of July, munis continued to rebound as supply of muni bonds met investor demand with an issuance of $48.7 billion in the muni market -- this is a 31% increase in the 5-year average in the transition from June to July.

With investment-grade corporate bonds reaching record lows, investors may find muni bonds more attractive. This is because the taxable-equivalent yield for the Bloomberg Barclays Municipal Bond Index (assuming a 40% tax rate) remains at 2.5% at the beginning of July. Although bond yields across markets are historically low, focusing on the steepest part of the muni yield curve, the 5-7-year area, should help investors to hedge against any rising interest rate risks.

COMMODITY MARKETS

Month in Review

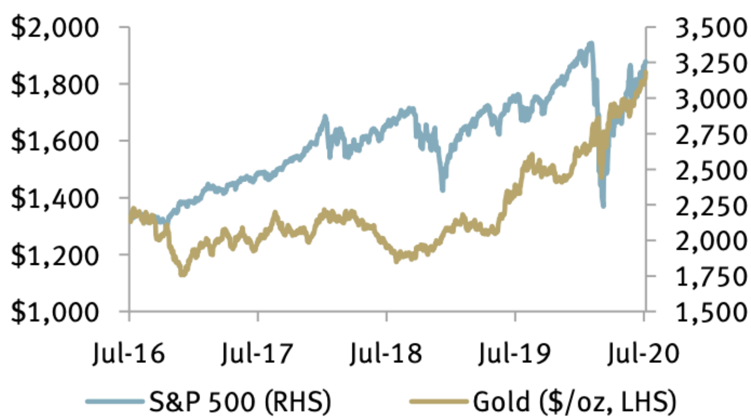
Commodity markets rallied strongly in the second quarter as they recovered from their March lows when Covid-19 lockdowns hit demand. Gold soared to a nine-year high as escalating US-China tensions caused investors to flee to safety, while silver followed bullion's rally to hit a near seven-year high on hopes for a recovery in industrial demand.

Gold climbed to a nine-year high, and oil rebounded from historic negative prices. Central bank policy on interest rates and asset purchases are supporting investment in precious metals, while the resumption of industrial activity in China after the lockdowns is increasing demand for a range of commodities. However, the impact of shutdowns around the world has resulted in an oversupply of agricultural products due to a lack of demand.

Uncertainty continues to loom, with the International Monetary Fund (IMF) downgrading its 2020 global growth outlook to -4.9 percent, the largest contraction since 1946. The downgrade reflects the impact of Covid-19 in the first half of the year and a slower recovery in the remainder of the year than previously forecast. The IMF attributes the deeper downturn to weaker consumption during lockdowns and steep income losses as well as subdued investment.

Gold rallies alongside equities

Price of gold vs. S&P 500



Source - Bloomberg, RBC Capital Markets; data through 7/10/20

Agriculture Market

After transferring its only remaining futures contract to New York in July, Canada's only agricultural commodity exchange, The Winnipeg Grain Exchange (WGE), closed its doors. The commodity business is much less reliant on local presence since all the markets are hosted electronically. This is a significant opportunity for growth since more trades are executed on the NYSE than on the WGE. For example, "the volume of Canola futures has been rising, and the move to Wall Street will provide the best environment for continued growth," said Brad Vannan, the President and COO of ICE Futures Canada[1].

Agricultural commodity prices as a whole have come under pressure as the closures and limitations imposed on food services and other businesses during lockdown have resulted in an oversupply. However, there are several supply-side drivers for the sugar market to move higher, following gains of 30 percent after it bottomed in April. Sugar prices will depend largely on output and exports from Brazil in the short term as the country's production has so far exceeded last year's levels.

Precious Metals

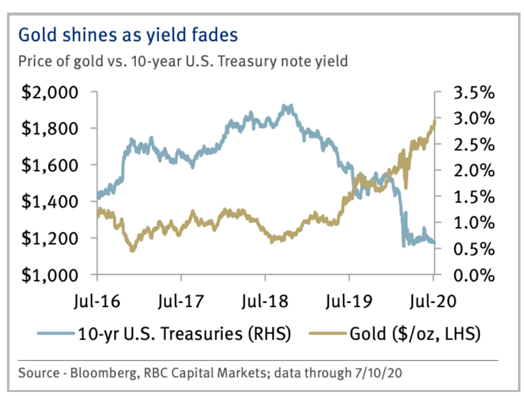
The metals markets have been buoyant in recent weeks with the gold prices rallying above $2000 for the first time in eight years, silver prices holding stable at above pre-pandemic crisis levels, and copper prices climbing to a five-month high on improving global economic data.

Silver

Silver has outperformed on a percentage basis, rebounding 56% from its March lows. Silver has strong technical support from moving average indicators which indicate a recovery in industrial consumption as global economies reopening from lockdowns is set to increase physical demand. While the gold/silver ratio has fallen from a record high as the price of silver climbed, it remains above the long-term average, offering the potential for silver to rise further relative to gold if history provides any indication of the future. Continued investment in precious metals in response to fiscal stimulus is likely to drive the market even higher.

Gold

Gold exceeded $1,970 USD per ounce at the end of July, paving the way for the market to potentially rise further in the coming months. Spot gold hit its highest point since September 2011 in early trade at $1,859.86 per ounce. Analysts expect continued economic stimulus from central banks around the world and a weakening US dollar to drive investor interest in the precious metal and take the price to new highs. This would allow for gold to move higher as economic recovery will require fiscal stimulus and low-interest rates.



[1] ICE Futures Canada (formerly Winnipeg Commodity Exchange), is recognized as a commodity futures exchange in Ontario.

Copper

Copper prices have been rising due to a combination of improving economic data and supply disruptions. The industrial metal has rebounded by 30% from the March low having been driven higher by returning consumption, particularly in China. At the same time, supply disruptions are increasing even as some countries are reopening from lockdowns, with Covid-19 cases increasing in Latin America.

Copper mines in Chile, the world's largest producer, have had to halt or reduce operations as workers have been affected by the pandemic, tightening supply. There is the potential for the copper market to rise further, as governments look to stimulate economic growth. However, investors should note that the second wave of COVID-19 infections affecting the reopening of economies would pose a threat to further gains from the demand side of the equation.

Oil

Increasing demands, reduced stockpiles, and supply cuts have lifted the crude oil market after it sunk into negative territory. Crude oil spot prices averaged $40 USD per barrel in July, up to $11/b from June and up to $22/b from the multi-year lows from April. Crude inventories rose by 4.9 million barrels to 536.6 million barrels. A drop-in demand from the pandemic was worsened by a surplus in supply.

EIA expects crude oil prices to average $41/b during the second half of 2020 and $50/b during 2021, reaching $53/b by the end of 2021. However, this projection reflects a global oil consumption of96.0 million barrels per day during the second half of 2020 along with relatively strict compliance to announced OPEC production cuts, both of which are uncertain.

Also, the degree to which the U.S. shale industry responds to the recent relative strength in oil prices compared with their recent lows in April will affect the direction of oil prices in the coming quarters. To maintain market share, OPEC has not cut output enough to put a floor on prices. OPEC's leader, Saudi Arabia, wants higher oil prices because the commodity is their government's largest source of revenue. However, they must also maintain balance or risk losing market share to U.S. and Russian companies.

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%

[1] ICE Futures Canada (formerly Winnipeg Commodity Exchange), is recognized as a commodity futures exchange in Ontario.

EQUITY MARKETS

Month in Review

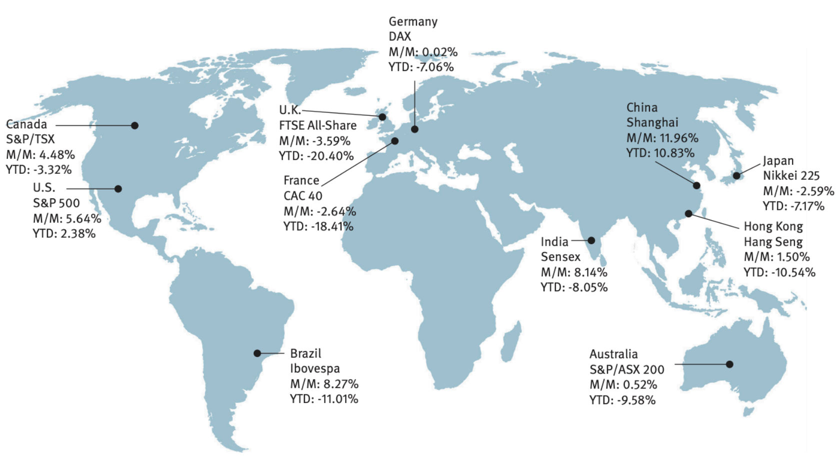
Over the course of the past month, the equities markets grew significantly with several indices overtaking their pre-pandemic levels as the government's plan to reopen domestic and international operations took full effect. The S&P 500, Russell 3000, NASDAQ, and Dow Jones all saw growth rates over 5% by month-end. The positive shift occurred due to the protective policies introduced earlier in the year coming into full effect and the scope of the global pandemic coming into a more positive global perspective. The efforts made by governments internationally to provide citizens and businesses with financial support played a significant role in limiting the volatility seen in the previous months.

Although the overall market has seen indications of recovery, the variation across the market sectors are substantial. Most notably, the technology and healthcare sectors have seen substantial recovery and growth. Companies such as Netflix, Amazon, Tesla, and Johnson & Johnson saw their values rise past their pre-pandemic levels. Meanwhile companies in the financial, agriculture, retail, and transportation sectors generally continued to witness losses and instability. The recovery from the market trough can also be attributed to many new retail investors entering the markets to take advantage of securities that are being offered at discounted prices.

An overall trend can be seen with investors choosing to move their money into corporations with the least exposure to the effects of the pandemic. This would include industries such as e-commerce, communications, and technology. However, this has also led to continued high rates of market-volatility as lack of information and a continuously changing social, economic, and political atmosphere provides investors with little certainty regarding how events will play out over the coming months.

World markets

July month-over-month and year-to-date total return



Source - Bloomberg; priced in local currency

Technology Industry

The tech-industry has seen significant recovery and growth as certain securities have surpassed their pre-pandemic valuations. Corporations such as Amazon, Shopify, Google, Microsoft, and Apple have seen significant growth as they had minimal exposure and were well-positioned to adapt to the new operation trends brought on by the COVID-19 pandemic.

The volatility across certain sectors is in-part due to a high number of retail investors flooding the market. Large tech corporations have also been selected as an alternative investment option for investors who are holding excess and unused capital. The change to spike in their value could be attributed to some investors viewing them as the only 'safe' option under the current circumstances.

This is especially true in the case of the Canadian e-commerce company Shopify (TSX). The company saw substantial growth following the initial market crash, as its business model is well-suited for the new circumstances brought on by the pandemic. Shopify saw its share price rise over 314% from the beginning of the year, while a majority of other Canadian businesses listed on the TSX did not experience similar growth. However, due to Shopify's disproportionately large market cap, the gains it experienced resulted in an inaccurate representation of the Canadian index. Similar cases have become present internationally, and this has led to the equities markets providing a very narrow image of the economic recovery.

Financial Industry

Financial institutions such as large banks, hedge funds, and lending agencies continue to burden heavy biases from investors as they are at a greater risk of exposure to credit defaults. They have seen difficulties with reassuring investors as the outlook on the economic climate remains obscure.

As these entities have significant holdings in several corporations belonging to sectors affected by the pandemic and which are at risk of going bankrupt, they are having difficulty regaining lost ground. For example, Berkshire Hathaway, Bank of America, TD Bank, and RBC all own significant shares in the natural gas and transportation sectors which are considered to be high-risk industries. Certain investors such as Warren Buffet, who's investment firm purchased $2.07 billion USD worth of Bank of America stock in the end July, have expressed their views that investors should look beyond the short-term effects of the pandemic and put their funds into corporations with sound business models who are likely to perform well in the long run.

U.S

The equities market in the United States has experienced large scale recovery with the S&P 500 rising back above $3100 USD at the end of the month. The Dow Jones and NASDAQ have also seen similar growth, both experiencing over a 5% increase over the course of July. As previously described, the weighting of the large tech corporations on the S&P 500 and other indices over-represents the recovery in the US equities market. Overall economic uncertainty continues to persist, and its subsequent effects remain felt by market participants.

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