

## PURPOSE INVESTMENTS



**GREG TAYLOR, CFA**  
CHIEF INVESTMENT OFFICER

T: 416-915-2442  
gregt@purposeinvest.com

**November saw the strongest monthly performance ever for the energy and industrial sectors.... and [was] the best month since 1987 for the S&P 500.**

## By the numbers

November total return; as at Nov 30, 2020

S&P/TSX Composite Index	10.57% ↑
Health Care (top sector)	34.90% ↑
Materials (bottom sector)	-8.00% ↓
S&P 500 Index	10.95% ↑
Energy (top sector)	29.00% ↑
Utilities (bottom sector)	0.90% ↑
Gold	US\$1776.95
	-5.42% ↓
WTI Oil	US\$45.34
	26.68% ↑
US 10-Year Treasury Yield	0.84%
	-3bps ↓

DECEMBER 2020

## NOVEMBER MAKES THE NICE LIST, SETS STAGE FOR A POSITIVE 2021

In a year which has seen the word unprecedented used more than ever, the month of November lived up to that distinction. It will be remembered as one for the financial record books.

November saw the strongest monthly performance ever for the energy and industrial sectors. It was also the best month ever for the Russell 2000 Index of small-cap stocks and the best month since 1987 for the S&P 500. What is even more remarkable is this didn't happen after a sell-off, but rather was built on the back of an already impressive run to new all-time highs.

Heading into the month, many investors had decided to take down risk, given they had already seen healthy gains since the first quarter sell-off. That quickly proved to be the wrong strategy as it seemed everything that could go right eventually did.

The outcome of the US election may still be argued in the courts, but the split outcome between the house and the senate seems to be the best-case outcome for markets. The Blue Wave of a Democrat sweep seemed nice on paper with the promise of massive stimulus bills, but it also came with the threat of higher taxes and increased regulation of the technology giants. By having a split, many are making the prediction it could be the best of both worlds, with some degree of stimulus but none of the baggage of taxes or regulation.

As investors were covering shorts on technology stocks and deploying cash from the sidelines after the election, more good news came in the form of vaccine success. The stunning results from trials being executed by Pfizer, Moderna and AstraZeneca/Oxford were able to bring investors a light at the end of a dark tunnel.

The second (or third) wave of the virus and the resulting lockdowns are having a devastating impact in many parts of the world. But the prospect of a return to normal within the first half of 2021 kicked what was already a rally into a higher gear.

The vaccine rally has been impressive on my levels, but importantly it may prove to be the long-awaited catalyst to start the rotation from growth towards cyclicals. Upon the vaccine news, the biggest beneficiaries were seen in sectors that had suffered the most with the lockdowns – energy, the consumer spaces and financials. To wit, on the day the Pfizer news was released, growth and momentum strategies had their worst days in 15 years.

Interest rates moved higher immediately, shortly followed by commodities. In effect, what the vaccine news caused was a massive short squeeze in areas investors had ignored or shorted aggressively since the pandemic began. While many companies in the Canadian energy sector remain negative on the year, it wasn't uncommon to find examples of companies that saw their stocks rally over 50% in November.

Now the question will be how much of the gains many were expecting in 2021 were pulled forward and realized in November? Could there be such a thing as too much good news?

## It has become very unpopular to be bearish.

It seemed like everything worked in November, save for the haven of gold, which saw some profit taking. Who needs insurance when everything is working? But the realist may want to keep some insurance in their back pocket.

Not everything will go smoothly and there will be bumps in the road. 2020 has been a year of twists and turns and there's still one more month to go. Investor sentiment is as bullish as it's been in years, rebounding off the extreme lows seen in the Spring. It has become very unpopular to be bearish.

The prospects for a positive 2021 remain excellent. Central banks are still very accommodative, fiscal stimulus is on the way and now we have the prospect of a vaccine that may finally allow the economy to fully reopen.

The early part of this year saw markets led higher by the few technology companies that were quickly able to adapt and benefit from the pandemic lockdowns. However, the reopening trade could be a completely different group of leaders.

A normalization of valuations for the cyclical sector would be a massive benefit to markets that are over-exposed to this group, such as Canada. In the last few years, many have called for this rotation trade to begin. November may have been the launch date.

All data sourced from Bloomberg unless otherwise noted.

The content of this document is for informational purposes only, and is not being provided in the context of an offering of any securities described herein, nor is it a recommendation or solicitation to buy, hold or sell any security. The information is not investment advice, nor is it tailored to the needs or circumstances of any investor. Information contained in this document is not, and under no circumstances is it to be construed as, an offering memorandum, prospectus, advertisement or public offering of securities. No securities commission or similar regulatory authority has reviewed this document and any representation to the contrary is an offence. Information contained in this document is believed to be accurate and reliable, however, we cannot guarantee that it is complete or current at all times. The information provided is subject to change without notice.

Commissions, trailing commissions, management fees and expenses all may be associated with investment funds. Please read the prospectus before investing. If the securities are purchased or sold on a stock exchange, you may pay more or receive less than the current net asset value. Investment funds are not guaranteed, their values change frequently and past performance may not be repeated.

Certain statements in this document are forward-looking. Forward-looking statements ("FLS") are statements that are predictive in nature, depend on or refer to future events or conditions, or that include words such as "may," "will," "should," "could," "expect," "anticipate," "intend," "plan," "believe," "estimate" or other similar expressions. Statements that look forward in time or include anything other than historical information are subject to risks and uncertainties, and actual results, actions or events could differ materially from those set forth in the FLS. FLS are not guarantees of future performance and are by their nature based on numerous assumptions. Although the FLS contained in this document are based upon what Purpose Investments and the portfolio manager believe to be reasonable assumptions, Purpose Investments and the portfolio manager cannot assure that actual results will be consistent with these FLS. The reader is cautioned to consider the FLS carefully and not to place undue reliance on the FLS. Unless required by applicable law, it is not undertaken, and specifically disclaimed, that there is any intention or obligation to update or revise FLS, whether as a result of new information, future events or otherwise.