Monthly Market Insights

Data and opinions as of July 31, 2020

Stocks continue to climb higher as long-term bond yields fall

The S&P 500 has finally turned positive for the year in C$ terms, while global stocks (MSCI World in US$ terms) are down just over 1% year-to-date. Following the pandemic selloff, U.S. stocks have been leading the global recovery. A big part of that is due to the larger compositon of technology companies in U.S. markets, a sector that has greatly benefited from physical distancing measures. But investors are increasingly losing confidence in the U.S., including the U.S. dollar as a global reserve currency. The longer it takes for the U.S. to flatten their coronavirus cases, the more delayed their economic recovery, and the more debt the U.S. government will have to incur to support those individuals displaced from the labour force.

The NEI perspective

Gold glitters and the U.S. dollar tumbles. The two big stories this month are the strength in gold bullion and weakness of the U.S. dollar. There are inter-related reasons for this, but a key connecting variable is rock-bottom U.S. interest rates.

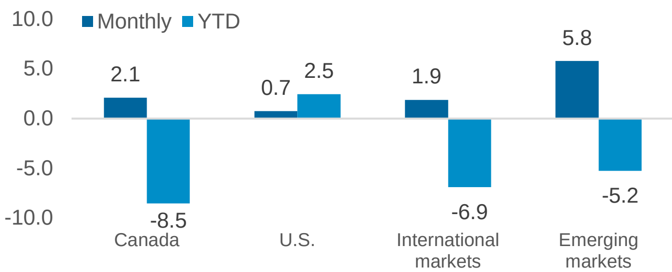
U.S. equities now positive for the year and we expect a gradual continuation. In local currency, the S&P 500 has turned positive for the year. The broad global equity market (MSCI World in US$ terms) is down just over 1% year-to-date. Record low bond yields, record stimulus programs and the continued recovery in economic activity should help push equities higher. We may see more relative upside in international and EM markets.

Plenty of reasons for caution. Q2 earnings, increases in U.S. coronavirus cases, weak fundamentals, and U.S.-China tensions are some of the reasons we continue to stay cautious in the near term.

From NEI's Monthly Market Monitor for August 2020. [Click here to get the full report](#).

Equity

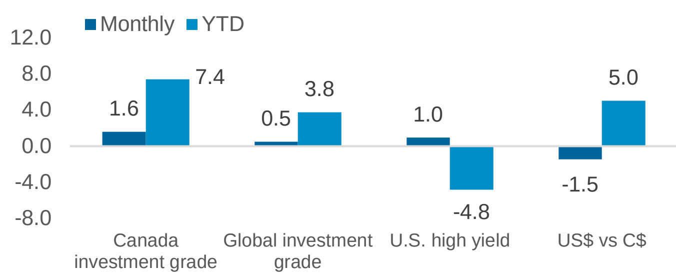
% return in C$



Canada: MSCI Canada; **U.S.:** MSCI USA (C$); **International markets:** MSCI EAFE (C$); **Emerging markets:** MSCI Emerging Markets (C$). Source: Morningstar Direct.

Fixed income and currency

% return in C$



Canada investment grade: Bloomberg Barclays Canada Aggregate; **Global investment grade:** Bloomberg Barclays Global Aggregate (C$ Hdg); **U.S. high yield:** Bloomberg Barclays U.S. High Yield (C$ Hdg). Source: Morningstar Direct.

Gold's glitter

The price of gold rose to a record US$1976/oz at the end of July, surpassing the previous all-time closing high of US$1900/oz on September 5, 2011. In the midst of the pandemic, investors have been flocking to the safe-haven commodity. Record low interest rates, record high debt levels, rising long-term inflation expectations, a weakening U.S. dollar, and a generally bleak outlook for the global economy are some of the factors contributing to gold's incredible rally.

Gold, spot price, $US/oz

Source: Bloomberg. As of July 31, 2020.

Gold has a history of being used as a currency and a store of value. The U.S. dollar once had a gold standard where Americans could trade in cash for gold but has since abandoned this practice after 1971. There are a number of reasons gold may not be that appealing as a standalone investment: 1) it is incredibly volatile, almost twice as volatile as stocks; 2) it doesn't generate any income in the form of dividends or coupons as stocks and bonds do; 3) its performance over the last ten years has lagged both stocks and bonds; and finally, 4) it is difficult to determine the intrinsic value of gold as it not a commodity with any major industrial applications (unlike silver and copper).

That said, gold can have numerous advantages when considered in a total portfolio context. First, gold has low correlation to bonds and almost no correlation to stocks. This can be beneficial during periods of market volatility, as gold will bring much-needed portfolio diversification and could help smooth out returns. Second, in periods of high inflation, gold tends to perform well due to its scarcity as a finite resource, acting as a hedge. Case in point: Gold's previous all-time high was after U.S. inflation topped out at 3.9% in August 2011, nearly double the 2.1% average over the last 20 years.

The easiest way to incorporate gold into your portfolio is to invest in a gold mutual fund or ETF, but it's important to be aware of what's inside these funds. They may invest in physical gold, or they may invest in companies that are in the business of exploring for and/or producing gold (gold miners). Gold miners are even more volatile than physical gold and are about three times as volatile as the broad stock market.