THE ABC PERSPECTIVE

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The Great Divergence

The divergence between Main Street and Wall Street caused by the unexpected arrival of COVID-19 has been a conundrum to many. Representing over 31.7 million small and medium-sized enterprises in the United States, Main Street has endured the brunt of the pandemic's economic fallout. Contrarily, Wall Street has enjoyed remarkable stock market returns with major indices reaching new all-time highs. We expect financial markets to continue to defy both the skeptics and pessimists and believe common stocks remain the best investment option for the year ahead. Our stock market optimism is based on two key fundamental factors:

Firstly, although investors are impatiently awaiting a number of catalysts including: the November 3rd U.S. presidential election, a COVID-19 vaccine, greater government stimulus, and a more palpable economic recovery, securities markets are already anticipating better times ahead. To this point, the stock market is a leading economic indicator with the financial cycle at least six to nine months ahead of the business cycle. In fact, since reaching its bottom on March 23rd, American stock markets have telegraphed a favourable future outlook, including: a sharp rebound in global economic growth, substantial government fiscal expenditures, a recovery for labour markets, and increased consumer confidence.

Secondly, central bank driven monetary expansion and zero-interest rate policy will continue to be an important element toward stronger economic activity. By extension, the divergence between low yielding treasuries and relatively higher yielding equities makes the risk/reward of common stocks comparatively attractive.

Additionally, the yield curve is steepening, as the spread between long and short term treasury yields continues to rise. This portends greater future economic growth and improved corporate profits. Moreover, we believe the current "lower for longer" monetary policy stance will continue for years to come, which should further enhance the long term attraction of common stocks.

Interestingly, while the stock market has been remarkably resilient over the past nine months, the resurgence has not been uniform. The share price gains have been rather bifurcated, led by a select number of important industry disruptors. These successful innovators have been primary beneficiaries of the emerging "work-from-home" and "play-from-home" trends brought on by the coronavirus pandemic. For instance, ABC Funds' holdings of Apple, Amazon, Microsoft, Facebook, NVIDIA, Salesforce, and Activision Blizzard have performed exceptionally well in this tough economic climate, having been well-positioned to benefit from this unexpected black swan event.

In summation, we expect these trends to continue and believe common stocks remain the best asset class for the foreseeable future. Our ABC Funds portfolios are extraordinarily well positioned to take advantage of this evolving new world of investing and an extended period of historically low interest rates.

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Economic Perspectives

The North American Economy: Ready to Surprise

2020 has been a year of multiple surprises largely due to the unexpected global outbreak of COVID-19. For instance, in an attempt to mitigate the pandemic's spread, governments enforced mass consumer and business lockdowns, which in turn, resulted in immense employee layoffs and an acceleration toward a "stay at home" economy.

Despite broad skepticism, we believe the North American economy is ready to surprise the cynics. Over the past six months companies have become more lean, digitization has ushered in greater efficiencies, interest rates are at record lows, and both central banks and governments have provided massive stimulation. The economy is awaiting a catalyst. We believe any positive news, including a COVID-19 vaccine, could precipitate an unexpected global business revival and the start of a new protracted economic cycle.

Investment Perspectives

Stocks Versus Bonds: An Unusual Yield Differential

One of the most intriguing financial developments this year has been the widening yield differential between dividend-paying common stocks and Canadian federal government bonds. Two to five year Government of Canada bonds, for example, only offer returns of 25 - 35 basis points. This return is extraordinarily low in relation to inflation and taxation and barely compensates the investor. Alternatively, an investor can purchase high quality, dividend-paying shares offering significantly greater returns with capital gains potential and future dividend increases.

For instance, the big six Canadian banks are yielding 4 - 6%, as are the Canadian insurance companies, telecoms, and utilities. We believe the current spread between stocks and bonds is excessive and should amply compensate investors for any perceived additional risk.

Portfolio Perspectives

Maintaining our Portfolio Positioning

As of the end of the third quarter, all five ABC portfolios were fully invested, allocated at approximately 65% U.S. and 35% Canadian and hedged on our U.S. dollar currency exposure. Of note, the five funds have outperformed their index benchmarks year-to-date.

We remain optimistic on equities for the balance of 2020 with the expectation of positive quarterly earnings results, increased merger and acquisition activity, company dividend increases, and lower for longer interest rates. Consequently, we are maintaining our portfolio positioning, as we believe our diversified mix of dividend-paying, larger capitalization common stocks should continue to provide relative safety and attractive returns.

ABC Funds™
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Featured ABC Common Stock Holdings:

NVIDIA: is the world leader in computer graphics and artificial intelligence based solutions. The company established its dominant position in the computer gaming industry in the year 1999 with the invention of the graphics processing unit (GPU). Today, NVIDIA is at the forefront of electronic gaming, as it takes advantage of key secular growth trends such as live streaming, content creation, and e-sports. Additionally, NVIDIA's business is being driven by tremendous demand for its products in a number of emerging technologies, such as robotics, autonomous vehicles, virtual reality, and cloud computing. For instance, NVIDIA's data centre segment continues to exhibit strong growth, with a 167% increase in year-over-year revenue in the most recent quarter. Finally, under the leadership of renowned CEO Jensen Huang, NVIDIA has made a multitude of a strategic acquisitions, including the recent $40 billion acquisition of Arm from SoftBank Group. This acquisition will unite NVIDIA's artificial intelligence capabilities with Arm's CPU ecosystem, which powers both Apple and Samsung smartphones. NVIDIA is a core ABC Funds holding.

Brookfield Infrastructure Partners: owns and operates a globally diversified portfolio of utility, transportation, energy, and data infrastructure assets. We believe BIP is a high-quality investment opportunity providing stability and a growing distribution. Its operations produce safe and stable cash flows, with 95% regulated or contracted, 75% indexed to inflation, and 65% without volume risk. BIP is benefiting from strong infrastructure investment growth as significant capital is required to maintain and expand the needs of the global economy. Due to large government budget deficits, the private sector will be essential in addressing this future need. BIP is targeting to deploy $2 billion of capital annually over the next three to five years, with the company seeing value in midstream energy, data infrastructure, and transportation assets, particularly airports. Finally, BIP has diversified its investments globally, is led by a strong management team, and should benefit from excellent growth opportunities in a continued low interest rate environment.

Administrative Information

· There are units of the ABC North American Equity Fund & ABC Global Equity Fund available for purchase. Contact our office for more information.

· Purchase requests must reach our office by the last business day of the month and redemption requests (for our open funds) must reach our office no later than ten business days before the last business day of the month.

· Clients that are invested in our close-end funds are able to redeem their reinvested distribution units on a monthly basis. Also, you can participate in the annual 10% redemption right if you provide the completed form by November 30 for a December 31 transaction date.

· As RBC Investor Services is no longer able to accept or issue physical cheques, please contact our office to make alternative arrangements

· All client requests are to be directed to ABC Funds.

· We continue to request that clients assist in updating their "Know Your Client" forms. This information is a regulatory requirement to assess the suitability of our various ABC Funds to individual client needs.

· RBCITS is the custodian of the ABC Funds and is responsible for providing account statements to all our clients. We ask that you retain these statements for your records as there may be additional costs for retrieving historical data.

· Please contact our office to inform us of any changes in mailing or email addresses. If we do not have your current contact information, you may not receive the information we are sending out.

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