Multiple sectors make the news

No one sector dominated headlines in 2019 – from tech to cannabis, they all had their moment in the sun, which drove investors to look for opportunities

UNLIKE IN 2018, when the investment world was obsessed with what was happening in the cannabis sector, 2019 provided a more diverse set of headlines. Cannabis remained in the news, but more for the fluctuation of stock prices as companies adapted to legalization. Technology remained top of mind as the major players kept pilling up cash, resulting in dividends and buybacks. Cryptocurrencies also continued their roller-coaster ride, while sectors like healthcare and energy took hits.

"It has been an interesting year for sectors," says Michael Kovacs, president and CEO of Harvest Portfolios. "The top three were tech, REITs and utilities. For REITs and utilities, it was caused by interest rate sensitivity, with many investors moving to more secure, or at least perceived more secure, sectors. Technology was a star in 2019, with good-quality companies generating dividends. We never thought, years ago, that they would turn into the dividend payers that they have."

Kovacs notes that it's not uncommon to see such movement in various sectors; that's why his company takes a long-term approach by owning solid companies. That philosophy has paid off, as Harvest continued to see flows into its funds. Yet Kovacs says it's been more interesting to see which sectors struggled in 2019.

"Healthcare and energy got hit hard, while materials were beaten up," he says. "People turned away from energy as a less desirable sector to own in portfolios. For healthcare, we still think it is a fantastic sector and a global phenomenon, but there has been so much rhetoric surrounding the US election – it may take a year or so until it gets back on track."

Oil also proved to be an interesting sector to watch in 2019. OPEC announced it was extending production cuts, which are set to continue into 2020. In September, there were attacks on a Saudi oil facility and oil fields, which affected global supply. Yet Kovacs still sees potential for energy, at least in the short term.

"Long term, I think oil production will top out," he says. "Saudi Arabia and other oil producers are looking to max their oil price and production while they can. The attacks were a sign of the geopolitical climate, but there wasn't a sustained jump in prices that resulted from it, which shows the amount of supply. Even in Canada, our biggest customer for oil, the US, has gone from a net importer to a net exporter. So, we see the prices remaining around $50 to $60 a barrel for the near future."

Another sector Kovacs sees staying around is cannabis, despite its ups and downs during the year. Canopy Growth, for instance, saw its stock rise to almost $70 in May before plunging to the high $20s and low $30s in the fall. While Harvest's funds don't directly hold cannabis companies, Kovacs has been keeping an eye on the sector.

"It is definitely a developing area, but it's still in its early days," he says. "There are legislation and political risks in the US, but it is not going to go away and should continue to grow. I think it may have just gotten a little ahead of itself based on legal changes in Canada."

One sector that saw even more fluctuation was cryptocurrency, illustrated by Bitcoin, which was valued at just over $3,300 in February, skyrocketed to nearly $13,000 in June and then dropped to the $8,000 range in the fall. Harvest does have a blockchain fund, and Kovacs says it has seen some fluctuation because the two tend to get lumped together.

"Blockchain as a digital technology will continue to grow, which we have seen within the companies of our fund," he says. "Crypto uses the blockchain technology, so the two are coupled. I think there were too many cryptocurrencies too quickly, and eventually we will end with a few, Bitcoin and maybe Ethereum being two of those, and there will be additional regulation and standardization. I do see a future for it, but much like any new technology, it takes time to work out the kinks."

Based on where the economic cycle is, Kovacs believes quality companies will continue to see interest in the near future – along with an old staple. "One sector that also did well in 2019 is gold, up 17% to 18% for the year," he says. "The fact that we are in the later stages of the economic cycle and gold is up is something that should continue next year. With a US election next year, I think investors will continue to be cautious. Many investors are waiting on the sidelines, being conservative and holding more cash until they see what happens."

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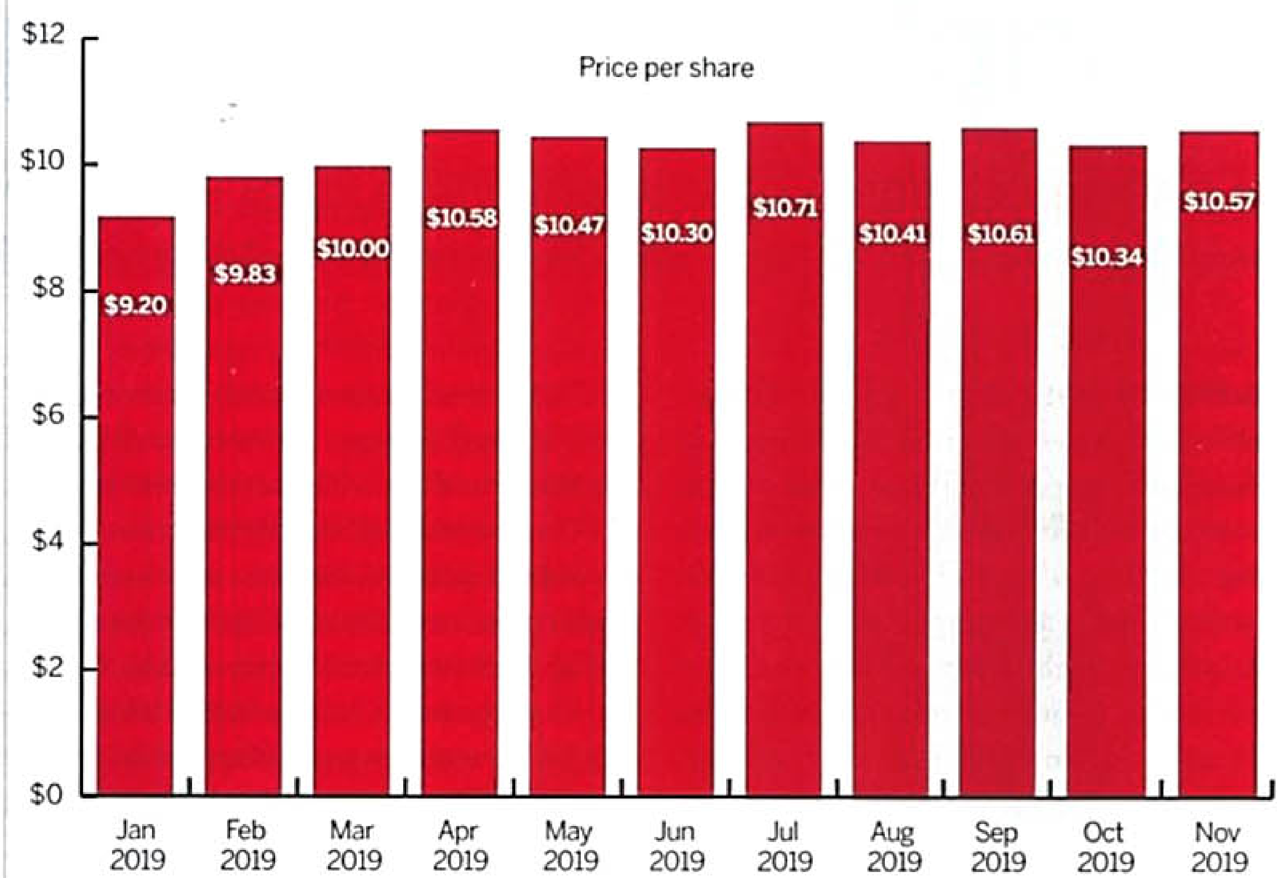
Michael Kovacs, Harvest Portfolios

THE TECH SECTOR SHINES IN 2019

The growth in value of Harvest Portfolios' Harvest Tech Achievers Growth & Income ETF (HTA) illustrates the strength of the technology sector in 2019.



Source: National Bank Financial, as of September 30, 2019